Public Document Pack

Northumberland
County Council

Your ref:
Our ref:
Enquiries to: Andrea Todd
Email:
Tel direct: 01670 622606
Date: Tuesday, 17 January 2023

Dear Sir or Madam,

Your attendance is requested at a meeting of the **AUDIT COMMITTEE** to be held in on

WEDNESDAY, 25 JANUARY 2023 at **10.15 AM**. in the Council Chamber, County Hall,

Morpeth, NE61 2EF.

Please note:

● The period between 9.30 a.m. and 10.00 a.m. is restricted to only the Members of the Audit Committee and Internal and External Audit to allow discussion without the presence of senior officers.

Yours faithfully

Rick O'Farrell
Interim Chief Executive

To members of the Audit Committee

AGENDA

PART I

It is expected that the matters included in this part of the agenda will be dealt with in public.

1. APOLOGIES FOR ABSENCE

2. MINUTES (Pages 1 - 8)

Minutes of the meeting of the Audit Committee held on 30 November 2022, as circulated, to be confirmed as a true record and signed by the Chair.

3. DISCLOSURE OF MEMBERS' INTERESTS

Unless already entered in the Council's Register of Members' interests, members are required where a matter arises at a meeting;

a. Which **directly relates to** Disclosable Pecuniary Interest ('DPI') as set out in Appendix B, Table 1 of the Code of Conduct, to disclose the interest, not participate in any discussion or vote and not to remain in room. Where members have a DPI or if the matter concerns an executive function and is being considered by a Cabinet Member with a DPI they must notify the Monitoring Officer and arrange for somebody else to deal with the matter.

b. Which **directly relates to** the financial interest or well being of a Other Registrable Interest as set out in Appendix B, Table 2 of the Code of Conduct to disclose the interest and only speak on the matter if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain the room.

c. Which **directly relates to** their financial interest or well-being (and is not DPI) or the financial well being of a relative or close associate, to declare the interest and members may only speak on the matter if members of the public are also allowed to speak. Otherwise, the member must not take part in discussion or vote on the matter and must leave the room.

d. Which **affects** the financial well-being of the member, a relative or close associate or a body included under the Other Registrable Interests column in Table 2, to disclose the interest and apply the test set out at paragraph 9 of Appendix B before deciding whether they may remain in the meeting.

e. Where Members have or a Cabinet Member has an Other Registerable Interest or Non Registerable Interest in a matter being considered in exercise of their executive function, they must notify the Monitoring Officer and arrange for somebody else to deal with it.

NB Any member needing clarification must contact monitoringofficer@northumberland.gov.uk. Members are referred to the Code of Conduct which contains the matters above in full. Please refer to the guidance on disclosures at the rear of this agenda letter.

4. MONITORING REPORT / ACTION LOG 2022-23 (Pages 9 - 14)

The Audit Committee operates under an agreed programme of core business, in accordance with its Terms of Reference as set out in the Council's Constitution. The Committee is asked to review and note its monitoring report/action log for the 2022/23 council year.

5. REPORT OF THE LEADER (Pages 15 - 32)

Response to the Challenge Board Interim Report 1 for the Member Oversight Group

To consider and respond to the first interim report of the Challenge Board, provided to the Member Oversight Group on the 23.12.22. This report was considered at County Council on 18 January 2023.

6. REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER (Pages 33 - 36)

Changes to the Code of Practice for Local Authority Accounting in the UK for 2022-23

The purpose of this report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code) which will apply to the 2022-23 Statement of Accounts.

7. REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER (Pages 37 - 116)

Treasury Management Strategy Statement for the Financial Year 2023-24

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policy.

This report sets out the Treasury Management Strategy, Treasury Management Policy Statement, the Annual Investment Strategy for the Financial Year 2023-24, Prudential Indicators 2023-24 to 2026-27 and the Minimum Revenue Provision Policy 2023-24.

8. REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER (Pages 117 - 146)

Northumberland County Council - Statement of Accounts 2022-23

The purpose of this report is to provide the Audit Committee with:
a. an overview of the timetable for publishing the 2022-23 Statement of Accounts; and,
b. an update on the Accounting Policies to be applied in the preparation of the 2022-23 Statement of Accounts.

9. REPORT OF THE INTERIM EXECUTIVE DIRECTOR OF FINANCE AND SECTION 151 OFFICER (Pages 147 - 186)

Annual Governance Review and Draft Annual Governance Statement 2021/22

The purpose of this report is to enable the Audit Committee to review the draft Annual Governance Statement for 2021-22 and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

10. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT (Pages 187 - 204)

Review of Exit Packages

The purpose of this report is to provide an update to Audit Committee on findings and recommendations from a review of exit packages paid to former employees, as requested by the Section 151 Officer following the issuing of a report under s114 and s114A of the Local Government Finance Act 1988 on 23 May 2022.

11. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT (Pages 205 - 210)

Preparation of the Strategic Audit Plan 2023/24

The purpose of this report is to outline the approach to preparing the 2023/24 Strategic Audit Plan, for consideration and endorsement by the Audit Committee. The report also ensures the Audit Committee, as a key stakeholder of Internal Audit's work, is engaged at an early stage in the planning process.

12. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT (Pages 211 - 224)

Public Sector Internal Audit Standards

The purpose of this report is to inform Audit Committee of the requirements of the Public Sector Internal Audit Standards (April 2017) and the related Local Government Application Note; and the conformance by Northumberland County Council's Internal Audit service to the requirements of these standards.

13. REPORT OF THE EXTERNAL AUDITOR (Pages 225 - 240)

Audit Progress Report

This report provides the Committee with:
• an update in respect of 2019/20 value for money (VFM) work;
• an update in respect of 2020/21 remaining audit work;
• an update in respect of 2021/22 audit work; and
• a summary of recent relevant national reports and publications for your information (Section 2).

14. URGENT BUSINESS

15. DATE OF NEXT MEETING

The next meeting is scheduled for Wednesday, 29 March 2023 at 10.15 am.

PART II

It is expected that matters included in this part of the Agenda will be dealt with in private. Reports referred to are enclosed for members and officers only, coloured pink and marked "Not for Publication".

16. EXCLUSION OF PRESS AND PUBLIC

The Audit Committee is invited to consider passing the following resolution:

(a) That under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items on the Agenda as it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act, and

(b) That the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:-

Agenda Items

17 & 18 Paragraph 3 of Part 1 of Schedule 12A

Information relating to the financial or business affairs of any particular person (including the authority holding the information).

Disclosure could adversely affect the business reputation or confidence in the person/organisation, and could adversely affect commercial revenue.

17. **ADVANCE NORTHUMBERLAND LIMITED** (Pages 241 - 252)

Executive Management response to the 2021 KPMG report

To receive a summary prepared for Northumberland County Council Audit Committee on the Executive Management response to the 2021 KPMG report.

18. **REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT** (Pages 253 - 262)

Group Audit Committee: Advance Northumberland Internal Audit Plan 2022/23 Update and Preparation of the 2023/24 Internal Audit Plan

The purpose of this report is to provide an update to Group Audit Committee on progress with the 2022-2023 Internal Audit Plan covering Advance Northumberland Group of Companies. The Report also outlines the approach to preparing the 2023/24 Internal Audit Plan.

IF YOU HAVE AN INTEREST AT THIS MEETING, PLEASE:

- Declare it and give details of its nature before the matter is discussed or as soon as it becomes apparent to you.
- Complete this sheet and pass it to the Democratic Services Officer.

<table>
<tr><td>Name:</td><td></td><td>Date of meeting:</td><td></td></tr>
<tr><td>Meeting:</td><td colspan="3"></td></tr>
<tr><td colspan="4">Item to which your interest relates:</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">Nature of Interest i.e. either disclosable pecuniary interest (as defined by Table 1 of Appendix B to the Code of Conduct, Other Registerable Interest or Non-Registerable Interest (as defined by Appendix B to Code of Conduct) (please give details):</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="3">Are you intending to withdraw from the meeting?</td><td>Yes - ☐ No - ☐</td></tr>
<tr><td colspan="4"></td></tr>
</table>

Registering Interests

Within 28 days of becoming a member or your re-election or re-appointment to office you must register with the Monitoring Officer the interests which fall within the categories set out in **Table 1 (Disclosable Pecuniary Interests)** which are as described in "The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012". You should also register details of your other personal interests which fall within the categories set out in **Table 2 (Other Registerable Interests)**.

"Disclosable Pecuniary Interest" means an interest of yourself, or of your partner if you are aware of your partner's interest, within the descriptions set out in Table 1 below.

"Partner" means a spouse or civil partner, or a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners.

1. You must ensure that your register of interests is kept up-to-date and within 28 days of becoming aware of any new interest, or of any change to a registered interest, notify the Monitoring Officer.

2. A 'sensitive interest' is as an interest which, if disclosed, could lead to the councillor, or a person connected with the councillor, being subject to violence or intimidation.

3. Where you have a 'sensitive interest' you must notify the Monitoring Officer with the reasons why you believe it is a sensitive interest. If the Monitoring Officer agrees they will withhold the interest from the public register.

Non participation in case of disclosable pecuniary interest

4. Where a matter arises at a meeting which directly relates to one of your Disclosable Pecuniary Interests as set out in **Table 1**, you must disclose the interest, not participate in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest, just that you have an interest.

   Dispensation may be granted in limited circumstances, to enable you to participate and vote on a matter in which you have a disclosable pecuniary interest.

5. Where you have a disclosable pecuniary interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it.

Disclosure of Other Registerable Interests

6. Where a matter arises at a meeting which ***directly relates*** to the financial interest or wellbeing of one of your Other Registerable Interests (as set out in **Table 2**), you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Disclosure of Non-Registerable Interests

7. Where a matter arises at a meeting which ***directly relates*** to your financial interest or well-being (and is not a Disclosable Pecuniary Interest set out in **Table 1**) or a financial interest or well-being of a relative or close associate, you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

8. Where a matter arises at a meeting which ***affects*** –

   a. your own financial interest or well-being;

   b. a financial interest or well-being of a relative or close associate; or

   c. a financial interest or wellbeing of a body included under Other Registrable Interests as set out in **Table 2** you must disclose the interest. In order to determine whether you can remain in the meeting after disclosing your interest the following test should be applied

9. Where a matter (referred to in paragraph 8 above) ***affects*** the financial interest or well- being:

   a. to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and;

   b. a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest

   You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise, you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

   If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Where you have an Other Registerable Interest or Non-Registerable Interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it.

Table 1: Disclosable Pecuniary Interests

This table sets out the explanation of Disclosable Pecuniary Interests as set out in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012.

Subject	Description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain. [Any unpaid directorship.]
Sponsorship	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land and Property	Any beneficial interest in land which is within the area of the council. 'Land' excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners (alone or jointly with another) a right to occupy or to receive income.
Licenses	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer
Corporate tenancies	Any tenancy where (to the councillor's knowledge)— (a) the landlord is the council; and (b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.
Securities	Any beneficial interest in securities* of a body

	where— (a) that body (to the councillor's knowledge) has a place of business or land in the area of the council; and (b) either— i. the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or ii. if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/ her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

* 'director' includes a member of the committee of management of an industrial and provident society.

* 'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

Table 2: Other Registrable Interests

You have a personal interest in any business of your authority where it relates to or is likely to affect:

a) any body of which you are in general control or management and to which you are nominated or appointed by your authority

b) any body

   i. exercising functions of a public nature
   ii. any body directed to charitable purposes or
   iii. one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union)

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NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the Audit Committee held in the Council Chamber, County Hall, Morpeth on Wednesday, 30 November 2022 at 10.15 a.m.

PRESENT

S. Watson (Chair, in the Chair)

COUNCILLORS

Cessford, T.
Grimshaw, L.
Jackson, P.
Oliver, N.
Reid, J.
Towns, D.
Wallace, A.

CO-OPTED MEMBERS

Topping, P.

OFFICERS IN ATTENDANCE

Bowers, H.	Democratic Services Officer
Candlish, T.	Group Assurance Manager
Henderson, C.	Group Assurance Manager
Masson, N.	Senior Manager – Legal Services
McDonald, K.	Head of Internal Audit and Risk Management
O'Farrell, R.	Interim Chief Executive
Williams, G.	Corporate Fraud Investigator
Willis, J.	Interim Executive Director of Finance and S151 Officer

ALSO IN ATTENDANCE

Gilbert, J.	External
Waddell, C.	Mazars (External Audit)

1 member of the press was in attendance

42. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Dale.

43. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on 28 September 2022, as circulated, be confirmed as a true record and signed by the Chair.

The Chair informed the Committee of a change in the order of agenda items.

44. MONITORING REPORT / ACTION LOG 2022-23

The Committee was asked to review and note its monitoring report/action log for the 2022/23 council year (a copy of which had been filed with the signed minutes).

Regarding Action 1, it was confirmed that although a written response had been forwarded to Councillor Oliver, the response should also be emailed to the Committee.

Regarding Action 2, a brief update be given to the Committee following the response of the Interim Director of Finance and Section 151 Officer to Councillor Dale.

Regarding Action 3, Councillor Jackson requested a comprehensive progress report be brought to the next meeting on issues from the Caller Report.

It was suggested an update report be brought to the next meeting by the S151 Officer, focusing on work undertaken by the Challenge Board.

The Chief Executive informed members that a full report would be taken to Full Council and the same report brought to the Committee to avoid duplication of effort.

Regarding Action 4, Corporate Services and Economic Growth Scrutiny Committee would scrutinise the Business Case and suggested a discussion with the Chair and Vice Chair of the Committee to ensure there was no duplication.

Regarding Action 6, due to complex and sensitive matters, the report on the processes and practices of employment and redundancy payments would be presented at the January meeting.

RESOLVED that the monitoring report/action log and comments made be noted.

45. INTERNATIONAL INVESTIGATION

John Gilbert joined the meeting virtually and provided an update of the International investigation to the Committee.

Mr Gilbert explained that the investigation had come about due to issues of the S114 notice, the Caller Report and work involving International. Following the report, the Committee had raised 10 questions.

The methodology of the investigation had involved reading through over 500 documents and information. Twenty people had been interviewed, from past and present staff and councillors and senior NHS staff. Some individuals had not wanted to take part, some had provided further information. There was also the process of translating issues and gaps.

Questions were being responded to in chronological order to ensure the report was based on evidence and not on information that was subjective or hearsay.

It was hoped that the report would be brought to the Committee in January.

The Chair and members thanked Mr Gilbert for his update.

46 REPORT OF THE EXTERNAL AUDITOR

(a) Audit Strategy Memorandum – year ending 31 March 2022

Cameron Waddell, External Auditor explained that work on the audit 2021/22 had commenced and testing was well underway. The aim was to conclude and report the audit in March 2023.

The Committee were provided with an update on the audit approach for the year ending 31 March 2022. Key points of the report, included:-

- Engagement and responsibilities summary
- The Audit Engagement Team
- Audit scope, approach and timeline including planning, completion and fieldwork
- Significant risks and other key judgement areas
- Value for money arrangements
- Fees for audit and other services
- Non audit work, eg, returns
- No independence issues
- Materiality and misstatements including Officer renumeration and Infrastructure

(b) Update on Audit 2021-22 Statement of Accounts

Mr Waddell, included a brief update of the progress of the work in agenda item 46 (a) above.

RESOLVED that the information be noted.

47. REPORT OF HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

Audit Committee Arrangements

Kevin McDonald, Head of Internal Audit and Risk Management explained that the Chartered Institute of Public Finance and Accountancy (CIPFA) regularly produced guidance on the operation of local authority audit committees which included a Position Statement and Self- Assessment Template for best practice.

Updated guidance had been published in October, which included an updated Position Statement and updated Self-Assessment Template.

The report enclosed an updated completed Position Statement (Appendix A) and Self- Assessment (Appendix B) which had been completed in conjunction with the Chair and Vice Chair and in the main showed that the Council was compliant with the guidance in the Position Statement. Some amendments would be required to the

Terms of Reference to be fully compliant with the guidance and hopefully all changes would be ready for Annual Council in May next year.

Councillor Jackson referred to question 25 of the self-assessment (‘Does the committee make recommendations for the improvement of governance, risk and control arrangements?’). He suggested that this wasn’t a regular occurrence. The Chair responded that in his opinion, the comment in the table (‘It would not be usual for recommendations from Audit Committee to be made regularly, but this was a facility which Audit Committee had utilised when appropriate’) was a fair comment and appropriate.

Some discussion took place on structured training for members in order to keep on top of best practice.

Councillor Oliver stated that independent members were important and the key to efficient functions. Additionally, the attendance of senior officers and members at meetings was equally important.

The Chair thanked Mr McDonald for his report.

RESOLVED that:

1) CIPFAs published revised guidance, including a revised Position Statement on Audit Committees in Local Authorities and Police and that some future changes are likely to be needed to the current Terms of Reference of Audit Committee as set out in the Constitution, to ensure that all aspects of CIPF’s latest guidance can be reflected be noted.

2) the latest self-assessment of Audit Committee arrangements against the good practice guidance recommended by CIPFA, be endorsed.

3) the Head of Internal Audit and Risk Management works with the Chair of Audit Committee to undertake a wider review of Audit Committee arrangements using the revised CIPFA guidance in order to prepare a plan of action which may be needed to ensure that Audit Committee arrangements reflect CIPFAs latest guidance be agreed.

48. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

Key Outcomes From Internal Audit Reports (Issued May 2022 to October 2022)

The report advised Audit Committee of key outcomes from Internal Audit reports issued between May 2022 and October 2022).

The report highlighted the objectives, assurance opinion, recommendations and progress made and was shared with each client.

In response to a request of a breakdown of the Communities Together grant to be circulated to members, Mr McDonald stated this would be chased up.

In response to more clarification on the NETS support, it was explained that only small amount of detail was in the report, but additional detail could be provided to the Committee

P. Topping referred to the ICT review on page 48 and K. McDonald stated that 5 of the 8 recommendations had already been actioned.

In response to a query from the Chair regarding Change Advisory Board (CAB) not meeting for 4 months at the time of the audit, K. McDonald understood that whilst meetings had not taken place, relevant approvals had been given virtually and it had been reflected in the recommendations that it would be more beneficial if meetings took place face to face.

Councillor Jackson raised a query on the checking of rectification of issues. K McDonald explained that a service area would be expected to self-certify and subsequently evidence would be checked to the background of the risk. More thought would be given how to present information to the committee in future.

RESOLVED that the key findings from good practice identified in, and management action taken in response to the Internal Audit reports issued in this period, be noted.

49. REPORT OF HEAD OF INTERNAL AND RISK MANAGEMENT

Strategic Audit Plan 2022/23 - Interim Monitoring Statement

The report provided the Committee with a half yearly monitoring statement in respect of the Strategic Audit Plan for 2022/23.

K. McDonald outline the key issues of the report:

- Additional work had been undertaken following the Section 114 Report in May and external investigation following the International arrangement and grant certification.
- £24 m worth of grant certification within the first half of the year with an additional £23.9 m.
- Work was under constant review for delivery of the plan and an outturn would be reported to Committee in May 2023.
- Monitoring of resources following cessation of Shared Internal Audit and Risk Management Services.
- The plan on page 63 included items in the plan which had been agreed in March last year with a progress update.

RESOLVED that the progress set out in the Strategic Audit Plan Interim Monitoring Statement and the level of coverage achieved by Internal Audit be noted.

50. INTERIM EXECUTIVE DIRECTOR OF FINANCE & SECTION 151 OFFICER

Treasury Management Mid-Year Review Report for the Period 1 April to 30 September 2022

The report provided a mid-term year review of the activities of the Treasury Management function for the period 1 April to 30 September 2022 and performance against the Treasury Management Strategy Statement (TMSS) 2022-23 as approved by County Council on 23 February 2022. The report provided a review of borrowing and investment performance for the period set out in the context of generic economic conditions prevailing so far during the year. It also reviewed specific Treasury

Management prudential indicators defined by the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code), and approved by Council in the TMSS.

J. Willis gave a brief summary of the report and stated that a gradual increase in interest rates had been anticipated throughout the financial year to $3^{1}/_{2}$ % but had increased more rapidly to a higher level.

Whilst rates had come down slightly following the mini budget measures, the table on page 77 showed PWLB rates around 5% depending on maturity at quarter 3, and by quarter 2 down, but significantly higher than planning assumptions at the beginning of the year.

Cash balances had remained high in the first half of the year but were still in an under borrowing position. As cash balances reduced, external borrowing would be required by the end of the year. The expenditure in this financial year would be lower than expected. The amount of debt would be relatively modest but at a significantly higher rate earning on cash investments.

Overall, the under borrowing strategy would continue where possible, and debt replaced due to maturing loans. Borrowing would be undertaken on a short-term basis.

In terms of investments, the amount earned had also increased significantly, based on existing investments, it was expected that there would be over £2m be the end of the year. In the short term this would have a beneficial impact but there was still concern about the longer impact.

All the treasury management was within the approved limits, and it was expected that it would also be in the second half of the year.

RESOLVED that the report and the performance of the Treasury Management function from 1 April 2021 to 30 September 2022 be noted and presented to County Council.

51. REPORT OF INTERIM EXECUTIVE DIRECTOR OF FINANCE & SECTION 151 OFFICER

Corporate Fraud Team

The report updated the Audit Committee on work undertaken by the Corporate Fraud Team covering the period 1 April 2021- 31 March 2022.

G. Williams, Corporate Fraud Investigator referred to changes in the team earlier in the year, but high standards of service had continued to be delivered.

Mr Williams explained that the main areas of work had included revenues, business rates and council tax. Also tenancy work, including Right to Buy, verification and ID checks on tenants and cases recovering properties and illegal eviction.

Covid grants during the 2021 – 2022 period had been investigated in relation to payments discrepancy with 55 cases being successfully invoiced.

The table on page 93 showed the total sanctions across all areas investigated.

In response to a query regarding claims, Mr Cameron explained that most claims tended to be personal injury, eg, trips and falls.

RESOLVED that the report and progress undertaken by the Corporate Fraud Team since the last report received in March 2022, and the steps taken to recover any monies owed to the Council be noted.

P. Topping left the meeting at 12.04 pm.

Councillors Oliver and Reid left the meeting at 12.05 pm.

52. DATE OF NEXT MEETING

RESOLVED that the next meeting is scheduled for Wednesday, 25 January 2023 at 10.15 a.m.

53. EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

(a) That under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items on the Agenda as it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the 1972 Act, and

(b) That the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:-

Agenda item	
15	Paragraph 3 of Part 1 of Schedule 12 A Information relating to the financial or business affairs of any particular person (including the authority holding the information). Disclosure could adversely affect the business reputation or confidence in person/organisation, and could adversely affect commercial revenue.

At this point in the meeting Rick O'Farrell, Interim Chief Executive and the member of press left the meeting.

54. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

Group Audit Committee: Advance Northumberland Internal Audit Update

The purpose of the report was to provide an update on the 2022-2023 Internal Audit Plan covering Advance Northumberland Group of Companies.

K. McDonald, Head of Internal Audit and Risk Management detailed the main points of the report for members.

The Chair informed members that the Chair of Advance Northumberland Audit Committee had agreed to attend the next Audit Committee in January 2023 to present a summary of actions underway at Advance Northumberland to address the issues arising from the KPMG report.

RESOLVED that the Group Audit Committee notes the update on the Advance Internal Audit Plan for 2022-23 summarised in Appendix 1, as part of the Group Audit Committee's role in maintaining governance oversight of all entities within the County Council's accounting group boundary.

CHAIR………………………………

DATE………………………………….

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

MONITORING REPORT / ACTION LOG
2022-23

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Stephen Watson, Chair of Audit Committee
E-mail Stephen.Watson03@northumberland.gov.uk

Updated: 17 January 2022

Agenda Item 4

NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE ACTION LIST

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Ref	Date	Report	Action	To be actioned by	Outcome
1.	23.03.22	External Audit Report	Councillor Oliver queried whether the revaluation reserve error in the NCC Group Account would impact on their corporation tax?	Interim Director of Finance and Section 151 Officer to respond.	Verbal response provided but a formal written response was to be produced.
2.	28.09.22	Treasury Management Annual Report for the Financial Year 2021-22	Councillor Dale's question regarding borrowing to be clarified with the Section 151 Officer after the meeting.	Interim Director of Finance and Section 151 Officer to respond.	Verbal response provided but a formal written response was to be produced.
3.	28.09.22	Caller Report	Regular updates on progress made to address issues raised from the Caller Report including monitoring the Action Plan. For the item to be placed on the Work Programme.	Interim Director of Finance and Section 151 Officer to update when appropriate.	Report scheduled for January 2023 meeting on the progress made with the Challenge Board.
4.	28.09.22	Strategic Transformation Programme Business Case	To receive a report on the business case to ensure best value for money. For the item to be placed on the Work Programme. Corporate Services and Economic Growth OSC would scrutinise the Business Case and suggested a discussion with the Chair and Vice Chair of the Committee to ensure there was no duplication of workload.	Interim Director of Finance and Section 151 Officer.	

5.	28.09.22	Adult Social Care and wider NHS changes	Monitor any impacts and for the item to be placed on the Work Programme.	Interim Director of Finance and Section 151 Officer to update when appropriate.	
6.	28.09.22	Report on the processes and practices of employment and redundancy payments	Report to be presented to the November meeting.	Interim Director of Finance and Section 151 Officer.	Now scheduled for January 2023 meeting.
7.	31.11.22	Update on the Independent Review of International	Further update report to be presented to the November meeting.	Interim Director of Finance and Section 151 Officer.	Report scheduled for January 2023 meeting.
8.	31.11.22	Group Audit Committee	To receive the KPMG Progress Summary at the next meeting.	Chair/Chair of Advance Northumberland	Report scheduled for January 2023 meeting.

WORK PROGRAMME

ISSUE
25 January 2023
Internal Audit & Risk Management • Approach to preparing the Strategic Audit Plan 2023-24 • Risk Management Update Report (deferred from November 22 meeting) • Public Sector Internal Audit Standards Corporate Finance • Statement of Accounts 2022-23 - Timetable and Policies • Changes to Code of Practice for 2022-23 • Treasury Management Strategy Statement for the Financial Year 2023-24 • Annual Governance Review and Draft Annual Governance Statement 2021/22 External Audit • Audit Progress Report Group Audit Committee • Update Report Member Report Requests • Caller Report update – First Interim Report of the Challenge Board • Review of Exit Payments • International Review update • KPMG Progress Summary
29 March 2023
Internal Audit & Risk Management

- Strategic Audit Plan 2023-24
- Annual Audit Committee Work Programme
- Annual Review of Audit Committee Effectiveness

Corporate Finance

- Group Boundary Review 2022-23
- Statement of Accounts 2020-21 (deferred from September 22 Meeting)
- NCC Statement of Accounts 2021-22 (deferred from November 22 meeting)

External Audit

- Audit Progress Report
- Final Audit Completion Report 2021-22 (deferred from November 22 Meeting)
- Annual Audit Letter 2021-22 (deferred from November 22 Meeting)
- Audit Completion Report 2020-21 (deferred from September 22 Meeting)
- Auditors Annual Report 2020-21 (deferred from September 22 Meeting)
- Audit Strategy Memorandum 2022-23 (deferred from January 23 Meeting)

Counter Fraud Team

- Counter Fraud Update

Group Audit Committee

- Update Report

Education and Safeguarding Performance

- Review of External Inspection Reports

MEETING DATES TO BE CONFIRMED/SCHEDULED

- Regular updates on progress made to address issues raised from the Caller Report including monitoring the Action Plan.
- Examine the Strategic Transformation Programme Business Case
- Monitor any impacts from recent changes within Adult Social Care and wider NHS changes.

Updated: 17 January 2022

COUNTY COUNCIL

DATE: 18TH JANUARY 2023

Response to the Challenge Board Interim Report 1 for the Member Oversight Group

Report of: Cllr. Glen Sanderson, Leader of Council

Executive Director: Rick O'Farrell, Interim Chief Executive

Purpose of report

To consider and respond to the first interim report of the Challenge Board, provided to the Member Oversight Group on the 23.12.22.

Recommendations

County Council is recommended to:

1. Note the initial findings and suggested next steps proposed in the Challenge Board's first interim report.

Link to Corporate Plan

This report contributes to the 'delivering value for money services' priority.

Key issues

The Independent Governance Review ('Caller Review') was reported to Council at its Extraordinary meeting of 8th June 2022. The Caller Review and the Council's response to its recommendations represent a critical opportunity to revise the ways in which we work, improving and strengthening our structures, governance, culture and values.

Background

In 2021, the Leader of Council took the decision to commission an independent review of governance in the Council. The final report of the Independent Review of Governance (known as the 'Caller Report') was presented to Full Council in June 2022.

In line with the Caller Report recommendations a cross-party, Member Oversight Group, ("the MOG"), was established to oversee the development and delivery of an Improvement Plan in response to Caller.

Again, following the Caller recommendations, the Leader of the Council asked the Local Government Association (LGA) to establish an external Challenge Board of experienced local government Elected Members and Officers to advise the Council on its improvement journey as a "critical friend."

The Challenge Board was established and met formally for the first time in October 2022. It has so far met three times and has engaged with a range of stakeholders, including:

- The Council's Leadership and Cabinet;
- Members from across the different political groups (follow-up sessions are planned for Labour Group Members);
- The Council's Executive Team;
- A sample of staff groups representatives and tier 3/4 managers; and,
- External partners.

Following its first three meetings, the Challenge Board drafted its first, interim report and presented its findings to the MOG on the 23.12.22. This is attached as Appendix A. These are the Board's initial findings, based on the documents and discussions they have held so far. As the Board continues to meet with Officers and Members as well as considering other evidence, they will gain deeper insights into the progress the organisation is making on its improvement plan.

Overall, the Board's interim report presents a positive picture of progress across the Council's Improvement Plan. Alongside this, the Board has provided feedback and advice on six key areas of our work. These are set out below, with an initial response to these points outlined in bold.

Key findings

1. The biggest challenge is the long-term need for change in culture, including the rebuilding of trust. We feel the best next step on this is for the Council to produce a longer term, 3-year, holistic, overall improvement plan which is clear about what success would look like and how the current actions (and any currently missing actions) would achieve this, especially around culture, behaviours, values and ethos. The Board would want to work with the Council to help develop this.

   Response

   This finding is set in the context of overall positive progress on our Improvement Plan. We believe that the relationships and basis for working between Officers and Members has improved markedly over the past six months as has the level of engagement between Leadership / Chief Executive and the wider staff groups. However, we accept that embedding positive culture change is a long-term commitment and project for the Council at all levels of the organisation. We have recently received the latest feedback from the staff survey, which provides emerging evidence of the improvements seen in last six months. We have further developed our plans for culture and values and need to engage with the Board on the latest plans. We welcome the offer of the Challenge Board to help us develop a longer-term, outcomes-based culture change programme.

2. The Council should consider the pace of some sensitive and crucial changes. Are you going too quickly on a radical restructure and transformation programme? There is clearly a need to get on and sort out the officer structure at the Council. But this should be balanced against ensuring you are taking people with you and that there is an

opportunity for the incoming permanent CEO to oversee and drive this. Otherwise, there is a risk it may need to be repeated. It needs to be done just once and properly, with the right groundwork and having explained the rationale and reasoning behind specific proposals. The current haste is leading to mistrust and suspicion.

Response
So far, the Interim Chief Executive has led engagement (alongside the Executive Team) of staff who are potentially impacted by the ongoing restructure of tiers 3-4 of the management structure. The Council has also commissioned expert advice to ensure structure proposals reflect the most up-to-date approaches across the sector, the incoming Chief Executive has also been kept informed of the work being undertaken. However, we accept it is important the new Chief Executive has visible ownership of this process and therefore are reviewing the restructure timetable to better align with the new Chief Executive taking up her post in February 2023.

We have recently completed the discovery phase of the transformation programme and the strategic business case outlining key priorities and implementation will be going to January Cabinet for approval. That will provide a springboard for the launch of our communications and engagement strategy. Although delivering the savings that are required to support the MTFP over the next 3 years is a key driver for the programme, this is not the exclusive focus. It is also about finding new and better ways to deliver services for local residents, investing in our workforce and developing a fit for purpose, modern organisation. However, we accept it is important the new Chief Executive has visible ownership of this programme and therefore align the timetable for this work with the new Chief Executive taking up her post in February 2023.

3. It is positive that a way forward for the 2023/4 budget has been identified, but the Council needs to move forward for the longer term with a clear 3-year financial plan driven by the Corporate Plan priorities. This should be developed by all members with support and advice by officers.

   Response

   We accept this point and are confident the refreshed Corporate Plan will support this process moving forward. The Corporate Plan refresh process invites all Members, Officers from across all Council services, the Public, Town and Parish Councils and Business Leaders to be engaged in its development. Developing a three-year financial plan will be challenging for all Councils given the current context of inflationary pressures.

4. The Groups should co-design and lead the delivery of effective training with members around code of conduct and behaviour, including the Nolan Principles. This should be evaluated to see how successful it has been.

   Response

   We accept this point. We have further developed our plans for the code of conduct but need to do more to engage with the Board on these latest plans.

5. The Council should arrive at an agreed protocol on appropriate access to information, including exempt information to give clarity on what members can and can't have (and why), but also defining the personal responsibility of members to respect confidentiality around this, in order to rebuild trust.

   Response

   We accept this point. We have further developed our plans for providing access to information but need to do more to engage with the Board on these latest plans.

6. The Council should proactively produce internal and external communications about what the Council is doing to meet its improvement challenges. The Council should be proud of the start it has made but should speak up about its ambitions and plans for further change.

   Response

   The Leader has already outlined our improvement progress and ambition in a recent article in the trade press. This has been further evidenced in results from the recent staff survey. The Leader and Chief Executive have personally led a new approach to staff engagement – e.g. through live Q&A sessions where staff are encouraged to ask the Leader and Chief Executive anything and a number of visits across the County to meet staff. We need to share more of our current engagement with the Board, so they are sighted on this progress. At the same time, we will reflect on the Board's advice and review our approach to communicating progress and future plans to see what more we can do, particularly to those outside the Council.

It should be emphasised that solid progress is being made by the Council across a number of these areas and the Board acknowledges they are still going through the engagement stage and getting to understand the progress made to date.

That said, it is agreed that for the Challenge Board to advise on and help shape the Council's improvement actions and to be able to be that 'critical friend' providing robust challenge, the Council needs to engage with the Challenge Board across all areas more fully.

Whilst good progress has been made in the short time the Board have been working with the Council, there is an opportunity to increase the level of collaboration and co-design, to better embrace what the Board can offer to support and shape the improvement work so as to achieve the best possible results for residents.

Implications

Policy	None
Finance and value for money	Value for money, transparency and accountability are key aims of the Council. Whilst this Report contains no direct financial implications, the delivery of the individual actions of the Improvement Plan will have financial implications. Any financial

	implications will be the subject of separate reports in relation to specific actions at the appropriate time.
Legal	Whilst this report contains no immediate legal implications, the delivery of the individual actions in the Improvement Plan may have legal implications. Any legal implications arising from the delivery of specific actions will be brought forward in future reports.
Procurement	None
Human Resources	Links to the CEO, Executive Team and Council Wider appraisal and performance framework.
Property	None
Equalities (Impact Assessment attached) Yes ☐ No ☐ N/A ☐	None
Risk Assessment	Failure to implement specific actions from the Improvement Plan in response to the Caller Review recommendations could impact negatively on the Council's Strategic Risks.
Crime & Disorder	None
Customer Consideration	None
Carbon reduction	None
Health and Wellbeing	None
Wards	All

Background papers:

Independent Governance Review (02.2 NCC Governance Review finalwatermarkcopy.pdf (moderngov.co.uk))
Challenge Board Interim Report 1 for Member Oversight Group (23.12.22).

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

	Full Name of Officer
Monitoring Officer/Legal	Lynsey Denyer obo Suki Binjal
Executive Director of Finance & S151 Officer	n/a
Relevant Executive Director	n/a
Chief Executive	
Portfolio Holder(s)	

Author and Contact Details

Philip Hunter, interim Senior Service Director. (Philip.Hunter@northumberland.gov.uk)
Matt Baker, Service Director. (Matthew.Baker@northuberland.gov.uk)

Northumberland County Council

Challenge Board Interim Report 1 for Member Oversight Group

23 December 2022

1. Background

1.1 Everyone at Northumberland County Council (NCC) shares a passion for delivering on the most important things for residents and businesses. Now more than ever, as families and businesses struggle with rapidly increasing costs, they need their council to be on their side, attracting well-paid jobs to the County, delivering effective support services and investing in the future.

1.2 However a council can only sustain the best outcomes for residents when the organisation is fit-for-purpose. That is when members, senior officers and their teams are all pulling in the same, and right, direction.

1.3 It was clear to the Leader of the Council that NCC faced significant challenges to strengthen the governance of the council. Many, although not all, of these challenges stemmed from the fractured relationships between the Cabinet and some of the Council's most senior officers.

1.4 The Leader took the difficult but necessary decision to commission an independent review of governance. This reported in June 2022. As a result of that report (and as a recommendation within it) the Leader of the County Council asked the LGA to help it set up this Challenge Board. We are here to help you on your improvement journey as a "critical friend." No one organisation or individual should ever shy away from challenge.

1.5 This is a long-term process of change and of rebuilding trust that will probably take at least 3 years. The Council have made a good start by inviting in Max Caller, dealing with the senior officer leadership issues, bringing in the Challenge Board and appointing a new permanent CEO.

1.6The Leader has shown real leadership in recognising the need for change and in pushing for results and continued pace. But this is an important process and journey for the **whole** Council and **all** officers, members and Groups should wholeheartedly buy in to it.

1.7 The Challenge Board is independent of the Council and has membership with significant and appropriate experience at both top officer and councillor level. The

18 Smith Square, London, SW1P 3HZ www.local.gov.uk **Telephone** 020 7664 3000 **Email** info@local.gov.uk **Chief Executive:** Mark Lloyd Local Government Association company number 11177145 Improvement and Development Agency for Local Government company number 03675577

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Board is chaired by Pat Ritchie CBE and has a further experienced council CEO, Wallace Sampson OBE. It has a Conservative Council Leader, Councillor Abi Brown and a Labour Council Leader, Sir Stephen Houghton CBE. It also includes an experienced Monitoring Officer: Gillian Marshall; a previous S151 Officer who also has commercial and governance experience, Neil Thornton and the regional lead for the LGA, Mark Edgell.

1.8 We are all used to operating in challenging local places, with issues around member and officer relationships, scarcity of resources and a changing world. We aim to bring those experiences and use them to your benefit.

1.9 The Board is not here to run anything, or to take over, but to provide robust challenge and act as a critical friend to advise and help to shape the Council's improvement actions. This should help you ensure focus, grip, pace and effective change; particularly as you implement the recommendations from the Independent Governance Review (the Max Caller report). The Council itself is responsible for its performance, reputation and improvement

1.10 The Aims and Objectives of the Challenge Board are, therefore, to support the Council to, quickly and effectively, re-establish what it means to be a Best Value Unitary Local Authority in its geographic area delivering appropriate services and community leadership to every resident and entity in its area, by:

1) Redrafting its Corporate Plan in terms of the Administration's Goals and Objectives, moderated by the capacity of the organisation and the legislative framework,

2) Ensuring the values by which the Council seeks to operate are lived within the organisation

3) Using the data it holds, collects, or needs to collect to define priorities and monitor and improve performance in a systematic way and publish the outcomes.

4) Reviewing and agreeing a redraft of the Constitution to ensure that decisions that should be taken at Member level, by Cabinet, Committee, Individual Member or Full Council are clearly identified and that the recording and scrutiny of officer decisions, both individually and in aggregate, is unambiguous.

5) Reviewing and redrafting the codes of conduct which regulate member and officer behaviours and working relationships with each other, to make it clear what the expectations of each party should be and how robust challenge can be handled, to ensure proper accountability can be achieved. This needs to recognise the legitimate rights of Councillors for information to enable them to do their role and for Councillors to recognise that policy is the preserve of the Council unless delegated and saying no is a legitimate outcome.
6) Establishing a rationale for the establishment or continuation of any company established under the provisions of the Localism Act 2011.
7) Establishing a specific governance framework by which, for those companies wholly or partly owned by NCC, their Directors are appointed, reports on performance are presented to a Cabinet Sub-Committee, conflicts of interest and risk are dealt with and how shareholder agreements are ratified, by both the company and NCC.
8) Establishing an officer structure which is designed to deliver against earlier recommendations and seek to appoint permanent employees to fulfil those objectives.
9) Establishing a scheme of performance appraisal, starting with the Chief Executive at member level, in line with the JNC provisions, which cascades throughout the organisation so that every employee is clear about their targets and how they fit into plan delivery. As the Chief Executive is accountable to the Council as a whole for their performance, publish the targets and how they have been achieved as an annual statement to Council.

1.11 This is the Challenge Board's first interim report. We have agreed with the Council to provide reports to the MOG every 2 months

2. Scope and Focus

2.1 The Board sees its role as providing independent assurance (alongside advice and support) on these three interrelated questions:

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1. Is the Council's action plan appropriate and sufficient to cover the issues raised in the Max Caller report? The Board will look beyond the 9 recommendations listed above if there are legitimate areas that we feel are important in identifying underlying causes of issues, or the enabling of effective solutions for the re-creation of that well functioning and effective Council.

2. Have the actions within the improvement plan been implemented or carried out in the way intended?

3. The "so what?" question. Are the Council clear on the outcomes they are seeking to achieve by their improvement actions? When completed, will they have, or be likely to have in due course, the desired impact in terms of the changes in the systems, processes, behaviours and culture that the Max Caller report implied were needed, through his reference to the "Best Value…..Authority?"

2.2 If and when the Board feels that the answers to each of those questions is mainly positive, the Board might adopt a different approach such as through, what might be termed, an elongated peer review approach, with less frequent contact and focussing less on challenge and more on advising and on coaching and enablement of the top team, including the new senior management team. We will take stock along these lines in Spring 2023.

3. Initial views from the Board

Overview and context

3.1The Board has engaged with a wide range of people and has been struck by their openness and constructiveness. We have been particularly heartened by the desire of Councillors from across the political spectrum to share their views with us. One thing is absolutely clear from all this: that although Northumberland County Council has been through a challenging, distracting period, there is passion for Northumberland and a clear determination from just about everyone to improve governance and behaviour and to get back to being focussed on doing the very best for Northumberland's residents, businesses and visitors.

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3.2 Receiving the Independent Review of Governance report cannot have been easy for the Council. But, to its credit, the Council accepted it, including the recommendations in full. It established a cross-party steering group to consider the way forward and as a result invited in a wholly independent Challenge Board to support it in addressing the challenges.

3.3 The Leader's decision, to invite in Max Caller, was a brave and correct one. As has been his energetic and determined response to the report's findings. Leading a council with no overall control requires fortitude, patience and the ability to bring people together, skills that are much admired and commented on in the Leader. His personal commitment to driving the improvement agenda forward is self-evident, and the arrival of a permanent strong supportive Chief Executive in the coming months will help to embed this through the establishment of a stable and permanent leadership team.

Progress so far

3.4 Despite a rapidly changing economic and social environment, which is currently challenging most local authorities, with uncertainties over funding and increasing costs and demands for services, the Council has quickly put in place many actions to respond to the report. It has done this alongside a continued focus on, and energy spent, on big projects that will bring significant benefit to the County such as The Northumberland Line.

3.5 Indeed since the Independent Review was published and reviewed at Full Council in June 2022 much progress has been made by the Council including: better alignment to the Council's 3 priorities; cross party agreement, within 2 weeks, of the actions that will be completed to meet the recommendations; Officer and member (cross party) governance arrangements established; activities underway with elected members on the Constitution Working Group to update the Constitution, with support from the Centre for Governance and Scrutiny.

3.6 We have heard a widespread view that the recent changes at the most senior officer level has had a positive impact on the atmosphere in County Hall. We were also told that the behaviours across all Groups were feeling better, with less antagonism. But that there is still some way to go

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3.7 Credit should go to both the Leader and Interim CEO as people talk about the two of them having improved visibility and relationships inside the Council with staff and also outside the Council. Although these relationships are, in some cases, more limited than partners have with other councils. The Leader's style is seen as consultative and positive which is particularly important in Councils with no overall control.

3.8 It is commendable that the Council has wanted to be seen to be responding quickly to the report. Much of this has been down to the drive and focus of the Leader. There has been a real effort to respond effectively and put the right things in place. This has seen quick progress on some key issues, such as the recruitment of a new permanent CEO and the process to recruit the full top team. His drive for pace is understandable and commendable.

3.9 However we have heard many voices saying that this will be a longer improvement journey than was originally hoped, or planned, for. Perhaps of around 3 years. Some voices are also asking whether the council is too focussed on ticking off the "mechanistic" actions implied by the 9 Caller recommendations actions without a clear eye towards the longer term values, culture and behaviour change required to be an effective, Best Value, Council.

3.10 The challenge is bigger than some think. Some things have not yet been tackled, nor are there clear plans in terms of how they will be approached. Values and culture are a key issue and yet we heard that values are only really discussed at appraisal time. The key is to rebuild trust. This can't be done overnight and is a longer term project. It will be harder to achieve if some are excluded, or not effectively involved, in the process of rebuilding.

3.11 Several people have asked whether some of the change work is being done so quickly that the act of doing it has not engaged with a sufficiently wide range of people, even those internal to the council. Another doubt is why some change is being done without a clear narrative for its purpose or an explanation about why it is being done in a certain way and to what end. The work on the shape of the Council, may sensibly need to be repeated after a period of reflection over impact, probably after the arrival of the new Chief Executive. Indeed it may make more sense to delay this until the arrival of the new CEO as the current haste is generating a degree of

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mistrust and questions about what is the rationale for the change being proposed and how does it fit with the Council's priorities and who is driving it and why.

3.12 We are not saying slow down for sake of it and certainly not on everything. Indeed you should be proud of the pace of improvement so far. To some extent this will aid the need to move on from the past. But the pace with which you are doing some things, or the way in which you are doing them, may not deliver the results you need.

3.13 There is also a fundamental question about whether and how the various streams of improvement are being coordinated and linked in an overall "plan." There appears to be a lot of activity but it is unclear how it is knitted together, particularly flowing from the Council's 3 priorities and how those are driving the new structure, budget decisions and other improvement plans.

3.14 Currently there is a Caller Improvement Plan and a "Strategic Change Programme." The latter appears to be focussed on financial control and reductions. There is nothing wrong with that but we need to be clear where the work on values, behaviour, culture and ethos is. We haven't seen an overall plan in spite of asking for it.

3.15 The way to bring all these actions together would be to start by being clear on the outcomes you are seeking. How would YOU define and measure the results you are seeking to achieve? What would success from your Improvement journey look like? There needs to be a longer term improvement plan which joins up the current streams of change and transformation etc, is clear about how they all fit together and the outcomes being sought in terms of culture and behaviour change.

Areas for Improvement: Looking Backwards

3.16 There is a lot of wanting to go back. Clearly people need to be allowed to vent, grieve, whatever. But when will it be possible for all members, and indeed officers, to draw a line; leave the past in the past and move on? Time will clearly aid the healing, but individuals, groups and teams need to try to accelerate the healing of the antagonism over the past and whatever they feel happened and whoever they feel was responsible, park that and move on together.

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Areas for Improvement: Involvement of ALL members

3.17 All members need to have a role in leading the Council forward. This is normal in a good council. They need to find places within the governance arrangements to be able to do that, to influence, to hold to account, in a constructive cross-party way. We question whether this is being facilitated currently.

3.18 The new Policy Conference approach is an innovative way of seeking to engage with councillors to seek to ensure there is a genuine dialogue with all members over policy? We have heard that Overview and Scrutiny is not as effective as possible. But what should its role be and what is being done to ensure it fulfils that role and potential, with a real member-directed focus? Will the Policy Conference approach abstract from the role of Overview and Scrutiny, or is its purpose distinctly different?

3.19 Have members really been involved in a conversation on the overall vision for Northumberland, the priorities and of what sort of Council they want? Where is the planned work with members and officers to understand what a member led, officer managed organisation is and the roles of members and officers in that?

3.20 The recent appointment process for the CEO appears to have us to have been thorough and professional and to have reached a good decision. However a small element of the process could have been handled better - the inclusion of the Independent Group

3.21 Questions have been raised over the Chairing of Full Council and the perception that the current arrangements are partial. Whether this is true is not for us to judge but NCC does seem to have a different model to almost every other Council, where a Civic Chair or Ceremonial Mayor would oversee the meeting. Perhaps this should be looked at as part of the review of the Constitution

Areas for Improvement: Current Behaviours

3.22 The Board heard a strong view that the pride of being part of council is still currently affected by the behaviours of some members. There is clearly a common shared passion to serve and progress Northumberland. Why is this not matched by shared positive behaviours, which can help rebuild trust across the whole Council? This can still happen alongside constructive challenge. All officers, members and Groups should be playing their part in positive change.

3.23 The recent leaking of papers linked to some standards complaints was clearly unacceptable. From wherever these leaks originated, it is clear that some individual/individuals are deliberately not aiding progress. They should consider their role in slowing improvement in the Council.

3.24 The use of social media by councillors has been raised with us, including where councillors might be doing this anonymously. We do feel that such use needs to be responsible and to not feed conspiracy theories or the focus on the past or personalities. It is probably something we will come back to.

3.25 It is undoubtedly the case that, as in many Councils, Covid got in way and exacerbated any existing member-member or member-officer issues. Could the day-to-day fraternising of members such as via the members lounge, which was lost during Covid, again help to build relations and understanding?

3.26 For some members, there is the need to consistently get back to normal human interaction: basic niceties, avoiding intimidation or suspicion (and what some would see as “bullying”). Agreeing to disagree on some things but in a constructive, cordial, respectful way. Focussing debate on priorities, policies and performance not on personalities.

3.27 We welcome the plans of the Council to run a session with Councillors on how to embed the values consistently into member to member (and member to officer) interactions and behaviour, as well as the consideration of the Nolan Principles. We hope this can be led as a cross-party process.

Areas of Concern: Complaints

3.28 The delay over progressing some complaints that have been on the books for many months has aided suspicion. The sooner they reach the right conclusion (whatever that is) the better. The standards process, where it has to be used, needs to be fair, swift and as transparent as it can be to help build trust. It is recognised that the council has very little flexibility on the range of sanctions available to it.

3.29 There appears to have been a weaponising of the Code of Conduct over recent months. We have heard of large numbers of complaints. Some being seen to have been done on a tit-for-tat basis. Only the individuals responsible can take the action to stop this. They should. This does not negate the right to speak truth to power. It also does not reduce the responsibility of Groups to ensure their members show appropriate behaviour.

3.30 The Monitoring Officer (MO) must be recognised as independent of all Groups and indeed staff, and be allowed to get on with the job, without fear or favour. Complaints about the MO do little to assist the smooth processing of conduct complaints. The need to externalise complaints because allegations have been made against the MO has not assisted in resolving historic issues. The new appointment must be a turning point in addressing some of this.

Other considerations

3.31 The Council is moving forward with a review of the Constitution and Codes of Conduct. The key to success will be how you involve people from across the Council in arriving at the new documents so they fully reflect hopes and fears but most importantly can improve overall governance, efficiency and culture. There will also need to be effective training and development around the new documents. The training available to councillors, even induction sessions for members, seems limited and ad hoc.

3.32 Communication between members and officers needs improving. Indeed members say they are often receiving information only at same time as the press. Members aspire to a system that allows them to know what’s going on in their ward. We also heard of disappointments over casework response rates.

3.33 Are officers doing what they need to do to properly advise and support members? We heard of poorly written reports, with lack of clear advice. Is enough being done to support and enable cabinet members to effectively carry out their role?

3.34 The Council has some great people working for it, with talent across the whole organisation. It has been a turbulent time for them too. Many of them talk about having to get on with their jobs in spite of the turmoil at the upper echelons of the Council and of their need to act as a buffer for their teams. Staff have a huge passion for, and loyalty to, the County and for doing their jobs properly. Most also live within the County and have faced questions from family and friends over the reputational damage caused by recent events. Some press coverage has been different to what staff have been told internally; if indeed they had been told anything at all. Some staff talked of seeing recent changes in the right direction. They had a hope it continues, but also need proper reassurance and support through this period, as well as effective communication and engagement.

3.35 The Council is going through a transitional phase. On the senior officer side, the whole team is interim in their current roles. Whilst they are clearly doing their best individually and collectively, the uncertainty and lack of permanence is not conducive to them working as an effective team and them taking a strong lead on the improvement and changes needed. This is unlikely to be resolved until after the new CEO joins in February and she starts to build her team.

4. Next steps

4.1 The Board is still going through the engagement stage and getting to understand the Council. We have only just started our thinking about some of the 9 recommendations in 1.10. We are genuinely impressed by the way the Council has initiated, gripped and made progress on its improvement. This is particularly the result of the focus and drive shown by the Leader.

4.2 Whilst the Board acknowledges that it has been given access to many people. We have been disappointed by the level of some attendance and we have been slow to be provided with some of papers for which we have asked. For us to advise on and help shape the Council's improvement actions and to be able to be that critical friend providing robust challenge (that the Leader wrote about in his LGC article) the Council needs to **really** engage with us, to embrace what The Board can offer to support and shape your improvement work so as to achieve the best results.

4.3 In the meantime there are some issues we feel the Council needs to quickly address:

- the biggest challenge is the longer term need for change on culture, including the rebuilding of trust. We feel the best next step on this is for the Council to produce a longer term, 3 year, holistic, overall improvement plan which is clear about what success would look like and how the current actions (and any currently missing actions) would achieve this, especially around culture, behaviours, values and ethos. The Board would want to work with the Council to help develop this.

18 Smith Square, London, SW1P 3HZ www.local.gov.uk **Telephone** 020 7664 3000 **Email** info@local.gov.uk **Chief Executive:** Mark Lloyd Local Government Association company number 11177145 Improvement and Development Agency for Local Government company number 03675577

Northumberland County Council

Challenge Board Interim Report 1 for Member Oversight Group

23 December 2022

- the Council should consider the pace of some sensitive and crucial changes. Are you going too quickly on a radical restructure and transformation programme? There is clearly a need to get on and sort out the officer structure at the Council. But this should be balanced against ensuring you are taking people with you and that there is an opportunity for the incoming permanent CEO to oversee and drive this. Otherwise there is a risk it may need to be repeated. It needs to be done just once and properly, with the right groundwork and having explained the rationale and reasoning behind specific proposals. The current haste is leading to a degree of mistrust and suspicion.

- It is positive that a way forward for the 2023/4 budget has been identified, but the Council needs to move forward for the longer term with a clear 3 year financial plan driven by the Corporate Plan priorities. This should be developed by all members with support and advice by officers.

- the Groups should co-design and lead the delivery of effective training with members around code of conduct and behaviour, including the Nolan Principles. This should be evaluated to see how successful it has been.

- the Council should arrive at an agreed protocol on appropriate access to information, including exempt information to give clarity on what members can and can't have (and why), but also defining the personal responsibility of members to respect confidentiality around this, in order to rebuild trust.

- the Council should proactively produce internal and external communications about what the council is doing to meet its improvement challenges. The Council should be proud of the start it has made but should speak up about its ambitions and plans for further change.

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Northumberland
County Council

AUDIT COMMITTEE

25 January 2023

Changes to the Code of Practice for Local Authority Accounting in the UK for 2022-23

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth, Portfolio Holder for Corporate Services

1. Purpose of the Report

1.1. The purpose of this report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code) which will apply to the 2022-23 Statement of Accounts.

2. Recommendations

2.1. It is recommended that the Members of the Audit Committee:

a. note the changes detailed in the report and in Appendix A which will be taken into account in the preparation of the 2022-23 statement of accounts.

3. Key Issues

3.1. In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK, which is based on approved accounting standards.

3.2. The 2022-23 Statement of Accounts will be prepared in accordance with the CIPFA Code 2022-23.

3.3. The key accounting changes to the Code from 2021-22 to 2022-23 are outlined in Appendix A, detailing their relevance and applicability to the Council.

4. Background

4.1. In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.

4.2. The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

4.3. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies to accounting periods commencing on or after 1 April 2022. It supersedes the 2021-22 Code.

4.4. In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.

4.5. The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code in exceptional circumstances.

4.6. In November 2022, CIPFA/LASAAC issued an *Update to the Code and Specifications for Future Codes for Infrastructure Assets*, providing a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021-22 Code up to and including the Code applicable to the 2024-25 financial year but may also apply to local authority financial statements before this period where the auditor's opinion on those statements has not been given. NCC has continued to prepare for the accounts on the basis of the 2022-23 Code as it currently stands. It is anticipated that the longer-term solution for the reporting of infrastructure assets will implemented from 1 April 2025, and in the intervening period NCC will consider its information systems and inventories of infrastructure assets and what potential improvements can be made to ensure that asset information is complete.

4.8. Appendix A provides a summary of the key accounting changes to the Code and their relevance to the Council in preparing its Statement of Accounts for the year ended 31 March 2022.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The report considers the changes to the Code of Practice for Local Authority Accounting in the UK for the County Council's Statement of Accounts 2022-23.
Human Resources:	None.
Legal:	It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Health & Wellbeing:	The Council's budget is founded on the principle of promoting inclusivity.
Wards:	All.

Background Papers:
Northumberland County Council Draft Statement of Accounts 2021-22

Report sign off
Authors must ensure that officers and members have agreed the content of the report:

	Full Name
Interim Monitoring Officer	Suki Binjal
Interim Executive Director of Finance & Section S151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
Interim Chief Executive	Rick O'Farrell
Portfolio Holder	Richard Wearmouth

Suzanne Dent, Finance Manager

Telephone: 01670 625515 Suzanne.Dent@northumberland.gov.uk

Changes to the Code of Practice for Local Authority Accounting in the UK for 2022-23

The table below provides a summary of the key accounting changes in the 2022-23 CIPFA Code and their applicability to Northumberland County Council.

	Change	**Relevant to Northumberland County Council?**
1	Revision of Section 4.2 (Leases) to allow authorities to voluntarily adopt the provisions of IFRS 16 in advance of mandatory implementation.	Yes
2	Revision of Section 4.3 (Service Concession Arrangements: Local Authority as Grantor) to specify that if IFRS 16 is adopted in advance of mandatory implementation, then the service concession arrangement liability is measured in accordance with the measurement requirements of IFRS 16.	Yes
3	Amendments to Section 8.2 (Provisions, Contingent Liabilities and Contingent Assets) to clarify the treatment of social benefits under IAS 37/IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets.*	Yes
4	Confirmation in Appendix C (Changes in Accounting Policies: Disclosures in the 2021-22 and 2022-23 Financial Statements) of the transitional reporting requirements of the new standards introduced in the 2022-23 Code, while also having regard to requirements in relation to the voluntary adoption of IFRS 16.	Yes
5	Confirmation of the new standards introduced in the 2022-23 Code: • Annual Improvements to IFRS Standards 2018-2020 issued in May 2020 • Property, Plant and Equipment: Proceeds before Intended Use (Amendment to IAS 16) issued in May 2020.	Yes

Northumberland
County Council

AUDIT COMMITTEE

25 JANUARY 2023

TREASURY MANAGEMENT STRATEGY STATEMENT FOR THE FINANCIAL YEAR 2023-24

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth – Deputy Leader and Portfolio Holder for Corporate Services

Purpose of Report

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policy.

This report sets out the Treasury Management Strategy, Treasury Management Policy Statement, the Annual Investment Strategy for the Financial Year 2023-24, Prudential Indicators 2023-24 to 2026-27 and the Minimum Revenue Provision Policy 2023-24.

Recommendations

- Members consider the report and recommend that County Council approves the Treasury Management Strategy Statement, including new reporting requirements, the Treasury Management Policy Statement, the Annual Investment Strategy, and the Borrowing Strategy for the Financial Year 2023-24.
- Members recommend that County Council approves the Prudential Indicators (Appendix 4) for four years 2023-24 to 2026-27 to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- Members recommend that County Council approves the Minimum Revenue Provision Policy (Appendix 5) 2023-24.

Link to Corporate Plan

This report is aligned to the priorities outlined in the Corporate Plan 2021-24 “A Council that Works for Everyone”.

Key issues

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010), to set Prudential and Treasury Indicators for the next four years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act).

CIPFA published revised Treasury Management and Prudential Codes on 20 December 2021 which included revisions to the reporting framework from the 2023-24 financial year. Details of these changes are covered in section 1.2 of the report.

The Treasury Management Strategy Statement details the proposed activities of the Treasury Management function for the financial year 2023-24 and is based upon the treasury management officers’ views on interest rates, supplemented with leading market forecasts provided by the Council’s treasury management advisors, Link Asset Services.

TREASURY MANAGEMENT STRATEGY STATEMENT 2023-24

1. INTRODUCTION

1.1. Background

This Treasury Management Strategy Statement details the expected activities of the Treasury Management function for the financial year 2023-24. Its production and submission to full Council is a requirement of the CIPFA Code of Practice on Treasury Management.

Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low/medium risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council; essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue expenditure or for larger capital projects. The financial cost of these activities - i.e. the balance between the interest cost of debt and the investment income arising from cash deposits - has a significant impact on the overall revenue budget. In addition, since cash balances are mostly generated from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will result in a loss to the General Fund Balance.

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

CIPFA defines treasury management as:

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

1.2. Statutory and Regulatory Requirements

The Local Government Act 2003 (the Act) and supporting Regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Prudential Code 2021, and the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021.

The codes define the manner in which capital spending plans are to be considered and approved. They require the Council to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. In conjunction with this, they also require the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy, as required by the (revised) Investment Guidance issued by the former Ministry of Housing, Communities and Local Government (MHCLG) which came into effect 1 April 2018.

With effect from 2019-20 there was a requirement that the report included a Capital Strategy, to provide a longer-term focus to the capital plans, and an extension of the meaning of ‘investments’ to include both financial and non-financial investments or commercial activity undertaken under the Localism Act 2011. The Capital Strategy is reported to County Council for approval with the annual budget report and Medium-Term Financial Plan in February each year.

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future Treasury Management Strategy Statement and Annual Investment Strategy reports and the risk management framework

CIPFA published revised Treasury Management and Prudential Codes on 20th December 2021 which included revisions to the reporting framework from the 2023-24 financial year.

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

a) Treasury Management

Arising from the organisation’s cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.

b) Service Delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.

NCC Context: This covers the shares held in Newcastle Airport and Advance Northumberland, along with the loans provided to Advance Northumberland, the North East Local Enterprise Partnership (NELEP) and other third parties.

c) **Commercial Return**

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

NCC Context: The Council does not have any investments in this category.

The revised Treasury Management Code also requires authorities to implement the following:

- Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

  NCC Context: This indicator was adopted by NCC in 2022-23, following the publication of the draft proposals.

- Long-term treasury investments, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

  NCC Context: The Council currently does not have any long-term investments.

- Pooled funds are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

  NCC Context: The Council currently does not have any pooled funds / investments.

- Reporting to members is to be done quarterly. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

  NCC Context: Going forward, quarterly reports will be provided to Cabinet as part of the revenue and capital budget monitoring, in addition to the existing Treasury Management Strategy Statement, Mid-Year Review and Final Outturn reports to Audit Committee.

- Environmental, Social and Governance (ESG) issues to be addressed within an authority's treasury management policies and practices (TMP1).

  NCC Context: This is a developing area, the Code states that it is not implied that it currently needs to include ESG scoring or other real-time ESG criteria at individual investment level. Moving forward, the Council will look to work with its treasury management advisor to establish a consistent approach to ESG monitoring across the various investments.

Treasury management investments represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers: namely residual cash resulting from the authority's day to day activities.

Service delivery or non-treasury investments tend to relate to s1 expenditure powers under the Act and in the Council's case relate to policy type investments, whereby capital or revenue cash is advanced for a specific Council objective. This may be an advance to a third party for economic regeneration, or to enable care facilities etc.

This report deals solely with financial investments. Non-financial investments, which from the Council's perspective relate to the loans provided to third parties, are covered in the Capital Strategy report. However, paragraph 5.8 does provide a summary of the Council's "service delivery investments" or non- treasury managements investments.

1.3. Basis and Content of Treasury Management Strategy for 2023-24

The proposed strategy for 2023-24 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented by leading market forecasts provided by the Council's treasury advisors, Link Asset Services. The strategy covers:

- Current portfolio position.
- Economic outlook and prospects for interest rates.
- Borrowing Strategy for 2023-24.
- Annual Investment Strategy for 2023-24.
- Housing Revenue Account (HRA) treasury costs.
- Treasury management limits and Prudential Indicators.
- Minimum Revenue Provision Policy Statement.
- Policy on use of external service providers; and,
- Implementation of the Treasury Management Strategy, scheme of delegation, reporting and training requirements.

1.4. Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Council to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that the impact of increases in capital expenditure, such as interest charges associated with any new borrowing, and any increases in running costs from these capital projects, must be limited to a level which is affordable within the projected income of the Council for the foreseeable future.

The Council also has a statutory duty under S.3 of the Local Government Act 2003, and supporting regulations, to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principle of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Link benchmarking clubs.

2. THE PORTFOLIO POSITION AT 30 NOVEMBER 2022

2.1. Current Borrowing

The Council's borrowing at 30 November 2022 is shown below:

	General Fund £m	HRA £m	Total Principal 30 Nov 2022 £m	Weighted Average Rate %
Public Works Loan Board Loans	409.560	40.204	449.764	2.65
LOBOs	153.500	23.000	176.500	3.95
Market / Local Authority (>1 year)*	111.000	8.100	119.100	2.80
Salix	0.037	-	0.037	-
Short Term loans* (<1 year)	-	-	-	-
TOTAL EXTERNAL BORROWING	**674.097**	**71.304**	**745.401**	**2.98**

* Note: above figures are based on the term of loans at their inception

Total external borrowing has decreased by £11.529 million from £756.930 million at the start of year to £745.401 million at 30 November 2022. Following further repayments of £40.023 million and £40.000 million new borrowing scheduled for February and March 2023, the year-end figure is expected to be around £745.378 million.

2.2. Current Investments

The table below summarises the investment position at 30 November 2022:

	Total Principal 30 Nov 2022 £m	Weighted Average Rate %
Money Market Funds and Call Accounts	76.850	2.99
Fixed Term Investments – Short Term (<1 year)*	75.000	2.64
Fixed Term Investments – Long Term (>1 year)*	10.000	3.12
TOTAL EXTERNAL INVESTMENTS	**161.850**	**2.83**

* Note: above figures are based on the term of investments at their inception

3. FORECAST FOR INTEREST RATES AND ECONOMIC OUTLOOK

The Council has appointed Link Asset Services (Link) as its treasury advisor and part of its service is to assist the Council to formulate a view on interest rates. The following table gives Link's central view of rates for 2023-24 (at 8 November 2022). A longer view and more detailed forecast are included at Appendix 1.

	Quarter 1 (Q/E Jun 2023)	Quarter 2 (Q/E Sep 2023)	Quarter 3 (Q/E Dec 2023)	Quarter 4 (Q/E Mar 2024)
Bank Rate	4.50%	4.50%	4.50%	4.00%
5-year PWLB	4.20%	4.10%	4.00%	3.90%
10-year PWLB	4.40%	4.30%	4.20%	4.00%
25-year PWLB	4.60%	4.50%	4.40%	4.30%
50-year PWLB	4.30%	4.20%	4.10%	4.00%

3.1. Economic Outlook (early December 2022)

Link's central forecast reflects a view that the Bank of England's Monetary Policy Committee (MPC) will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.50%.

Further down the road, it is anticipated the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgement: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The Consumer Price Index (CPI) measure of inflation will peak at close to 11.00% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.70%. With further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

Regarding the plan to sell £10 billion of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

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

In addition, the Bank's central message that Gross Domestic Product (GDP) will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Consumers are still estimated to be sitting on over £160 billion of excess savings left over from the pandemic, which could cushion some of the impact of the above challenges; albeit these savings are held by more affluent people, whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments. Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

3.2. Forecast for Treasury / Guilt Yields and PWLB Rates

Yield curve movements have become less volatile under the Sunak/Hunt government. Public Works Loans Board (PWLB) 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

Link's view is that the markets have, for the most part, already built in all the effects on gilt yields of the poor inflation outlook and likely increases in Bank Rate. However, markets are volatile and sudden opposing movements in gilt yields across the whole spectrum of the curve is possible.

3.3. Significant Risks to the Forecasts

Downside Risks

- Labour and supply shortages prove more enduring and disruptive and depress economic activity.
- The Bank of England acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside Risks

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.
- The Government acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.

- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term US treasury yields rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

3.4. The Balance of Risks to the UK

The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

4. THE BORROWING STRATEGY 2023-24

4.1. Introduction

The Council borrows to fund the Capital Programme, including loans to third parties for service / policy reasons (such as those to Advance Northumberland and Northumbria Healthcare NHS Foundation Trust etc.). The Council's capital expenditure plans are therefore the key driver of treasury management activity.

The output of capital expenditure plans is reflected in the Prudential Indicators, as set out in Appendix 4.

4.2. Borrowing Need – Capital Financing Requirement

The Council's long-term borrowing requirement is measured by the Capital Financing Requirement ("CFR"). The CFR represents total historic outstanding capital expenditure which has not yet been paid for from either revenue or cash-backed capital resources (such as grants and capital receipts). The CFR is repaid over time by an annual charge to revenue, known as the Minimum Revenue Provision (MRP). This charge, which is equivalent to depreciation, effectively spreads the cost of debt associated with capital expenditure over the useful economic life of the underlying assets.

At the same time the Council has significant levels of 'cash-backed' balances that are available for investment. Accordingly, the capital financing requirement (or borrowing requirement) need not always be met or funded externally from physical loans: At least in the short term, investment balances can be 'used' in lieu of borrowing externally; by withdrawing investments (in turn foregoing investment income) and instead using the cash to fund part of the borrowing requirement. This is often referred to as 'internal' or 'under' borrowing. Such an approach also has the added benefit of reducing 'counter-party' credit risk in terms of investments; because it reduces the need to place investments with external institutions.

The following tables summarise the forecast CFR movements for the next three financial years (based on the latest capital expenditure plans) along with the anticipated external borrowing over this period; assuming a significant degree on internal borrowing as proposed further below:

CFR Forecast (exc. PFI)	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Opening CFR (exc. PFI)	1,040.808	1,111.193	1,170.101	1,207.618
Increase in CFR (exc. PFI)	70.385	58.908	37.517	(31.924)
Closing CFR (exc. PFI) [Need to Borrow]	**1,111.193**	**1,170.101**	**1,207.618**	**1,175.694**

External Borrowing Forecast (exc. PFI)	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Opening External Borrowing (exc. PFI)	745.378	863.826	956.524	1,005.468
Increase / (Decrease) in External Borrowing (exc. PFI)	118.448	92.698	48.944	(31.061)
Closing in External Borrowing (exc. PFI)	**863.826**	**956.524**	**1,005.468**	**974.407**
Under / (Over) Borrowing	247.367	213.577	202.150	201.287

4.3. Proposed Borrowing Strategy

Given the current volatility in financial markets and the elevated interest rates that are forecast over the next year or two, it is proposed to maximise the use of internal / under borrowing (see paragraph 4.2 above) and keep any external borrowing to a minimum.

As identified in the above table, by the end of 2023-24, 22.26% (£247.367 million) of the Council's borrowing requirement is proposed to be covered by internal borrowing. The effective cost of this 'borrowing' is the foregone investment income. For 2023-24 this is estimated at 4.40% or around £11.942 million (based on the average mid-year internal borrowing position). Taking into consideration the forecast average cost for new external borrowing (i.e. average interest rate on actual loans) for 2023-24 of 4.49%, this equates to a notional saving of 0.49% or around £0.255 million (or alternatively the notional cost of externalisation).

Maintaining an under-borrowing position will minimise short term net revenue costs, but it is important to point out that this element of the borrowing requirement is subject to interest rate movements and therefore not without risk. Clearly if investment returns were to increase, or the borrowing had to instead be externalised (and funded by actual loans), the costs associated with this would increase accordingly. In order to identify and quantify this risk a local indicator is included in the Council's Prudential Indicators (see Appendix 4), identifying the level of internal borrowing and the impact of interest rate movements on this proportion of the borrowing requirement.

Despite utilising investments balances to support the borrowing need, as identified above a significant amount of external borrowing will still be required during 2023-24 (estimated at around £170.000 million, after taking into consideration maturing loans of £51.552 million) and going forward to fund the proposed Capital Programme.

Considering that interest rates are anticipated to remain high over the next year or two before gradually easing back to more normal levels, and the risks within the economic forecast, it is envisaged better value will generally be obtained at the shorter end of the interest rate curve. The external borrowing requirement is therefore expected be met primarily from shorter term / temporary borrowing (up to 2 years); although medium to longer term borrowing may also be considered to provide a degree of longer-term certainty, if for example there was a sudden dip in rates.

The Section 151 Officer will continue to monitor the interest rate market and scrutinise all lending opportunities to ensure borrowing is taken at the most advantageous time and limit the risk of exposure to increased borrowing costs in the future.

In line with the scheme of delegation set out in the Treasury Management Practices (TMP's, section 10), The Section 151 Officer will continue to approve all borrowing.

4.4. Policy on borrowing in advance of need

While not expected to happen due to the internal/under borrowing policy, the Council does have flexibility to borrow funds this year for use in future years. Where there is a clear business case for doing so, borrowing may be undertaken to fund the approved Capital Programme or to fund future debt maturities. The Section 151 Officer may do this under delegated powers where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

4.5. Debt Rescheduling

As short-term borrowing rates are forecast to be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment and in particular the premiums incurred.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings,
- helping to fulfil the treasury strategy; and,
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

The Council will monitor the situation and seek advice from Link Asset Services before any rescheduling of debt. All rescheduling will be reported to the Council as part of the in-year treasury management updates.

4.6. UK Municipal Bond Agency and European Investment Bank

The UK Municipal Bond Agency may be in a position to offer loans to local authorities, perhaps at rates lower than those offered by the PWLB. Consideration may therefore be given to making use of this new source of borrowing as and when appropriate.

Consideration will also be given to borrowing from the European Investment Bank (EIB), where rates can be forward fixed, if this represents better value of money.

4.7. Compliance with Prudential Code – Borrowing

The Prudential Code 2021 specifies that it is not prudent for local authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

The Section 151 Officer confirms that any new borrowing directly and primarily in relation to the functions of the Council, and no borrowing will be taken to invest primarily for financial return.

5. ANNUAL INVESTMENT STRATEGY 2023-24

5.1. Introduction – Investment Policy

The Council has significant levels of ‘cash-backed’ balances that are available for investment, in the form of General Fund and HRA balances, and the numerous earmarked reserves and provisions.

5.2. Investment Returns Expectations

As outlined in section 3 above and Appendix 1, investment returns are expected to improve in 2023-24. Link Asset Services first forecast an increase in Bank Rate in December 2021. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

Against this background, Link Asset Services suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	2023-24	2024-25	2025-26	2026-27	2027-28
Budgeted Rate	4.40%	3.30%	2.60%	2.50%	2.80%

5.3. Investment Strategy

As proposed in section 4 above, it is expected that during 2023-24 a significant proportion of available investment balances will be used as ‘internal borrowing’ to support the financing of the CFR. As a result, external investments will be limited and may decrease further during the year.

All remaining funds will be invested in-line with the following Investment Policy, which has regard to the former MHCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

Investments will be made whilst considering the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage cash flow volatility; where surplus cash sums can be identified, longer term investments will be considered where there is value.

The overall aim of the Investment Strategy is to provide security of capital and minimise risk while ensuring the Council has sufficient liquidity.

The Council will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity. The risk appetite of the Council is low/medium, therefore specified and unspecified investments (see below) will be considered. However, security and liquidity will continue to take precedence over yield. All investments will be placed only with organisations which meet the criteria and will always be scrutinised and approved in line with approved Treasury Management Practices (Appendix 3).

5.4. Investment objectives

The general policy objective for this Council is the prudent investment of its surplus cash balances, which includes monies borrowed for the purpose of expenditure in the reasonably near future (i.e. over the 4-year medium term planning cycle). The Council's investment priorities are:

- the security of capital,
- the liquidity of its investments; and,
- the achievement of optimum yield.

Security and liquidity of principal have always been the priority and will continue to be so. In CIPFA's view "The priority is to protect capital rather than maximise return. However, the avoidance of all risk is neither appropriate nor possible and a balance must be struck with a keen responsibility for public money." In times of budget constraints, making the Council's funds work and generating increased returns is becoming increasingly important. CIPFA encourages local authorities to look carefully at their Counterparty Lists to ensure return on investments is achieved.

CIPFA recommends that “Responsibility for local authorities investment decisions lies and must continue to lie with the local authorities themselves”. The best authorities:

- explicitly balance risk and reward,
- review and scrutinise policies and procedures regularly,
- have well trained staff and engaged elected members; and,
- use a wide variety of information.

The Credit and Counterparty Criteria List (Appendix 2), which has not changed from last year, offers diverse counterparties and takes into account country, sector and group limits.

This list clearly sets out the minimum acceptable credit criteria for organisations with which the Council will place funds.

All investments will be placed only with organisations which meet the criteria and will always be scrutinised and approved in line with approved Treasury Management Practices (Appendix 3).

The borrowing of monies purely to invest or lend-on and make a return is unlawful and this Council will not engage in such activity.

5.5. Security of Capital and Creditworthiness (Credit and Counterparty Policy)

In accordance with the above guidance from the former MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria when determining which organisations it can place investments with. The criteria are set out in Credit and Counterparty Policy which is attached at Appendix 2.

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty policy and limits reflect a prudent attitude towards organisations with which funds may be deposited.

The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from Fitch and Moody’s. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies,
- CDS* spreads to give early warning of likely changes in credit ratings; and,
- sovereign ratings to select counterparties from only the most creditworthy countries.

*Credit default swaps (CDS) are a type of insurance against default risk by a particular company/financial institution. In the event of a default, the buyer receives the face value of the bond or loan from the insurer.

The Council is alerted daily of changes to ratings of both agencies. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, no new investment will be made. Consideration will also be given to whether or not existing investments will be withdrawn, which is dependent on whether the bank concerned is agreeable.

As with previous practice, ratings and the use of this external service will not be the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

The assessment will also take account of information that reflects the opinion of the markets. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

5.6. Types of investments the Council may use

The Council may use various financial instruments for the prudent management of its treasury balances (as listed in the Credit and Counterparty Policy in Appendix 2).

The Credit and Counterparty Policy does not identify individual counterparty names in order to ensure that the Section 151 Officer has the flexibility to place investments with the most suitable organisations, which meet the agreed criteria, in a timely manner.

Treasury staff investigate various products and instruments as they become available to see if they meet the Council's investment priorities and criteria list.

In line with the former MHCLG Guidance, the Credit and Counterparty Policy categorises investments instruments between 'Specified' and 'Non-Specified' investments:

Specified Investments offer high security and high liquidity. All such investments are:

- in pounds sterling,
- due to be repaid within 12 months or which may be required to be repaid within 12 months,
- not capital expenditure,
- made with high credit quality organisations, (for the purpose of this strategy high credit ratings are "A-" and above for long term and "F2/P-2" and above for short term investments); or,

- made with the United Kingdom Government or local authority (including the North East Combined Authority), parish council or community council.

Non-Specified Investments are those which do not meet the criteria for specified investments and give greater potential risk. The former MHCLG does not discourage the use of non-specified investments but states that there is a need for these to be dealt with in more detail.

As in previous years, it is anticipated that the majority of investments will be specified but it is proposed to maintain a maximum of 25% of total Council investments being held in non-specified investments at any one time during the year. This is primarily to allow the use of large, non-rated, building societies as well investments beyond 1 year with other local authorities.

Investments will only be placed with organisations which meet the criteria set out in the approved Credit and Counterparty Policy. Individual investments or aggregate of investments to one organisation should comply with the monetary limits set out in Credit and Counterparty Criteria List.

Nationalised/part-nationalised banks in the UK have credit ratings which do not comply with the credit criteria used by the Council. However, due to significant Government ownership the Council feels more comfortable applying higher limits for investments.

Investments are to be arranged in line with Treasury Management Practices (Appendix 3) and all investments with new counterparties must be approved by the Section 151 Officer or the Deputy Section 151 Officer or in their absence the Finance Managers. There is currently no proposed change to this practice.

5.7. Forecast Investment Balances and Liquidity

Based on current reserves and balances forecast and allowing for the proposed strategy of using some of the investable balances as ‘internal borrowing’ to support the financing of the CFR (see Section 4), it is anticipated that in 2023-24 the Council’s external investment balances will fluctuate throughout the year within a range between £39.674 million and £114.217 million.

To ensure liquidity a minimum of 20.00% of overall investments, or £5.000 million, whichever is lower, will be held in liquid accounts. For cash flow generated balances, the Council will seek to utilise its money market funds, call accounts and short-dated deposits (overnight to six months).

As investment rates are forecast to remain below borrowing rates, and there is a requirement for liquid funds to support the under-borrowing position, it is envisaged the Council will generally avoid locking into longer term deals. However, if exceptionally attractive rates are available then they will be considered. Close contact will be maintained with the money market to ascertain the most favourable interest rates on offer to achieve best value from the return on surplus monies available in line with the Counterparty Policy in Appendix 2.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

5.8. Service Delivery / Non-Treasury Management Investments Defined as Capital Expenditure

In addition to the above standard treasury management activity, the Council also receives interest from two other ‘service delivery’ / ‘non-treasury’ activities; namely the investment shares NIAL Holdings (Newcastle Airport) [valued at £13.490 million as 31 March 2022], Advance Northumberland [£4.338 million], Northumberland Enterprise Holdings Ltd [£0.300 million], and the loans to Newcastle Airport, Northumbria Healthcare NHS Foundation Trust, Advance Northumberland and other organisations.

These non-core treasury activities are deemed by Statutory Regulations as capital expenditure and are provided to support Council service objectives and corporate priorities. They are not made or regarded as part of the ‘core’ treasury management activity - i.e. the investment of surplus cash flow balances, as made under the power to invest inferred by s12 of the Local Government Act 2003. As a result, these activities were previously outside of the scope of the Investment Strategy.

CIPFA’s Treasury Management Code’s definition of ‘Investments’ covers all the financial assets of the organisation, as well as other non-financial assets that the organisation holds primarily for financial returns, such as commercial property portfolios. Similarly, the former MHCLG’s investment guidance recommends that these non-financial or non-core investments should be included within the Annual Investment Strategy.

Whilst it is entirely appropriate to highlight the scope of these activities, there is a view amongst some practitioners that it may be misleading to refer to items of expenditure in the context of an investment strategy, and that a more suitable mechanism to explain and cover these activities would be within the newly re-introduced Capital Strategy.

Due to their nature, it is difficult to assess and consider non-financial or non-core investments in the context of liquidity and security, which arguably does not apply to these activities, at least not in the same way as it does for standard cash investments. Beyond the terms of the underlying agreement, loans to third parties are not liquid and have no need to be. The expenditure is incurred in the support of service objectives and funded from capital resources, which is different to the requirements and policies surrounding management of the Council’s investments and cash flows. Similarly, whilst the return of the funds advanced is key, security for third party loans may need to be considered differently to the credit ratings modelling approach utilised for core-treasury investments.

For these reasons, the Council’s policy on non-financial or non-core investments, specifically the loans to third parties, is covered separately within the Capital Strategy document which is considered and approved by Council at its budget setting meeting in February and is attached at Appendix 6 for information.

A summary of value of loans to third parties and the interest expected to be received is shown below:

Borrower	Estimated Balance at 1 Apr 2023 £m	Weighted Average Interest Rate	Forecast Interest Income 2023-24* £m
Northumbria Healthcare NHS Foundation Trust	89.588	3.57%	2.458
Advance Northumberland Group	274.569	5.67%	14.214
Newcastle Airport	11.916	8.60%	-
North East Local Enterprise Partnership	10.507	3.34%	0.437
Northumberland College	5.767	4.14%	0.258
Northumberland Aged Miners	1.382	3.50%	0.048
Cramlington Town Council	0.291	4.00%	0.012
Active Northumberland	0.156	3.25%	0.005
Newcastle City Council	0.171	5.00%	0.009
Alnwick Juniors	0.152	0.00%	-
Arts Groups (The Maltings, Alnwick Playhouse)	0.062	3.87%	0.002
Calvert Trust	0.086	2.10%	0.002
Alnwick Youth Hostel	0.139	2.10%	0.004
Haltwhistle Pool	0.044	2.10%	0.001
Northumberland Community Bank	0.050	2.54%	0.001
Other Parish/Town Councils and Housing Associations	0.064	14.12%	0.008
Alexa's Animal Charity	0.118	2.40%	0.003
Total	**395.062**	**5.18%**	**17.462**

*Note: the above includes forecast advances to be made.

**No interest payments are due from Newcastle International Airport in 2023-24.

The Medium-Term Capital Programme for 2023-24 to 2026-27 includes a provision of £18.895 million for further loans to Advance Northumberland and other third parties, plus an additional £0.519 million for loans to the North East Local Enterprise Partnership in respect of Enterprise Zone investments (which will ultimately be repaid by future business rate income).

Whilst the income from these advances is significant, the intention is largely only to cover the associated underlying borrowing costs to the Council. The loans are considered and approved to support the Council's service and policy objectives not to generate a financial return for the Council.

5.9. Provision for credit related losses

If any of the Council's investments appear at risk of loss due to default (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

6. HOUSING REVENUE ACCOUNT (HRA) TREASURY MANAGEMENT COSTS

6.1. Overview

Following implementation of the HRA self-financing reforms in April 2012, a separate pool of specific loans is now maintained for the HRA. The interest costs associated with these loans are charged direct to the HRA. This arguably negates the need for the former HRA Item 8 charge, which allocated a share of the Authority's overall borrowing costs to the HRA.

For the most part, the HRA will aim to ensure that new loans are taken out (or repaid) to match any anticipated movement in its borrowing requirement - known as the HRA Capital Financing Requirement (HRA CFR). There will however be instances during the year when the balance of the HRA loan pool - i.e. actual external borrowing charged to the HRA does not equate exactly to the HRA CFR. In such circumstances the HRA is borrowing from (or lending to) the General Fund and an additional charge (or credit) is necessary in order to reflect the notional cost of this imbalance. The Council's proposed policy for this arrangement is as follows, the policy remains unchanged from the previous year:

6.2. Policy for HRA Under and Over Borrowing

HRA Under-Borrowing

Where the weighted average balance of the HRA (external) loans pool is less than the weighted average HRA CFR for the same period, notional interest will be charged to the HRA at the average rate of interest for 30-year PWLB borrowing for the period.

HRA Over-Borrowing

Where the weighted average balance of the HRA (external) loans pool is greater than the weighted average HRA CFR for the same period, notional interest will be paid to the HRA at the average 3-month SONIA (Sterling Overnight Index Average) rate for the period.

6.3. Other Treasury Management Charges to HRA

As under the former Item 8 arrangements, the HRA will continue to receive interest (or investment income) on its weighted average balances for the year, based on the Council's overall average investment rate.

The HRA will also continue to be charged a proportion of the authority's overall debt management expenses (based on the CFR proportions), as well its share of any historic premiums or discounts associated with the premature repayment of borrowing. Any future/new premiums or discounts will be met fully by the relevant fund of the underlying loan – i.e. premiums or discounts related to loans within the HRA loan pool will be charged fully to the HRA, and vice versa.

7. PRUDENTIAL INDICATORS and TREASURY LIMITS 2023-24 to 2026-27

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

Councils are required to approve a set of Prudential Indicators for the new financial year and adhere to these indicators during the course of that year. The indicators are to be set on a rolling basis, for the forthcoming financial year and three successive financial years. Prudential Indicators for 2023-24 to 2026-27 are set out in Appendix 4.

8. THE ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision (MRP)), although it is also allowed to make additional voluntary payments if required.

Former MHCLG Regulations have been issued which requires Full Council to approve an MRP policy in advance of each year. A variety of options are provided to councils, with an overarching requirement there is a prudent provision.

Former MHCLG revised their MRP guidance in 2018. However, none of the amendments impact on the Council's current or proposed policy.

The 2023-24 policy is unchanged from that approved for 2022-23.

The Council is recommended to approve the Annual Minimum Revenue Provision Policy Statement including Additional Voluntary Provision as detailed within Appendix 5.

9. POLICY ON USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of its external service providers. All decisions will be undertaken with regard to all available information, including, but not solely, the Council's treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of the appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

The Council uses Link Asset Services Ltd as its treasury management consultant. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and templates of Member reports.
- Economic and interest rate analysis.
- Debt services which include advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments; and,
- Online up to date credit ratings.

10. IMPLEMENTATION OF THE TREASURY MANAGEMENT STRATEGY, SCHEME OF DELEGATION, TRAINING AND REPORTING REQUIREMENTS

10.1. Implementation of the Treasury Management Strategy

The continued implementation of the above strategy and procedures is the responsibility of the Section 151 Officer, who is authorised to arrange the necessary borrowings within the limits set out in the Prudential Indicators, and necessary investments as set out in the investment strategy.

Northumberland County Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet.

The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

There are no proposed changes to this methodology.

10.2. Treasury Management Practices (TMPs)

Treasury Management Practices (Appendix 3) set out the manner in which the Council will seek to achieve the treasury management policies and objectives. The Council has adopted the recommended form of words defining the Council's treasury management practices (TMPs), in compliance with CIPFA's Treasury Management in the Public Services: Code of Practice and the Prudential Code for Capital Finance in Local Authorities. These set out the specific details of the systems to be employed and the records to be maintained.

These practices are as follows:

TMP1 Risk Management

TMP2 Best value and performance measurement

TMP3 Decision-making and analysis

TMP4 Approved instruments, methods and techniques

TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers; and,
TMP12	Corporate governance.

The following minor changes have been made to the 2023-24 practices:

- references to the underlying codes of practice, which were revised for 2023-24;
- consideration of Environmental, Social and Governance (ESG) issues (TMP1);
- banking contract details (TMP1, para 1.2.3 and TMP11, para 11.1.1);
- Inflation and interest rate references (TMP1, para 1.5.1).
- Reference to the Principal Accountant post and its role within the treasury management function (TMP 5, para 5.4.6).

10.3. Responsible Officers

Daily treasury management activities will be undertaken by a Senior Accountant within the Corporate Finance team, as set out in TMP5. If they are absent a Principal Accountant within the Corporate Finance team will undertake these activities.

The three annual Treasury Management reports submitted to Audit Committee, and then Council, and quarterly updates submitted to Cabinet, will be produced by the Technical Accountant.

The Finance Manager will ensure all treasury management activities are made in accordance with agreed policies and practices.

10.4. Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Members received training in June 2022 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed. Each officer concerned will receive appropriate training and guidance on their duties and the constraints within which they operate.

10.5. Reports and Monitoring

To ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities, reports need to be submitted to full Council which need to be reviewed by Cabinet.

The adequacy of the strategy statement will be monitored and reports requesting amendments to the statement will be produced when changes are thought to be necessary. The changes will be made in consultation with the Cabinet Portfolio holder for Corporate Services, whose role relates to the strategy and associated risks. Any strategy changes will be reported to the Audit Committee.

The Council is required to receive and approve three main reports each year, which incorporate a variety of polices, estimates and actuals. The following reports are required to be adequately scrutinised by Audit Committee before being recommended to the Council:

Treasury Management Strategy Statement

The first, and most important report covers:

- the capital plans (including prudential indicators),
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time),
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and,
- an investment strategy (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report

This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury activity is meeting the strategy or whether any policies require revision.

An Annual Treasury Report

This provides details of prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Quarterly Reports (New Requirement from 2023-24)

In addition to the three major reports detailed above, from 2023-24 quarterly reporting is also required. These additional reports do not have to be reported to Full Council. Quarterly reports on the performance of the Council's treasury management activity will therefore be provided to Cabinet as part of the revenue and capital budget monitoring.

It is proposed that the Council follow reporting arrangements in accordance with the requirements of the revised Treasury Management Code of Practice.

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Scrutiny of treasury management strategy	Audit Committee or Risk Appraisal Panel	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy and Treasury Management Practices	Cabinet / Full Council	Annually before the start of the year
Annual Treasury Outturn Report	Audit Committee / Full Council	Annually by 31 July to Audit Committee and 30 September to Full Council
Treasury Management Budget Monitoring Reports	Incorporated within the Budget Monitoring report and reported separately to Cabinet	Quarterly
Mid-Year Review Report	Audit Committee / Full Council	Annually by 30 November to Audit Committee and 31 January to Full Council
Updates or revisions to Treasury Management Strategy / Annual Investment Strategy / MRP policy	Audit Committee / Cabinet / Full Council	Ad- hoc

The policies and strategies set out in this document will ensure that the management and administration of treasury management will be robust, rigorous, disciplined and help minimise risk.

The procedures for monitoring treasury management activities through audit, scrutiny and inspection will be applied with an openness of access to information and provide well-defined arrangements for review and implementation of changes.

Implications

Policy	The report sets out the Treasury Management Policy Statement for 2023-24 and is consistent with “A Council that Works for Everyone” priority included in the Council’s Corporate Plan 2021-24.
Finance and value for money	The financial implications of the 2023-24 investment and borrowing transactions have been taken into account within the revenue budget for 2023-24 and Medium-Term Financial Plan 2023-27. Northumberland County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Link benchmarking clubs.
Legal	The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice 2021.
Procurement	There are no direct procurement implications for the County Council.
Human Resources	There are no direct staffing implications for the County Council.
Property	There are no direct property implications for the County Council.
Equalities (Impact Assessment attached) Yes ☐ No ☐ N/A ☐	Not applicable.

Risk Assessment	The report highlights the principal financial risks within the Treasury Management function. The identification, monitoring and control of risk are the prime criteria by which the effectiveness of the County Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. The investment priority is security and liquidity rather than yield, which is a secondary aim.
Crime & Disorder	There are no Crime and Disorder implications contained within this report.
Customer Consideration	There are no Customer Consideration implications contained within this report.
Carbon reduction	There are no specific Carbon Reduction implications within this report.
Health and Wellbeing	There are no Health and Wellbeing implications for the County Council.
Wards	All divisions.

Background Papers:

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance notes 2021.

CIPFA Prudential Code for Capital Finance in Local Authorities 2021.

Guidance on Local Government Investments The Local Government Act 2003,

Local Authorities (Capital Finance and Accounting) Regulations 2012 (S.I.2012/265)

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Appendix 2 – Credit and Counterparty Criteria Policy

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Report sign off:

	Name
Interim Monitoring Officer	Suki Binjal
Interim Executive Director of Finance & Section 151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
Interim Chief Executive	Rick O'Farrell
Portfolio Holder	Richard Wearmouth

Author and Contact Details

Alistair Bennett – Technical Accountant

(01670) 625504

Alistair.Bennett@northumberland.gov.uk

ECONOMIC FORECAST - NOVEMBER 2022

LINK ASSET SERVICES	End Q3 2022	End Q1 2023	End Q2 2023	End Q3 2023	End Q4 2023	End Q1 2024	End Q2 2024	End Q3 2024	End Q4 2024	End Q1 2025	End Q2 2025	End Q3 2025	End Q4 2025
Bank Rate	3.50%	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%	2.50%
3 ave earnings	3.60%	4.30%	4.50%	4.50%	4.50%	4.00%	3.80%	3.30%	3.00%	3.00%	2.80%	2.50%	2.50%
6 ave earnings	4.20%	4.50%	4.60%	4.50%	4.20%	4.10%	3.90%	3.40%	3.10%	3.00%	2.90%	2.60%	2.60%
12 ave earnings	4.70%	4.70%	4.70%	4.50%	4.30%	4.20%	4.00%	3.50%	3.20%	3.10%	3.00%	2.70%	2.70%
5 year PWLB	4.30%	4.30%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%	3.40%	3.30%	3.20%	3.10%
10 year PWLB	4.50%	4.50%	4.40%	4.30%	4.20%	4.00%	3.90%	3.70%	3.60%	3.50%	3.40%	3.30%	3.20%
25 year PWLB	4.70%	4.70%	4.60%	4.50%	4.40%	4.30%	4.10%	4.00%	3.90%	3.70%	3.60%	3.50%	3.50%
50 year PWLB	4.30%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%	3.70%	3.60%	3.40%	3.30%	3.20%	3.20%

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CREDIT AND COUNTERPARTY CRITERIA POLICY

The Council recognises the need for security of principal to be of paramount importance. In recognition of the need to minimise risks associated with its treasury management activities, credit rating criteria, as outlined below will be used to select counterparties with whom the Council will place funds. Treasury management staff will analyse all counterparties prior to investing funds.

Specified Investments

Type of Organisation	Minimum Credit Rating Criteria		Max Amount of Principal	Max Period
	Fitch	Moody		
UK Local Authorities (Including the North East Combined Authority and North of Tyne Combined Authority)	N/A	N/A	Unlimited	15 years (with annual calls)
DMO	N/A	N/A	Unlimited	6 months
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	12 months
Semi-nationalised banks	N/A	N/A	£35m per bank £70m per banking group	12 months
Money Market Funds: Public Debt Constant Net Asset Value ("CNAV") MMFs and Low Volatility NVA ("LVNAV") MMFs	AAA	Aaa	£25m per fund (£150m in total)	Instant Access
Deposits and Certificates of Deposit with approved eligible financial institutions which meet the following criteria				
Very High Grade U.K. Clearing Banks / Building Societies	ST: F1+ LT: AA-	ST: P-1 LT: Aa3	£25m £50m per banking group	12 months
High Upper Medium Grade U.K. Clearing Banks/ Building Societies	ST: F1 LT: A-	ST: P-1 LT: A3	£15m £30m per banking group	12 months
High Grade Foreign Banks – minimum sovereign rating of AA	ST: F1 LT: A-	ST: P-1 LT: A3	£10m Country limit £30m	6 months

Non-specified Investments

No more than 25% of the total investment portfolio will be placed in non-specified investments.

Type of Organisation	Minimum Credit Rating Criteria		Max Amount of Principal	Max Period
	Fitch	Moody		
UK Local Authorities (Including the North East Combined Authority and North of Tyne Combined Authority)	N/A	N/A	Unlimited	15 Years
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	15 Years
Enhanced Cash Funds (Variable net asset value)	AAA	Aaa	£15m per fund (£60m in total)	30 (1) days notice
Deposits or Corporate Bonds with institutions which meet the rating criteria.	ST: F1 LT: A-	ST: P-1 LT: A3	£10m per institution	5 Years
Deposits or Corporate Bonds with institutions which meet the rating criteria.	ST: F2 LT: A-	ST: P-2 LT: A3	£5m per institution	12 months
Good, Medium grade, moderate credit risk	ST: F2 LT: BBB	ST: P-2 LT: Baa1	£10m per banking group	6 months
Building Societies which have assets in excess of £10 billion	N/A	N/A	£12m per Building Society	12 months
Building Societies which have assets in excess of £5 billion	N/A	N/A	£10m per Building Society	6 months
Building Societies which have assets in excess of £1 billion	N/A	N/A	£5m per Building Society	3 months

Ratings determine limits except for nationalised, semi-nationalised and local authorities.

Unrated subsidiaries can be used providing there is an unconditional guarantee from a rated parent.

Rating Symbols

Gradations of creditworthiness are indicated by rating symbols, with each symbol representing a group in which the credit characteristics are broadly the same.

Moody - The Moody's rating scale runs from a high of Aaa to a low of C and comprises of 21 notches. It is divided into two sections: investment grade and speculative grade. The lowest investment grade rating is Baa3. The highest speculative grade rating is Ba1.

Fitch - The Fitch rating scale runs from a high of AAA to a low of D and comprises of 21 notches. It is divided into two sections: investment grade and speculative grade. The lowest investment grade rating is BBB. The highest speculative grade rating is BB. Thus, the use of credit ratings defines their function: "investment grade" ratings (international long-term 'AAA' - 'BBB' categories; short-term 'F1+' - 'F3') indicate a relatively low probability of default, while those in the "speculative" or "non-investment grade" categories (international long-term 'BB' - 'D'; short-term 'B' - 'D') may signal a higher probability of default or that a default has already occurred.

Fitch Rating	**Moody Rating**	**Risk**
Long term ratings (maturities of one year or greater)		
Investment Grade		
AAA	Aaa	Highest rating, representing lowest level of credit risk
AA+, AA, AA	Aa1, Aa2, Aa3	Very High grade, very low credit risk
A+, A, A-	A1, A2, A3	High (Fitch) Upper medium grade (Moody's), low credit risk
BBB	Baa1, Baa2, Baa3	Good, Medium grade, moderate credit risk
Speculative Grade		
BB+, BB, BB-	Ba1, Ba2, Ba3	Speculative elements, vulnerable to default
B+, B, B-	B1, B2, B3	Subject to high credit risk
CCC, CC+, CC, CC-	Caa1, Caa2, Caa3	Poor standing very high credit risk
DDD	Ca	Highly speculative, or near default
D+, D	C	Lowest rating, typically in default, little prospect for recovery of principal or interest
Short term ratings (maturities of less than one year)		
F1+	Prime-1 (P-1)	Superior ability to repay ST debt
F2	Prime-2 (P-2)	Strong ability to repay ST debt
F3	Prime-3 (P-3)	Acceptable ability to repay ST debt
B-D	Not Prime	Poor, risk of default

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TREASURY MANAGEMENT PRACTICES – SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by the Council.

The following minor changes have been made to the 2023-24 practices:

- References to the underlying codes of practice, which were revised for 2023-24;
- Consideration of Environmental, Social and Governance (ESG) issues; (TMP1)
- Bank contract details; (TMP1, para 1.2.3 and TMP11, para 11.1.1)
- Inflation and interest rate refences; and , (TMP1, para 1.5.1)
- Reference to the Principal Accountant post and its role within the treasury management function (TMP 5, para 5.4.6)

The former Ministry of Housing, Communities and Local Government (MHCLG) issued Investment Guidance in 2010, and this forms the structure of the Council's strategy. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently and ensure that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". This Council adopted the Code on 10 February 2010 and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs).

1. TMP1 RISK MANAGEMENT

1.1. CREDIT AND COUNTERPARTY RISK MANAGEMENT

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques will be limited to those set out in TMP4 Approved investments, methods and techniques and listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Details of policy on which counterparties the Council will lend is appended to the Annual Treasury Management Policy and Strategy Statement.

The Council recognises that Environmental, Social and Governance (ESG) issues, such as climate change, can have significant future investment implications. The Council is keen to be a responsible investor and where possible will consider ESG risks as part of its investment process.

1.2. LIQUIDITY

1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to keep to a minimum the balance in the Council's main bank accounts at the close of each working day, in order to minimise the amount of bank overdraft interest payable and maximise the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Standby facilities

The Council has several instant access Money Market Funds and call accounts, where monies can be invested or withdrawn as required on the same day.

1.2.3. Bank arrangements

The balance held in Barclays can be up to the limit stipulated in the Credit and Counterparty Criteria list. A transfer called a 'sweep' can be made between the Barclays main bank account and a Barclays interest bearing account. The overdraft limit is £0.500 million and interest is charged at 1.50% over Bank Rate. An unauthorised overdraft (above the £0.500 million limit) will be charged at 3.00% over Bank Rate. The overdraft is assessed on a group basis for the Council's accounts

1.3. INTEREST RATE

1.3.1. Details of approved interest rate exposure limits

Please refer to Prudential Indicators Appendix 4.

1.3.2. Trigger points and other guidelines for managing changes to interest rate levels

Please refer to the annual Treasury Strategy which will outline views for the year.

1.3.3. Minimum/maximum proportions of variable rate debt/interest

The maximum proportion of interest on borrowing which is subject to variable rate interest permissible is 50.00%.

The minimum proportion of interest on borrowing which is subject to variable rate interest permissible is 0.00%.

1.3.4. Minimum/maximum proportions of fixed rate debt/interest

The minimum proportion of interest on borrowing which is subject to fixed rate interest permissible is 50.00%.

The maximum proportion of interest on borrowing which is subject to fixed rate interest permissible is 100.00%.

1.3.5. Policies concerning the use of financial derivatives and other instruments for interest rate management

a) **Forward dealing (agreeing to invest money at a future date)**: Consideration will be given to arranging forward deals, dependent upon market conditions. Any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs. The policy for the use of derivatives is clearly detailed in the annual strategy. All forward dealing should have the approval of either the Section 151 Officer or the Deputy Section 151 Officer.

b) **Callable deposits**: Callable deposits are permitted subject to approval from the Section 151 Officer.

c) **LOBOs (borrowing under lender's option/borrower's option)**: The use of LOBOs is considered as part of the borrowing strategy. Any money borrowed for periods in excess of one month must be approved by either the Section 151 Officer, the Deputy Section 151 Officer or a Finance Manager.

1.4. EXCHANGE RATE

1.4.1. Approved criteria for managing changes in exchange rate levels

Exchange rate risk will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Northumberland County Council rarely deals with foreign currency so an exposure to exchange rate risk will be extremely minimal.

On rare occasions where investments are not made in sterling, advice on the risk to exchange rate fluctuations will be sought from the Council's bankers and other professionals as necessary.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice. The unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity, unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

1.5. INFLATION

1.5.1. Details of approved inflation exposure limits for cash investments/debt

There is significant uncertainty with economic forecasts. Short term investment rates are expected to remain around Bank Rate, at around 4.00% to 4.50% for most of 2023-24. Inflation is expected to remain high (11.10% as at October 2022) before starting fall in the second half of 2023 back to nearer the Bank of England's target level of 2.00% in 2024.

The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within this section.

1.5.2. Approved criteria for managing changes in inflation levels

Inflation both current and projected will form part of the debt and investment decision making criteria within both the strategy and operational considerations.

1.6. CREDIT AND COUNTERPARTY POLICIES

1.6.1. Criteria to be used for creating/managing approved counterparty lists/limits

a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed.

b) Treasury management staff will decide which counterparties to use in line with the strategy on criteria for selection of counterparties. Changes to the Credit and Counterparty Criteria List will be included in the annual report, mid-year report, or where necessary an ad hoc report to Council.

c) Credit ratings will be used as supplied from the following credit rating agencies:

- Fitch Ratings;
- Moody's Investors Services;

d) Treasury Management Advisors provide a weekly update of all ratings relevant to the Council, as well as any changes to individual counterparty credit ratings. This information is accessible online via Link Asset Service's website - Passport.

e) No lending is allowed without prior approval.

f) Subsidiaries that do not have a credit rating in their own right may be used if they are guaranteed by a highly rated parent company.

g) The maximum value for any one investment transaction will be £35.000 million.

h) Investment in the building society sector should be limited to 30.00% of the average annual investment balances.

1.6.2. Approved methodology for changing limits and adding/removing counterparties

Credit ratings for individual counterparties can change at any time. The Section 151 Officer is responsible for applying the credit rating criteria detailed in the Treasury Management Strategy Statement for selecting approved counterparties.

The Section 151 Officer will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria set out in the Treasury Management Strategy Statement. This is delegated on a daily basis to staff in the treasury management function.

1.7. REFINANCING

1.7.1. Debt/other capital financing maturity profiling, policies and practices

Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

a) The generation of cash savings at minimum risk.

b) To reduce the average interest rate.

c) To enhance the balance of the long-term portfolio (amend the maturity profile and /or the balance of volatility).

d) To reduce the risk associated with the investment of surplus funds.

The Section 151 Officer has delegated authority to reschedule current long-term debt and to arrange the necessary borrowings within the following remit:

a) The maximum amount of outstanding borrowing shall be as stated in the prudential indicators.

b) Within that sum the maximum amount of short-term borrowing is 25.00%.

c) The limit on the proportion of borrowings on which interest is payable at variable rates is 50.00%,

The Council will seek to limit refinancing exposure by ensuring that no more than 25.00% of the loan portfolio matures in any one year.

1.7.2. Projected capital investment requirements

As part of the annual budget setting process a plan for capital expenditure for the Council is produced. The capital plan will be used to determine the borrowing requirements, and prepare the associated revenue budget requirements, which include interest and principal repayments (namely, the Minimum Revenue Provision or MRP).

1.7.3. Policy concerning limits on revenue consequences of capital financing

The Prudential Code supports local authorities in determining their Capital Programmes, within the clear framework that the plans are affordable, prudent and sustainable. To demonstrate that local authorities fulfil these criteria the Code sets out indicators that must be used.

A number of these Prudential Indicators are relevant to setting an integrated Treasury Management Strategy. The indicators are set on a rolling basis, for the forthcoming financial year and two successive financial years. Please refer to the Prudential Indicators contained within Appendix 4.

1.8. LEGAL AND REGULATORY

1.8.1. References to relevant statues and regulations

The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:

a) CIPFA's Treasury Management Code of Practice (revised 2009, 2011, 2017 and 2021)

b) The Prudential Code for Capital Finance in Local Authorities 2003 (revised 2009, 2011 2017 and 2021)

c) CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities

d) CIPFA Standard of Professional Practice on Treasury Management

e) Local Government Act 2003 (revised 2010)

f) The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

g) Council's Constitution relating to Contracts

h) Council's Finance and Contract Rules

i) Council's Scheme of Delegations

j) The Bribery Act 2010

1.8.2. Procedures for evidencing the organisation's powers/authorities to counterparties

The Council will prepare, adopt, and maintain, as the cornerstone for effective treasury management:

a) A Treasury Management Strategy Statement, stating the overriding principles and objectives of its treasury management activities; and,

b) The Annual Investment Strategy.

1.8.3. Required information from counterparties concerning their powers / authorities

Lending shall only be made to counterparties which meet the criteria set out in the Credit and Counterparty Criteria List.

Northumberland County Council holds letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by the Building Society Act 1986.

Banks are regulated by the Financial Conduct Authority under the provisions of the Financial Services and Markets Act 2000.

1.8.4. Statement on the organisation's political legislative or regulatory risks

The Council recognises that future political, legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

1.9. FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

1.9.1. Details of systems and procedures to be followed, including internet services

a) Authority:

- Loan procedures are defined in the Council's Financial Regulations.
- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by authorised persons within the Corporate Finance team.

b) Occurrence:

- Detailed register of loans and investments is maintained on Excel spreadsheets in the Corporate Finance section. This is reconciled to the ledger balance.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend, invest or borrow.
- Written confirmation is received from the lending, investment or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

c) Completeness:

- The loans register spreadsheet is updated to record all lending and borrowing. This includes the date of the transaction, interest rates etc.

d) Measurement:

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the senior accountant responsible for Treasury Management.
- A senior accountant calculates periodic interest payments of loans. This is used to check the amount paid to these lenders.

e) Timeliness:

- The Treasury Management spreadsheet prompts the treasury management officer that money borrowed or invested is due to be repaid.

f) Regularity:

- Investments and loans are only made to institutions which meet the Credit and Counterparty Criteria List.
- All loans and investments raised, and repayments made go directly to and from the Council's bank account.
- Authorisation limits are set for every institution by the Credit and Counterparty Criteria List. Brokers have a list of named officials authorised to perform investment transactions.
- There is adequate insurance cover for employees involved in loans management and accounting.
- There is a separation of duties in the Section between the authorisation of transactions and their execution.
- The bank reconciliation is carried out monthly from the bank statement to the financial ledger by a senior accountant and checked by a Finance Manager.

g) Security:

- Barclays Net can only be accessed by users using their individual security card and PIN through a card reader.
- Payments are checked and authorised by an agreed bank signatory. The list of signatories having previously been agreed with the current provider of the banking services.

h) Substantiation:

- A quarterly reconciliation is carried out matching transactions from the treasury management spreadsheets to the financial ledger codes.

1.9.2. Emergency and contingency planning arrangements

Barclays Net online can be accessed on a number of PCs and mobile devices which have the necessary software installed. All spreadsheets are held on the shared drive and therefore can be accessed by other PCs if necessary. If Barclays Net cannot be accessed cash balances can be obtained from Barclays Bank via e-mail. CHAPs payments, which are normally input directly into Barclays Net by the income section, can be faxed, emailed or delivered to the bank for processing.

1.9.3. Insurance details

The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees. The excess for Fidelity guarantee is £5,000. The Council also has a 'Professional Indemnity' insurance policy with Zurich Municipal which covers loss to the Council from the actions and advice of its officers which are negligent and without due care. This cover is limited to £5.000 million (named departments) for any one event with an excess of £25,000 for any one event with the exception of legal services where the limit is £1,000,000 with an excess of £1,000 for any one event.

The Council also has 'Business Interruption' cover as part of its property insurance with Zurich Municipal.

1.10. MARKET VALUE OF INVESTMENTS

1.10.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDS etc.)

In order to minimise the risk of fluctuations in the capital value of investments, capital preservation is set as the primary objective.

2. TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENTS

2.1. METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

Northumberland County Council is a member of the CIPFA and Link Asset Services benchmarking clubs. Comparisons will be made with a number of similar authorities. The Council's treasury management consultant will carry out a regular health check of the treasury management function.

2.2. POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT

2.2.1. Frequency and processes for tendering

Tenders are normally awarded on a five-yearly basis. The process for advertising and awarding contracts will be in line with the Council's Financial Regulations.

2.2.2. Banking services

Banking services will be tendered for every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3. Money-broking services

The Council will use money broking services in order to make deposits or to borrow and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both price and quality of services.

2.2.4. Advisers' services

This Council's policy is to appoint professional treasury management advisors.

2.2.5. Policy on External Managers (Excluding Superannuation Funds)

The Council's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

2.3. METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES

Performance is measured against Annual Treasury Management Strategy Statement targets.

a) Compliance with CIPFA Code of Treasury Practice.

b) Expenses contained within approved budget.

c) Review of benchmarking club data.

2.4. BENCHMARKS AND CALCULATION METHODOLOGY

2.4.1. Debt management

a) Average rate on all external debt.

b) Average period to maturity of external debt.

c) Average rate on external debt borrowed in previous financial year.

2.4.2. Investment

The performance of in-house investment earnings will be measured against 7-day SONIA (Sterling Overnight Index Average). Performance will also be measured against other local authority funds with a similar benchmark.

3. TMP3 DECISION-MAKING AND ANALYSIS

3.1. FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS / TECHNIQUES:

3.1.1. Records to be kept

a) All loan transactions are recorded in a spreadsheet.

b) Daily cash projections.

c) Telephone/e-mail rates.

d) Dealing slips for all money market transactions – including rate changes.

e) PWLB loan schedules.

f) Temporary loan receipts.

g) Brokers confirmations for deposits/investments.

3.1.2. Processes to be pursued

a) Cash flow analysis.

b) Maturity analysis.

c) Ledger reconciliations

d) Review of borrowing requirement.

e) Comparison with prudential indicators.

f) Monitoring of projected loan charges and interest and expenses costs.

g) Review of opportunities for debt rescheduling.

3.1.3. In respect of every decision made the organisation will:

a) Above all be clear about the nature and extent of the risks to which the organisation may become exposed.

b) Ensure that decisions are in accordance with the approved Treasury Management Strategy.

c) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorisations to proceed have been obtained.

d) Be content that the documentation is adequate both to deliver the organisation's objectives and protect the organisation's interests, and to deliver good housekeeping.

e) Ensure that third parties are judged satisfactory in the context of the organisation's creditworthiness policies, and that limits have not been exceeded.

f) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

3.1.4. In respect of borrowing and other funding decisions, the organisation will:

a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.

b) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.

c) Consider the alternative interest rate bases available, the most appropriate periods to fund, and repayment profiles to use.

d) Consider the on-going revenue liabilities created, and the implications for the Council's future plans and budgets.

3.1.5. In respect of investment decisions, the organisation will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.

b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

4. TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1. APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

a) Borrowing.

b) Lending.

c) Debt repayment and rescheduling.

d) Consideration, approval and use of new financial instruments and treasury management techniques.

e) Managing the underlying risk associated with the Council's capital financing and surplus funds activities.

f) Managing cash flow.

g) Banking activities.

4.2. APPROVED INSTRUMENTS FOR INVESTMENTS

All investments will be made following the Approved Credit and Counterparty Criteria List.

Investments can be made through one of the following:

a) The Council's bankers.

b) The SunGard Portal or other online portals.

c) Direct with banks and financial institutions.

d) One of the Council's approved brokers shown in TMP 11.

All cash investments should be arranged by telephone call or e-mail to the above organisations and the borrower concerned will confirm each transaction. An authorised CHAPS payment form is then input into the Bank's electronic system by the Cashiers section and confirmation given that the transaction has been completed.

Derivative instruments. If the Council intends to use these instruments for the management of risk, these will be limited to those set out in its Annual Treasury Management Strategy, and the council will seek proper advice and consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

4.3. APPROVED BORROWING TECHNIQUES

a) Market loans including LOBOs

b) PWLB

c) Local authorities

4.4. APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	*	*
EIB	*	*
Market (long-term)	*	*
Market (temporary)	*	*
Market (LOBOs)	*	*
Stock issues	*	*
Local temporary	*	*
Local Bonds	*	
Overdraft		*
Negotiable Bonds	*	*
Internal (capital receipts & revenue balances)	*	*
Commercial Paper		
Medium Term Notes	*	
Leasing (not operating leases)	*	*

Other Methods of Financing

Government and EC Capital Grants

Lottery monies

PFI/PPP

Operating leases

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Section 151 Officer has delegated powers in accordance with Financial Regulations, and the Scheme of Delegation to Officers Policy; and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

5. TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1. LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/POLICY BOARD LEVELS

a) Full Council will receive and approve reports on treasury management policies, practices and activities, the annual treasury management strategy and annual report on debt rescheduling.

b) The Section 151 Officer will be responsible for amendments to the organisation's adopted clauses, treasury management strategy statement and treasury management practices. A formal report will be put to Cabinet to approve any formal amendments.

c) The Section 151 Officer will approve the segregation of responsibilities.

d) The Section 151 Officer will receive and review external audit reports and make recommendations to the Audit Committee.

e) Approving the selection of external service providers and agreeing terms of appointment will be decided by the Section 151 Officer in accordance with Financial Regulations.

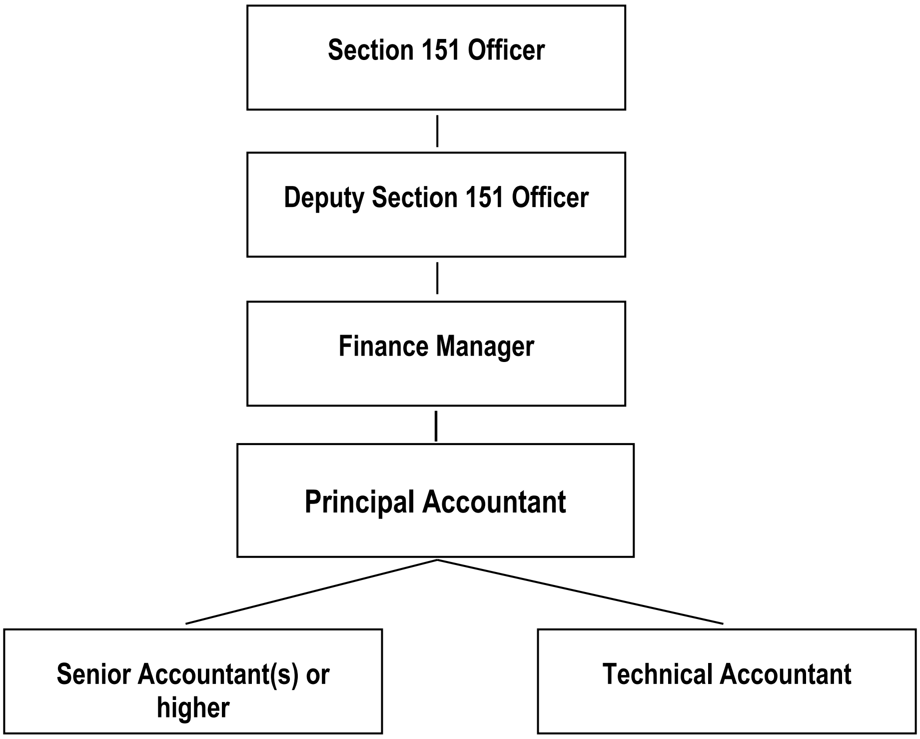
5.2. PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

a) The Section 151 Officer will authorise all new long-term borrowing.

b) Transactions relating to pre-existing agreements are delegated to the senior accountant responsible for treasury management.

c) Short-term borrowing and investment are authorised by the Section 151 Officer, Deputy Section 151 Officer, or, in their absence, a Finance Manager.

5.3. TREASURY MANAGEMENT ORGANISATION CHART



5.4. STATEMENT OF DUTIES/RESPONSIBILITIES FOR EACH TREASURY POST

5.4.1. Portfolio Holder for Corporate Services

a) The Portfolio Holder for Corporate Services has primary political responsibility for Treasury Management strategy and will be regularly briefed on Treasury Management performance and proposed policy changes by the Section 151 Officer.

b) The Portfolio Holder for Corporate Services has the right to recommend to the Section 151 Officer that a particular transaction should go to the Risk Appraisal Panel.

c) The Portfolio Holder for Corporate Services may attend Audit Committee.

5.4.2. Section 151 Officer

The Section 151 Officer will:

a) Recommend clauses, treasury management strategy / practices for approval reviewing the same on a regular basis, and monitoring compliance.

b) Prepare treasury management strategy reports as required.

c) Prepare budgets and budget variations in accordance with Financial Regulations and guidance.

d) Review the performance of the treasury management function and promote best value reviews.

e) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

f) Ensure the adequacy of internal audit, and liaison with external audit.

g) Appoint external service providers in accordance with the Council's Financial Regulations.

h) Ensure preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.

i) Ensure the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.

j) Ensure that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.

k) Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.

l) Ensure the proportionality of all investments, so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.

m) Ensure that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.

n) Provide members with a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees, as appropriate.

o) Ensure that members are adequately informed and understand the risk exposure taken on by an authority.

p) Ensure that the authority has adequate expertise, either in house or externally provided, to carry out the above.

q) Produce Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:

   (i) Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.

   (ii) Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.

   (iii) Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.

   (iv) Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.

   (v) Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

r) Have delegated power through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

s) May delegate the power to borrow and invest to appropriate members of Corporate Finance staff as follows; the Deputy Section 151 Officer and Finance Managers. All transactions must be authorised by a named officer above.

t) Ensure that the Strategy is adhered to, and if not will bring the matter to the attention of elected Members as soon as is possible.

u) Prior to entering into any capital financing, lending or investment transaction, be responsible to ensure that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

v) Be responsible to ensure that the Council complies with the requirements of The Non-Investment Products Code for principals and broking firms in the wholesale markets.

5.4.3. Senior Accountants responsible for treasury management

The responsibilities of this post will be:

a) Monitoring performance and market conditions on a day-to-day basis.

b) Recommend investments and borrowing transactions.

c) Execution of transactions.

d) Adherence to agreed policies and practices on a day-to-day basis.

e) Maintaining relationships with third parties and external service providers.

f) Identifying and recommending opportunities for improved practices.

5.4.4. Technical Accountant

a) Review and recommend investments and borrowing transactions.

b) Maintaining relationships with third parties and external service providers.

c) Identifying and recommending opportunities for improved practices.

d) Produce the annual Treasury Management Strategy, Capital Strategy, Outturn, Mid-year review and Quarterly update reports.

5.4.5. Finance Manager

The responsibilities of this post will be:

a) Line management of the Principal Accountant overseeing the Treasury Management function on a day-to-day basis.

b) Review and recommend investments and borrowing transactions.

c) Authorise CHAPS payments.

d) Adherence to agreed policies and practices on a day-to-day basis.

e) Maintaining relationships with third parties and external service providers.

f) Monitoring performance on a day-to-day basis.

g) Identifying and recommending opportunities for improved practices.

h) Reviewing the annual Treasury Management Strategy, Capital Strategy, Outturn and Mid-year review reports

5.4.6. Principal Accountant

The responsibilities of this post will be:

a) Line management of the Technical Accountant and Senior Accountant(s) responsible for treasury management.

b) Review and recommend investments and borrowing transactions.

c) Maintaining relationships with third parties and external service providers.

d) Identifying and recommending opportunities for improved practices.

e) Reviewing the annual Treasury Management Strategy, Capital Strategy, Outturn and Mid-year review reports

5.4.7. Chief Legal Officer (in the role of the Monitoring Officer)

The responsibilities of this post will be:

a) to ensure compliance by the Section 151 Officer with the Treasury Management Strategy statement and treasury management practices and that these practices comply with the law;

b) to be satisfied that any proposal to vary treasury strategy or practice complies with law or any code of practice;

c) to provide advice to the Section 151 Officer when advice is sought.

5.4.8. Internal Audit

The responsibilities of Internal Audit will be:

a) to review compliance with approved policy and procedures;

b) to review division of duties and operational practice;

c) to assess value for money from treasury activities;

d) to undertake probity audit of treasury function.

5.5. ABSENCE COVER ARRANGEMENTS

In the absence of the Senior Accountant(s) responsible for treasury management, another suitably qualified accountant in the Corporate Finance section with treasury management training / experience will perform the daily cash flow tasks.

5.6. DEALING LIMITS

Persons authorised to deal are identified at 5.4. above and dealing limits are as the Scheme of Delegation for Officers.

5.7. LIST OF APPROVED BROKERS

A list of approved brokers is maintained and is shown in TMP11.

5.8. POLICY ON BROKERS' SERVICES

It is the Council's policy to divide business between brokers.

5.9. POLICY ON TAPING OF CONVERSATIONS

It is not Council policy to tape brokers' conversations.

5.10. DIRECT DEALING PRACTICES

The Council deals direct if appropriate contacts are established, and if it is advantageous to the Council.

5.11. SETTLEMENT TRANSMISSION PROCEDURES

For each transaction a CHAPs form is completed and signed by an agreed bank signatory. The transfer is then processed by Cashiers, through the Barclays on-line banking system. This is to be completed by 3.30 pm on the same day.

5.12. DOCUMENTATION REQUIREMENTS

For each deal undertaken, details of dealer, amount, period, counterparty, interest rate, dealing date, payment date, broker, and credit ratings should be recorded. This should be reviewed and authorised in writing or e-mail by either the Section 151 Officer, the Deputy Section 151 Officer or a Finance Manager.

6. TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1. ANNUAL REPORTING REQUIREMENTS BEFORE THE START OF THE YEAR

a) The Treasury Management Strategy statement and practices sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Council for approval before the commencement of each financial year.

b) The Council must approve the Prudential Indicators.

c) The Council must approve the Minimum Revenue Provision Policy.

6.2. REPORTING REQUIREMENTS DURING THE YEAR

a) A mid-year review of the strategy statement.

b) Quarterly updates to Cabinet as part of the standard revenue and capital budget monitoring process.

b) Any variations to the agreed Treasury Management policies and practices will be reported to the Council at the earliest practicable meeting.

6.3. ANNUAL REPORTING REQUIREMENT AFTER THE YEAR END

An annual report will be presented to the Council at the earliest practicable meeting after the end of the financial year, but in any case, by the end of September. This report will include the following:

a) Transactions executed and their revenue effects.

b) Report on risk implications of decisions taken and transactions executed.

c) Monitoring of compliance with approved policy, practices and statutory/regulatory requirements.

d) Performance report.

e) Report on compliance with CIPFA Code recommendations.

7. TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1. STATUTORY/REGULATORY REQUIREMENTS

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in England and Wales that is recognised by statute as representing proper accounting practices.

7.2. ACCOUNTING PRACTICES AND STANDARDS

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in England and Wales. The Council adopts in full the principles set out in CIPFA's 'Code of Best Practice and Guide for Treasury Management in the Public Services' (the 'CIPFA Code and Guide'), together with those of its specific recommendations that are relevant to this organisation's treasury management activities.

7.3. SAMPLE BUDGETS / ACCOUNTS

The Technical Accountant responsible for treasury management will prepare an annual budget for the treasury management function, which will bring together all the costs involved in running the function, together with associated income.

7.4. LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS

a) Reconciliation of loans, investments, interest, premiums and discounts to financial ledger.

b) Confirmation of loans and investments balances.

c) Maturity analysis of loans outstanding.

d) Annual Treasury Report.

e) Calculation of Revenue Interest.

f) Analysis of accrued interest.

8. TMP8 CASH AND CASH FLOW MANAGEMENT

8.1. ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous year's daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates.

8.2. LISTING OF SOURCES OF INFORMATION

Estimated cash flow details are compiled using:

a) Schedule of Payment of Revenue Support Grant and National Non-domestic rates; Department for Leveling Up, Housing and Communities income.

b) Schedule of Payment of the Dedicated Schools Grant from the Department for Education (DFE);

c) Revenue payments dates and amounts.

d) Notifications from the Corporate Finance Team of any significant grants expected during the year.

e) Schedule of payroll payment dates supplied by the Payroll section with an estimated amount based on the previous year's payments.

f) Loan repayments spreadsheet.

g) An estimated figure for creditor payments, based on previous patterns of expenditure. More accurate figures can be obtained two days before payment based on the Creditor BACs figure.

8.3. BANK STATEMENT PROCEDURES

Payments by CHAPs, Direct Debit, standing order and imprest accounts are now input by Accounts Payable directly to e-business rather than by journal which gives greater transparency and segregation of duties.

8.4. PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

The Council's policy is to pay creditors within 30 days of the invoice date, and this effectively schedules the payments.

8.5. ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS

a) The Accounts Receivable section provides monthly statistics of outstanding debtors to Directors who take appropriate action regarding the outstanding debt

b) The Accounts Payable section provides monthly statistics of invoice performance to Directors who take appropriate action.

8.6. PROCEDURES FOR BANKING OF FUNDS

All money received by an officer on behalf of the Council will without unreasonable delay be paid into the Council's bank accounts. No deductions may be made from such money save to the extent that the Section 151 Officer may specifically authorise.

9. TMP9 MONEY LAUNDERING

9.1. PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

The Council does not usually accept loans from individuals. All material loans are obtained from the PWLB, other local authorities or from authorised institutions under the Banking Act 1987: the Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website on www.fca.gov.uk.

9.2. METHODOLOGIES FOR IDENTIFYING SOURCES OF DEPOSITS

In the course of its Treasury activities, the Council will only lend money to, or invest with, those counterparties that are on its approved lending list.

10. TMP10 TRAINING AND QUALIFICATIONS

10.1. STAFF QUALIFICATIONS

The daily treasury management function will be performed by a qualified accountant or a senior accountant (unqualified) holding a Certificate in International Treasury Management Public Finance, under the supervision of a qualified accountant.

10.2. STAFF TRAINING

New staff will receive in-house on the job training before they commence their duties. Existing staff will attend treasury management seminars, at least annually, to keep up to date with changes in regulations and current practices. Additional staff training needs will be identified as part of the training needs analysis undertaken during Staff Appraisals.

10.3. THE SECTION 151 OFFICER

The Section 151 Officer is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

10.4. MEMBER TRAINING

All members should have an appropriate level of training within a year of taking office. Members of the Audit Committee received training in October 2018, and further training is expected to be delivered in 2022. This will be carried out in-house in conjunction with the Council's treasury management advisors.

11. TMP11 USE OF EXTERNAL SERVICE PROVIDERS

11.1. DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

11.1.1. Banking services

i) Name of supplier of service is Barclays Bank plc. The address is:

E7 Ground Floor

Turing House

Radbroke Hall

Knutsford

WA16 9EU

ii) The contract was awarded in November 2022 and is for 5 years.

iii) Cost of service is variable depending on schedule of tariffs and volumes

11.1.2. Money-broking and Custodian services

Name of supplier of service:

i) Sterling International Brokers Ltd
10 Chiswell Street
London, EC1Y 4UQ

ii) ICAP Europe Ltd
2 Broadgate,
London, EC2M 7UR

iii) Tullet Prebon (UK) Limited
155 Bishopsgate,
London, EC2N 3DA

iv) Tradition (UK) Ltd
Beaufort House,
15 St Botolph Street,
London, EC3A 7QX

v) King and Shaxson Ltd
Candlewick
120 Cannon Street
London, EC4N 6AS

vi) Barclays Bank PLC
Barclays Stockbrokers,
Tay House,
300 Bath Street,
Glasgow, G2 4LH.

vii) Link Asset Services
65 Gresham Street
London, EC2V 7NQ

viii) BGC Brokers L.P.
One Churchill Place
London, E14 5RD

ix) Imperial Treasury Services Ltd
5 Port Hill

Hertford, SG14 1PJ

x) Munix Ltd

9 Ainslie Place

Edinburgh, EH3 6AS

xi) RP Martin Ltd

1 Snowden St,

London, EC2A 2DQ

11.1.3. Consultants'/advisers' services

Treasury Consultancy Services

i) Name of supplier of service is

Link Asset Services

65 Gresham Street

London

EC2V 7NQ

Website: www.linkassetservices.com

The current contract is for 3 years and expires October 2024.

11.1.4. External Fund Managers

None at present.

Other professional services may be employed on short term contracts as and when required.

11.2. PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

Tenders are normally awarded on a five-yearly basis. The process for advertising and awarding contracts will be in line with the Financial Regulations See TMP2.

12. TMP12 CORPORATE GOVERNANCE

12.1. LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

Annual Statement of Accounts

Annual Budget

Treasury Management Strategy Statement

Annual Treasury Report

CAPITAL PRUDENTIAL INDICATORS 2023-24 to 2026-27

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

The Local Government Act 2003 requires all local authorities to have regard to the Prudential Code for Capital Finance. The Code states that a soundly formulated capital programme must be driven by the desire to provide high quality, value for money public services. As a consequence, the Code recognises that in making its decisions to make capital investment, the Council must have regard to:

- affordability (e.g. implications for Council Tax);
- prudence and sustainability (e.g. implications for external borrowing);
- option appraisal;
- asset management planning;
- strategic planning for the Council;
- achievability of the forward plan.

The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. To demonstrate local authorities have fulfilled these objectives, the Code sets out the indicators that must be used and the factors that must be taken into account.

Under the Prudential Code for Capital Finance in Local Authorities, local authorities determine their own level of capital expenditure.

Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans:

Capital Expenditure	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Adult Services	4.590	4.427	2.000	2.000	2.000
Children's Social Care	1.664	1.435	-	-	-
Economy and Regeneration	83.189	84.494	48.580	47.251	-
Finance	12.150	23.414	6.000	6.000	-
Fire and Rescue Service	1.667	2.016	1.172	1.129	1.330
Housing - GF	1.185	0.643	-	-	-
Housing - HRA	15.603	19.637	24.254	20.863	20.949
IT	3.407	4.419	2.931	0.950	-
Leisure Services	12.810	0.800	-	-	-
Neighbourhood Services	5.238	5.542	7.912	5.757	6.988
Property Services	4.513	6.485	6.852	9.356	0.552
Renewable Energy	13.334	2.700	2.000	-	-
Schools	20.591	31.188	59.963	49.086	8.488
Technical Services / Local Services	49.636	35.749	34.430	25.551	24.431
Total Capital Expenditure	**229.577**	**222.949**	**196.094**	**167.943**	**64.738**

The table below summarises how the above capital expenditure is being financed:

Capital Funding	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Capital Receipts	3.047	5.589	4.280	2.430	2.230
External Grants	120.510	96.863	59.087	60.933	31.014
GF Borrowing	91.836	106.236	106.163	80.271	13.600
GF Contributions	2.892	0.250	8.171	6.591	-
HRA Borrowing	-	-	-	-	-
HRA Contributions	11.292	14.011	18.393	17.718	17.894
Total Capital Funding	**229.577**	**222.949**	**196.094**	**167.943**	**64.738**

Capital Financing Requirement - the Council's borrowing need

The Capital Financing Requirement (CFR) is the Council's underlying need to borrow for a capital purpose.

All the capital assets the Council has ever bought will have been in part paid for by capital receipts, grants and revenue contributions. The remaining part which has not yet been paid for through revenue or capital resources is described as the CFR. In this respect it could be viewed like a mortgage. You have paid for the house (assets), have some equity in it (capital receipts etc.), but have not yet paid off the mortgage (CFR).

The CFR increases each year by capital spend, and decreases by both capital financing (capital receipts, grants etc.) and an annual revenue charge called the Minimum Revenue Provision (MRP).

The CFR shown below, which includes other long-term liabilities such as PFI and leasing arrangements, is increasing by £119.533 million over the next four years and is shown below.

The Council is asked to approve the following CFR projections:

Capital Financing Requirement (CFR)	2021-22 Actual £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
General Fund CFR	967.263	996.614	1,067.509	1,121.555	1,153.799	1,116.147
HRA CFR	104.871	104.871	104.871	104.871	104.871	104.871
Overall CFR	**1,072.134**	**1,101.485**	**1,172.380**	**1,226.426**	**1,258.670**	**1,221.018**
Movement in Year		29.351	70.895	54.046	32.244	-37.652

Affordability Prudential Indicators

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

Ratio of financing costs to net revenue stream

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

Ratio of financing costs to net revenue stream	2021-22 Actual %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %	2025-26 Estimate %	2026-27 Estimate %
General Fund	9.0	14.6	10.1	12.7	11.9	12.4
HRA	10.8	9.3	7.2	8.5	9.1	8.2

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

Net Income from Commercial and Service Investments as % of net revenue stream

This indicator identifies the authority's reliance on income from Commercial and Service Investments such as loans to Advance Northumberland, Northumbria Healthcare NHS Foundation Trust and Newcastle Airport etc. In Northumberland's case, all of the income is in relation to interest received on loans provided to third parties in support of the Council's service and policy objectives. These facilities are not provided to generate a financial return or gain for the Council.

Ratio of Income from Commercial and Service Investments to net revenue stream	2021-22 Actual %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %	2025-26 Estimate %	2026-27 Estimate %
Overall	4.3	4.0	3.9	4.0	4.2	4.0

Authorised Limit for External Debt

This is an important indicator, as it is part of the Local Government Act 2003 requirements.

The Authorised Limit is the maximum amount the Council could afford to borrow in the short term but would not be sustainable in the long term. It should be set at the expected borrowing position, plus any expectations for borrowing in advance of need, plus some headroom to cope with the unexpected.

It is set as an assessment of how much the Council may need to borrow above expectations if an unforeseen incidence happened. This could be the delay in a large capital receipt, the failure of the Council Tax system etc., something that upsets the cash flow but will be corrected over time.

So the Authorised Limit, if set properly, is an alarm mechanism that, if breached, means there is a problem with the Council's finances.

The Council is asked to approve the following Authorised Limit:

Authorised Limit	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**
Borrowing	1,156.913	1,334.817	1,412.108	1,227.865
Other long term liabilities	72.813	73.425	67.590	61.262
Total	**1,229.726**	**1,408.242**	**1,479.698**	**1,289.127**

Operational Boundary for External Debt

Whilst the Authorised Limit is an overall cap on borrowing, the Operational Boundary is where the Council would expect its borrowing to be. It is only a guide and may be breached or undershot without significant concern, as borrowing will be driven by economic and market considerations as well as interest rates.

The Council is asked to approve the following Operational Boundary:

Operational Boundary	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**
Borrowing	964.094	1,112.348	1,176.757	1,023.221
Other long term liabilities	60.678	61.187	56.325	51.052
Total	**1,024.772**	**1,173.535**	**1,233.082**	**1,074.273**

Treasury Management Limits on Activity

There are two debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Limit on Investments for longer than 365 days.

Maturity Structure of Borrowing

Setting limits for the maturity structure of debt ensures a reasonable spread of maturing debt as a safety mechanism to ensure significant amounts of maturing debt is not ending at a time when interest rates for refinancing the debt may be high.

Maturity Structure of fixed rate borrowing during 2023-24	**Upper Limit %**	**Lower Limit %**

Under 12 months	25	0
1 year - 2 years	40	0
2 years within 5 years	60	0
5 years within 10 years	80	0
10 years and above	100	0

Maturity Structure of variable rate borrowing during 2023-24	**Upper Limit %**	**Lower Limit %**
Under 12 months	35	0
1 year - 2 years	40	0
2 years within 5 years	60	0
5 years within 10 years	80	0
10 years and above	100	0

Investments for periods longer than 365 days

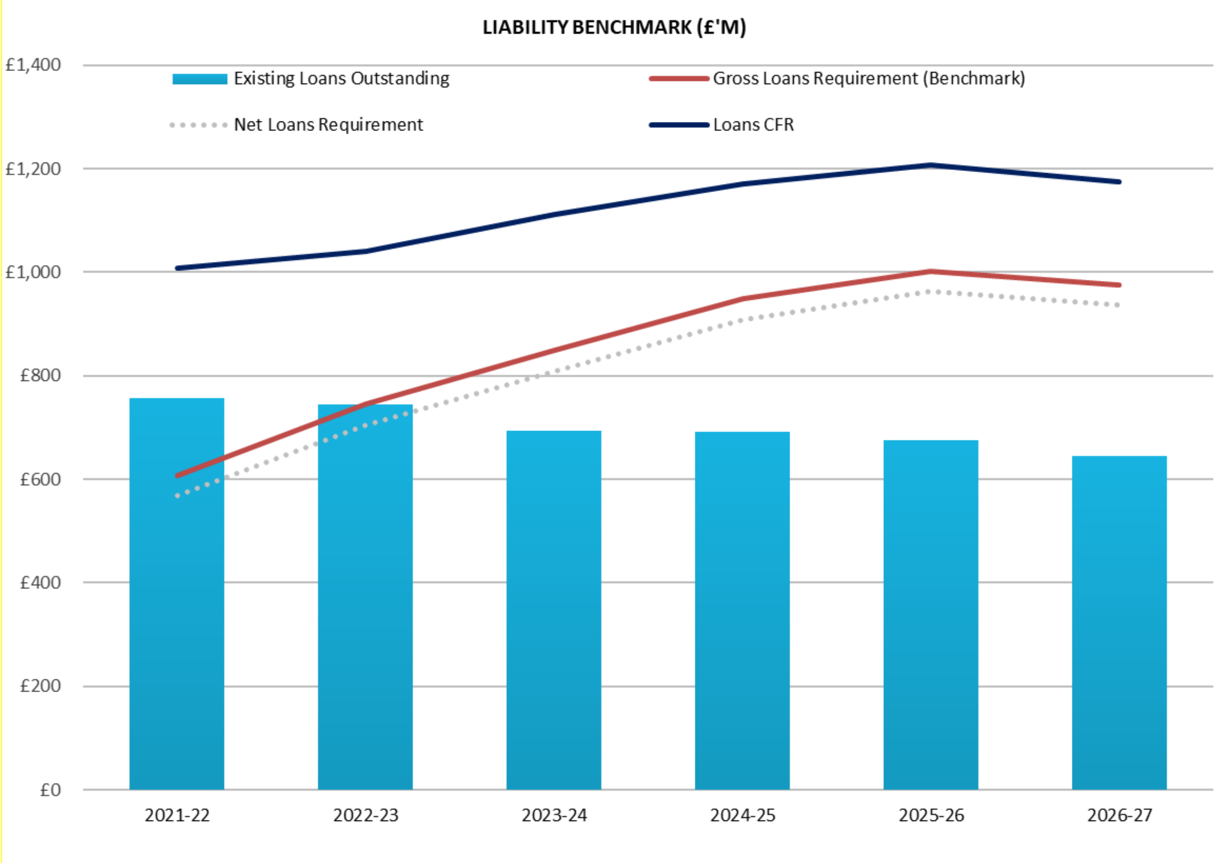
These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator:

Maximum principal sums invested which can be held for over 365 days	**2023-24 £m**	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**
Principal sums invested > 365 days	120	120	120	120

Liability Benchmark

The liability benchmark is a graphical projection of the amount of loan debt outstanding which the authority needs each year into the future, in order to fund its existing debt liabilities, planned prudential borrowing and other cash flows. In essence it compares the existing external borrowing (i.e. loans outstanding) against the future 'gross loans requirement' (i.e. need); with the gap representing the future need to borrow (externally). It should be noted that the 'loans requirement' figure assumes all available investment balances (except, in the case of the gross loans requirement, a provision to cover day-to-day liquidity / cash flow requirements) will be used to support the borrowing need, in lieu of borrowing externally.



Supplementary Indicator - Internal Borrowing

The following indicator identifies the estimated level of internal borrowing, i.e. the extent to which internal / investment balances are being used in lieu of borrowing externally (to fund the CFR, or overall need to borrow):

Internal Borrowing	2023-24 %	2024-25 %	2025-26 %	2026-27 %
Estimated % of CFR (exc. PFI) funded from internal borrowing – Average for Year	25.2	20.2	17.5	16.9

Note: the above indicator is not specifying a limit. It simply identifies, for information purposes, the assumed internal borrowing position that has been used in calculating the revenue budget implications for the Council's treasury management activity.

The indicator identifies the interest rate risk exposure on this element of the borrowing need / requirement; i.e. beyond that attributable to actual external borrowing. The higher the percentage, the greater the potential risk.

The following table identifies the notional additional cost should the above internal borrowing need to be externalised – i.e. replaced with actual external loans:

Internal Borrowing – Notional Replacement Cost	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m

Notional cost of externalising internal borrowing	0.255	0.565	1.432	2.017

Note the above (notional) cost is based on the estimated average external borrowing rate for each year. Again, the above indicator is not specifying a limit. It is simply for information purposes.

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT 2023-24

Background

Local authorities are required each year to set aside some of their revenue as provision for debt repayment. Previous regulations prescribed how much provision to make using a formula which was linked to prudential indicators. The system was simplified under the 2008 Regulations and authorities are now only required to make "prudent provision", based on guidance issued by the former Department for Communities and Local Government.

The broad aim of prudent provision is to ensure debt is repaid over a period that is either reasonably equal with that over which the capital expenditure provides benefit; or, in the case of borrowing supported by Government Revenue Support Grant reasonably equal with the period implicit in the determination of that grant.

The Government's guidance offers four options for the calculation of the provision:

- Option One - Regulatory method: MRP charges are based on the same formula used in the previous regulations. This method should only be adopted for capital expenditure incurred before 1 April 2008. However, it may also be applied for any new capital expenditure that is deemed to be 'supported' as part of the Revenue Support Grant (RSG) settlement on the grounds that the MRP charge would be offset by the support included with the RSG.
- Option Two – Capital Financing Requirement (CFR) Method: A simplified version of option one which removes an adjustment in the original formula, known as Adjustment A, that ensured consistency with previous Capital Regulations. For most authorities this method would probably result in a higher level of provision than option one.
- Option Three – Asset Life Method: The MRP charge is aligned to the estimated life of the asset for which the borrowing is undertaken. This method is suggested for new borrowing for which no Government support is being given (i.e., unsupported borrowing), but can also be used for supported borrowing as well.
- Option Four – Depreciation Method: MRP is matched to the provision for depreciation. The result should be similar to option three.

The guidance suggests that from 2009-10 onwards MRP charges relating to non-government supported borrowing must be calculated using either method three or four.

The legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

Confirmation of Existing Policy

A continuation of the existing practise is proposed for 2023-24. The Council is therefore recommended to approve the following arrangements:

- For historic capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, MRP will be charged on a straight-line basis over 50 years, as adopted in 2019-20.
- For all capital expenditure incurred after 1 April 2008 financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance.
- With regard to the Option 3 element, a fixed average asset life will be assumed and applied to the global in year unsupported borrowing / spend, rather than breaking this calculation down to spend on individual assets and their respective lives. The assumed life will be based on the historic weighted average life of all assets included in the Option 3 calculation for 2009-10 to 2014-15.
- For capital expenditure in respect of Long-Term Capital Debtors, where principal is repaid over the term of the loan (such as the loans to Northumbria Healthcare NHS Foundation Trust), no MRP provision is made; but the liability will be met by setting aside the associated receipt of the repayments. MRP will however be calculated for those Long-Term Capital Debtors where principal is repaid on maturity and the loan term is greater than 5 years (such as the loans to Advance Northumberland).
- In order to allow increased flexibility to cope with future austerity, whenever resources are available and allow; additional voluntary set aside may also be made. Conversely, any advance provision from previous years may if needed be utilised to reduce the current year’s MRP requirement (i.e. that which would otherwise be set aside). The level of each year’s voluntary set aside, or reversal, will be delegated to the Section 151 Officer (or the Deputy Section 151 Officer), based on what is considered prudent and affordable for both existing resources and future forecasts.
- There is no requirement to provide minimum revenue provision in relation to the Housing Revenue Account.

Northumberland
County Council

CAPITAL STRATEGY 2023-24 TO 2026-27

1. BACKGROUND

1.1. Purpose and Aims of the Capital Strategy

The Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management Code of Practice and the Prudential Code requires authorities to have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made. The capital strategy should form a part of the authority's integrated revenue, capital and balance sheet planning.

The Council itself is also keen to ensure that its capital assets, and the resources tied up in them, are efficiently and effectively used. Accordingly, this Capital Strategy Statement sets out the corporate aims and principles that underpin the production of the authority's Capital Programme.

Northumberland County Council's Capital Strategy will be reviewed on an annual basis to reflect the changing needs and priorities of the Council.

The Capital Strategy should be read in conjunction with the Capital Programme, Treasury Management Strategy Statement and Prudential Indicators detailed in the Budget 2023-24 and Medium-Term Financial Plan 2023-27.

The Council's Capital Strategy aims to support delivery of the Council's priorities insofar as they can be achieved within available resources. Some of this can be achieved by the Council on its own but much can be delivered by working with others including neighbouring authorities in the North of Tyne Combined Authority, partner authorities in the Borderlands initiative, stakeholders in Northumberland's mixed economy of education providers, North East Local Enterprise Partnership (NELEP), Northumbria Healthcare NHS Foundation Trust, the Council's wholly-owned economic development company Advance Northumberland, and local communities.

Key priorities for application of capital expenditure are:

- Delivering policy ambitions.
- Exercising financial prudence, maintaining the level of capital investment and outstanding debt that are sustainable within the Council's revenue expenditure programme.
- Investing in schemes which will reduce the Council's revenue costs; and,

- Being alert to opportunities to lever external resources in delivering corporate priorities.

The Council's policy priorities are detailed in the Corporate Plan and include issues where capital investment will be required.

The Council is under no illusion that improving education performance represents its single biggest challenge and is committed to equipping all school leavers with the right skills, and provide to them; and the wider workforce, the opportunity to grow and develop those skills. This will require leadership at all levels and throughout Northumberland's mixed economy of education providers.

The Council recognises that there is a need to increase the supply of both affordable and specialist supported housing, including extra care for older people. Northumberland's aspirations for an improved economy and its infrastructure go hand in hand, and the Capital Strategy aims to support the reopening of the Northumberland to Newcastle rail line in conjunction with partners in the North of Tyne Combined Authority to open up a new economic corridor unlocking commercial investment along its length. Northumberland is also continuing to press for further improvements to the A1 and A69 as well as investment in the Enterprise Zones in the county. The Council is exploring how it can best maintain the vibrancy of town centres and is keen to support progressive insertion of a full-fibre network and delivery of superfast broadband to all properties to ensure access to high-speed and reliable digital connectivity.

The Council is committed to investing in Northumberland's leisure and cultural assets and is willing to work with partners and communities in developing shared services and shared premises to support the retention of local meeting places such as community centres, village halls, post offices and public houses.

The County Council fully acknowledges that it has a significant role to play in maximising its contribution to the reduction of greenhouse gas emissions - both in reducing its own carbon footprint and in promoting and facilitating wider behaviour change through its local leadership.

It has committed to working with the Government to achieve carbon neutrality for the county of Northumberland by 2030.

In doing so, the Council's plans to accelerate and expand its programme of investment and behaviour change, with the target of having reduced its carbon footprint by 50% from the 2010 baseline by 2025.

The realisation of this target will require the Council to be at the forefront of testing and introducing new technologies and approaches.

1.2. The key objective of Northumberland's Capital Strategy

The key objective of the Capital Strategy is to deliver a Capital Programme that:

- Ensures the Council's capital assets are used to support the delivery of services according to the priorities within the Corporate Plan and the Council's vision.
- Is affordable, financially prudent and sustainable, and ensure that decisions are made with sufficient regard to the long-term financing implications and potential risks to the authority; and,
- Ensures the most cost-effective use is made of existing assets and new capital investment.

The resources employed to deliver the Capital Strategy are allocated through the budget process that sets the four year rolling Capital Programme as part of the Medium-Term Financial Planning and annual budget setting processes.

1.3. The Council's Corporate Objectives and Priorities

The capital budgets within the Capital Strategy should support the key priorities laid out in the Council's Corporate Plan. Each capital proposal is required to clearly demonstrate that the project links to the Council's five overarching priorities.

- **Thriving:** We will vigorously secure more and new investment and jobs into the county.
- **Living and Learning:** We will care for our residents, support the most vulnerable in our society and help people to live healthy lives. We will ensure the best education standards for our children and young people
- **Enjoying and Connecting:** We will maintain, protect and enhance the environment, prioritising our commitments on Climate Change. We will deliver high-quality services in all our communities and secure investment in housing and transport across the County.

2. APPROACH TO INVESTMENT PRIORITISATION

2.1. The Capital Programme

The Capital Programme for 2023-24 to 2026-27 has being updated as part of the 2023-24 budget setting process and is due to be considered at full Council on 22 February 2023.

Identification and prioritisation of Capital Investment needs

The basis of the Capital Programme is driven by the budget and service planning process. The size of the Capital Programme is determined by:

- The need to incur capital expenditure.
- Capital resources available; and,
- The revenue implications flowing from the capital expenditure.

As part of the budget planning process, services will be required to submit capital proposals which are considered by Members for investment decisions. The capital investment appraisal process will focus on:

- policy and strategic fit;
- value for money, cost/benefit context;
- affordability and resources;
- options appraisal;
- risk assessment; and,
- capability and capacity within the Council to manage and deliver a project.

Capital investment proposals will be presented for approval on the standard Capital Project Bid Appraisal form that includes the following sections:

- description of the project;
- project outcomes and outputs;
- key dates and milestones;
- costs of the scheme and funding sources;
- revenue implications;
- risks associated with the project; and,
- information on the project's fit with the Council's strategic priorities; and implications of not proceeding.

2.2. Capital Projects Evaluation and Priority Scoring Matrix (PSM)

The Council has limited resources to meet the capital investment requirements of delivering quality services and contributing to its community leadership responsibilities. Elected Members ultimately determine the projects to be included within the Capital Programme but to assist the decision-making process the Council has introduced a priority-scoring matrix. This identifies a number of weighted criteria against which potential capital projects are evaluated and compared:

- The contribution the project makes to achieving the Council's strategic priorities and organisational objectives. (max 40 points)
- The impact of the project on the Council's revenue budgets either as additional running costs or as a means of reducing costs. (max 25 points)
- The project's ability to assist in the implementation of a wider programme of investment, such as the proportion of externally generated funding attracted by the project. (max 10 points)
- The status of the project in terms of its contribution to meeting specific statutory obligations or Government initiatives. (max 5 points)

- The project's ability to meet the requirements of the Council's Asset Management Plan. (max 15 points)
- The project's contribution to addressing Non-Statutory Health and Safety recommendations from the Health and Safety Officer and Fire Officer. (max 5 points)
- The degree of risk associated with the project; the potential for overspending, slippage, funding not materialising, etc. (max 5 points)
- The level of internal resources required by the project. (max 20 points)

2.3. Assessment of proposals and timetable

The Council's policy is to agree the rolling Capital Programme on an annual basis at the February Council budget setting meeting.

Capital proposals will be submitted to the Corporate Finance Team as part of the budget setting process. The bids will be assessed and evaluated by a panel of officers from the Council's Capital Strategy Group (CSG), based on information set out in the capital appraisal form and scoring matrix as described above, before being submitted to the Executive Team for review and then full Council for consideration and approval.

The timetable for capital proposals to be considered for inclusion within the approved capital programme is outlined below:

Date	Action
July – August	Services develop initial capital bids within Departmental Management Teams.
August - September	Bids submitted to Corporate Finance for review and assessment of available resources.
September - November	Officer Capital Strategy Group review, score and prioritise proposals using the Priority Scoring Matrix (PSM).
November	Executive Team considers the proposals and agrees a draft capital programme.
December	Corporate Finance finalise the draft capital programme and identify all revenue implications.
January - February	Cabinet considers and recommends the final capital programme to Council.
February	Council approves the capital programme.

Inclusion in the Capital Programme is not approval to commence a project. A full business case is required to be submitted to Cabinet, via initial assessment by CSG and Executive Team, prior to a project proceeding and expenditure being incurred.

2.4. Invest to save capital proposals

Service Departments are encouraged to consider innovation in service provision that can drive efficiency and deliver cashable savings. These are often referred to as invest to save projects. Invest to save bids will be considered on the same basis as other capital proposals and need to demonstrate what savings and benefits will be achieved as a result of the proposed initiative. However, because the benefits of these schemes should outweigh the costs, there is a greater likelihood of these projects being prioritised and included in the Capital Programme.

2.5. Service Delivery Investments - Loans to External Bodies or Organisations

The Council's Capital Programme also includes provision to provide loan facilities to external bodies or organisations for activities that are aligned to, and support, Council service objectives and / or corporate priorities. Examples may include, supporting economic growth and improving the health and wellbeing of local communities.

There are statutory regulations which govern the accounting treatment of loans provided towards expenditure which would, if incurred by the Authority itself, be classified as capital expenditure.

Loans for these purposes will be subject to a financial appraisal and a series of due diligence checks and will only be provided if the Council is fully satisfied of the borrower's ability to meet their obligations. Wherever possible, the Council will aim to mitigate its risks and exposure to default by seeking appropriate security from the borrower. This may often be in the form of a legal charge over the borrower's property / assets.

The rate of interest charged on these facilities will be dependent on the nature and structure of the individual loan and the assessed risks to the Council. However, loans would usually only be provided on the basis that there is no net cost to the Council. Individual business cases presented to Cabinet will highlight the relevant risks and propose an appropriate rate of interest for the loan facility.

In addition, all loans will need to satisfy subsidy control requirements.

All loan applications are considered on a case-by-case basis and subject to a report to the Council's Risk Appraisal Panel, Corporate Services and Economic Growth Overview and Scrutiny Committee; and where a capital budget for this purpose has been approved, Cabinet will ultimately make the final decision. In instances where there is no prior budget approval the business case will be considered through the same route, but the final loan decision will be taken by Full Council.

The only exception to this is in respect of loans provided to Advance Northumberland, the Council's wholly owned economic development company, which is part of the Council's group structure. Approval of these facilities will be delegated to the Council's Loans Review Panel which will comprise of the Cabinet Member for Corporate Services, the Section 151 Officer, the Deputy Section 151 Officer supported by the Treasury Management Finance Manager; subject to the budget provision set out in the Medium-Term Capital Plan.

The Medium-Term Capital Programme includes a provision of £19.414 million over the four years for loans to third parties.

2.6. Approvals outside of the normal budget setting process.

Any additional capital requirements within the year, and outside of the above budget process, must in the first instance be submitted to the Council's Executive Management Team for consideration. If supported by the Executive Management Team, a report must be taken through the Council's democratic process and on to County Council for approval and inclusion in that year's programme.

3. FUNDING SOURCES AND INVESTMENT DECISIONS

The main sources of capital funding are summarised below:

3.1. Borrowing

The Council seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring that any surplus assets are sold.

The Local Government Act 2003 enables local authorities to determine their programmes for capital investment and associated borrowing requirements, provided they have regard to the Prudential Code for Capital Finance in Local Authorities developed by CIPFA.

The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out a series of indicators – known as the Prudential Indicators - the Council must consider as a part of its budget setting process.

3.2. Capital Receipts

A capital receipt is an amount of money exceeding £10,000, which is generated from the sale of a capital asset. Capital receipts are an important funding source for the Capital Programme.

The Council has a substantial property estate, mainly for operational service requirements and administrative buildings. This estate is managed through the Asset Management Plan which identifies property requirements and, where appropriate, properties which are surplus to requirements, and which may be disposed of.

Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Council. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or offset future debt or transitional costs.

The actual realisation, timing and value of asset sales are important, as any in-year shortfalls need to be met from increased borrowing. As a result, progress on asset disposal is closely monitored by Property Services.

The Council's policy is to treat all capital receipts as a corporate resource, enabling investment to be directed towards those schemes or projects with the highest corporate priority. This means that individual services are not reliant on their ability to generate capital receipts. The only exception to this is the Housing Revenue Account (HRA), where the Council's current practise is to ring-fence HRA derived proceeds for re-investment in HRA projects.

3.3. Revenue Funding

Capital expenditure may be funded directly from revenue. For example, funds are sometimes earmarked from individual schools' revenue budgets to supplement the capital resources allocated to school improvement and expansion projects.

However, pressures on the Council's revenue budget and Council Tax levels limit the extent to which this may, generally, be exercised as a source of capital funding.

3.4. Grant Funding and External Contributions

Grants are allocated in relation to specific programmes or projects and the Council will endeavour to maximise grant allocations, developing appropriate projects and programmes which reflect government and partnership led initiatives, but address priority needs in the County.

The majority of "planned" capital expenditure for maintenance of transport infrastructure, school buildings and provision of Disabled Facilities are provided by appropriate grants.

Contributions will also continue to be sought from developers towards the provision of public or private assets or facilities. This will include agreements with developers to mitigate the impact of their development on communities (known as Section 106 agreements) as well as contributions towards Highways Infrastructure requirements associated with developments (known as Section 38 and 278 agreements).

The Council will continue to work with the other organisations to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. It will also continue to work with other public agencies to consider projects that are to the mutual benefit of all parties.

3.5. Consideration of Capital proposals attracting specific funding

Schemes attracting partial external funding will be assessed in the same way as those schemes which require 100% of funding from borrowing and will only be included within the Capital Programme if they meet the Council's needs, objectives and priorities. Schemes attracting 100% external funding would normally be included automatically within the Capital Programme; subject to confirmation of the external funding, confirmation that the projects fit with Council priorities and consideration of any associated revenue implications. A capital bid appraisal form still needs to be completed for these proposals. New schemes in year which attract 100% external funding will require approval by Cabinet before they are included within the Capital Programme.

4. REVENUE IMPLICATIONS - LINKS TO THE MEDIUM-TERM FINANCIAL PLAN (MTFP), TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS

The impact of the revenue implications is a significant factor in determining approval of projects. All capital investment decisions consider the revenue implications both in terms of servicing the finance and the running costs of the new assets.

The use and financing of capital resources has been fully considered in the production of the Council's Annual Budget and Medium-Term Financial Plan and are reflected in both the Treasury Management Strategy Statement for 2023-24 and Prudential Indicators for 2023-24 to 2026-27.

5. MONITORING OF THE CAPITAL PROGRAMME DELIVERY

Officers monitor progress of the Capital Programme monthly with reports being submitted to Cabinet on a quarterly basis.

All processes and procedures relating to the monitoring of theCapital Programme are set out in the Council's Financial Regulations. The following are key controls:

- All capital expenditure must be carried out in accordance with contract procedure rules and financial regulations.
- The expenditure must comply with the statutory definition of "capital purposes" as interpreted in guidance issued by the Section 151 Officer.
- Once the scheme has been included in the Capital Programme following the budget setting process, a further report providing more detail and seeking specific approval must be submitted to the Capital Strategy Group unless delegated approval applies; and,
- Officers must ensure that the budget for each capital project is under the control of a nominated project manager.

6. STEWARDSHIP OF ASSETS

The Council's Asset Management Plan sets out the condition of its assets and the arrangements for managing these effectively.

7. OVERVIEW OF THE CAPITAL PROGRAMME

Capital Expenditure	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Adult Services	4.590	4.427	2.000	2.000	2.000
Children's Social Care	1.664	1.435	-	-	-
Economy and Regeneration	83.189	84.494	48.580	47.251	-
Finance	12.150	23.414	6.000	6.000	-
Fire and Rescue Service	1.667	2.016	1.172	1.129	1.330
Housing - GF	1.185	0.643	-	-	-
Housing - HRA	15.603	19.637	24.254	20.863	20.949
IT	3.407	4.419	2.931	0.950	-
Leisure Services	12.810	0.800	-	-	-
Neighbourhood Services	5.238	5.542	7.912	5.757	6.988
Property Services	4.513	6.485	6.852	9.356	0.552
Renewable Energy	13.334	2.700	2.000	-	-
Schools	20.591	31.188	59.963	49.086	8.488
Technical Services / Local Services	49.636	35.749	34.430	25.551	24.431
Total Capital Expenditure	**229.577**	**222.949**	**196.094**	**167.943**	**64.738**

The table below summarises how the above capital expenditure is being financed:

Capital Funding	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Capital Receipts	3.047	5.589	4.280	2.430	2.230
External Grants	120.510	96.863	59.087	60.933	31.014
GF Borrowing	91.836	106.236	106.163	80.271	13.600
GF Contributions	2.892	0.250	8.171	6.591	-
HRA Borrowing	-	-	-	-	-
HRA Contributions	11.292	14.011	18.393	17.718	17.894
Total Capital Funding	**229.577**	**222.949**	**196.094**	**167.943**	**64.738**

Northumberland County Council

AUDIT COMMITTEE

25 January 2023

Northumberland County Council - Statement of Accounts 2022-23

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth, Portfolio Holder for Corporate Services

1. **Purpose of the Report**

- The purpose of this report is to provide the Audit Committee with:
  - a. an overview of the timetable for publishing the 2022-23 Statement of Accounts; and,
  - b. an update on the Accounting Policies to be applied in the preparation of the 2022-23 Statement of Accounts.

2. **Recommendations**

- It is recommended that the Members of the Audit Committee:
  - a. note the key dates in the final accounts process for 2022-23.
  - b. approve the Accounting Policies to be used for the preparation of the 2022-23 Statement of Accounts.
  - c. authorise the Interim Executive Director of Finance to review the accounting policies as necessary and report any changes to the Audit Committee.

3. **Key Issues**

- **Year End Timetable**

  It is the responsibility of the Interim Executive Director of Finance to sign and certify the unaudited Statement of Accounts 2022-23 by no later than 31 May 2023.

  It is the responsibility of the Audit Committee to approve the final, or audited, set of accounts on or before 30 September, or as soon as reasonably practicable after the receipt of the external auditor’s final findings (if later).

- **Accounting Policies**

  The Accounting Policies applied in the preparation of the 2021-22 Statement of Accounts remain appropriate for the preparation of the 2022-23 Statement of Accounts. The CIPFA Code changes for 2022-23 are considered minor and there are no accounting policies which require amendment as a result of any changes in the Code.

  In November 2022, CIPFA/LASAAC issued an *Update to the Code and Specifications for Future Codes for Infrastructure Assets*, providing a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021-22 Code up to and including the Code applicable to the 2024-25 financial year but may also apply to local authority financial statements before this period where the auditor's opinion on those statements has not been given.

  Given the above, NCC has continued to prepare for the accounts on the basis of the 2022-23 Code as it stands. It is anticipated that the longer-term solution for the reporting of infrastructure assets will implemented from 1 April 2025, and in the intervening period NCC will consider its information systems and inventories of infrastructure assets and what potential improvements can be made to ensure that asset information is complete.

  The full list of accounting policies the Council proposes to disclose in its 2022-23 Statement of Accounts are detailed in Appendix A.

4. **BACKGROUND**

- **Year End Timetable**

  a. In December 2021, proposed measures were announced by Government to support the timely completion of local government audits and the ongoing stability of the local audit market. The proposals included extending the published/audited deadline to 30 November 2022 for the 2021-22 accounts, then reverting to 30 September for six years beginning with the 2022-23 accounts.

  b. The statutory deadline for the 2022-23 Statement of Accounts are as follows:

     - the responsible financial officer, by no later than 31 May, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, prior to the commencement of the period for the exercise of public rights (which includes the first 10 working days in June); and
     - on or before 30 September, approval needs to be given to the Statement of Accounts by resolution of a Committee, which for Northumberland County Council is the Audit Committee. This approval will take into account the views of the External Auditor.

- **Accounting Policies**

  a. In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.

  b. The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

  c. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2022. It supersedes the 2021-22 Code.

  d. In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21 (2) of the Local Government Act 2003.

  e. The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances.

  f. In November 2022, CIPFA/LASAAC issued an *Update to the Code and Specifications for Future Codes for Infrastructure Assets*, providing a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021-22 Code up to and including the Code applicable to the 2024-25 financial year but may also apply to local authority financial statements before this period where the auditor's opinion on those statements has not been given.

  g. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

  h. Accounting policies are defined in the Code as "the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements".

i. The proposed accounting policies are in line with those used in the preparation of the 2021-22 accounts.

j. The CIPFA code changes for 2022-23 are minor, and there are no accounting policies which require amendment as a result of these changes.

k. Members of the Audit Committee are requested to approve the Accounting Policies as shown within Appendix A.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The report considers the accounting policies for the County Council's Statement of Accounts 2022-23.
Human Resources:	None.
Legal:	It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Health & Wellbeing:	The Council's budget is founded on the principle of promoting inclusivity.
Wards:	All.

Background Papers:
Northumberland County Council Draft Statement of Accounts 2021-22

Report sign off
Authors must ensure that officers and members have agreed the content of the report:

	Full Name
Interim Monitoring Officer	Suki Binjal
Interim Executive Director of Finance & S151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
Interim Chief Executive	Rick O'Farrell
Portfolio Holder(s)	Richard Wearmouth

Suzanne Dent, Finance Manager

Telephone: 01670 625515 Suzanne.Dent@northumberland.gov.uk

Accounting Policy		**New policy**	**Amended policy**	**No change**	**In line with Code**
1.	General Principles			✓	✓
2.	Accruals of Income and Expenditure			✓	✓
3.	Exceptional Items			✓	✓
4.	Cash and Cash Equivalents			✓	✓
5.	Prior period Adjustments, Changes in Accounting Policies and Estimates and Errors			✓	✓
6.	Charges to Revenue for Non-Current Assets			✓	✓
7.	Pension Fund Accounts			✓	✓
8.	Employee Benefits			✓	✓
9.	Events after the Reporting Period			✓	✓
10.	Financial Instruments			✓	✓
11.	Foreign Currency Translation			✓	✓
12.	Government Grants and Contributions			✓	✓
13.	Heritage Assets			✓	✓
14.	Intangible Assets			✓	✓
15.	Interests in Companies and Other Entities			✓	✓
16.	Inventories			✓	✓
17.	Investment Properties			✓	✓
18.	Leases			✓	✓
19.	Non-current Assets Held for Sale			✓	✓
20.	Overheads and Support Services			✓	✓
21.	Property, Plant and Equipment			✓	✓
22.	Recognition			✓	✓

Accounting Policy		**New policy**	**Amended policy**	**No change**	**In line with Code**
23.	Measurement			✓	✓
24.	Impairment			✓	✓
25.	Disposals			✓	✓
26.	Depreciation			✓	✓
27.	Private Finance Initiative (PFI) and Similar Contracts			✓	✓
28.	Provisions, Contingent Liabilities and Contingent Assets			✓	✓
29.	Reserves			✓	✓
30.	Revenue Expenditure Funded from Capital Under Statute (REFCUS)			✓	✓
31.	Value Added Tax (VAT)			✓	✓
32.	Tax Income – Council Tax and National Non Domestic Rates			✓	✓
33.	Accounting for Schools			✓	✓
34.	Fair Value			✓	✓

Accounting Policies to be adopted for the Statement of Accounts 2022-23

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2022-23 financial year and its position at the year end of 31 March 2023. The authority is required to prepare an annual Statement of Accounts in line with the Accounts and Audit Regulations 2015. The Regulations require that they are prepared in accordance with proper accounting practices.

These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022-23, supported by International Financial Reporting Standards (IFRS).

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.

The accounts have been prepared on a going concern basis, on the basis of continued provision of services.

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:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- 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.
- 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;
- Interest receivable on investments and payable on borrowings are accounted for respectively on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and,
- 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.

The only exception to the adoption of accruals relates to accounting for income and expenditure by those schools that do not use the full functionality of the Council's finance systems and therefore account on a cash basis. This exception does not have a material impact on the accounts.

Accruals are recognised where the value exceeds £0.010 million.

3. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the financial statements, depending on how significant the items are to aid an understanding of the Council's financial performance.

4. 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 three months or less from the date of acquisition and 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.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policy 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 otherwise stated) 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.

6. 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:

- Depreciation attributable to the assets used by the relevant service.
- 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.
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction. This is shown within the Capital Adjustment Account and the Movement in Reserves Statement for the difference between the two.

7. Pension Fund Accounts

Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020.

The Merger Regulations removed Northumberland County Council from the LGPS Regulations as a body required to maintain a LGPS fund or prepare accounts from 1 April 2020. South Tyneside Council is the administering body for that Fund and the Tyne and Wear Pension Fund Accounts are presented in South Tyneside Council's Statement of Accounts only on this basis.

8. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council.

An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable at the 31 March. Any accrual made is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

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; and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement 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 termination benefits related to pensions 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.

Post-Employment Benefits

Employees and former employees of the Council are members of nine pension schemes:

- **The Local Government Pension Scheme** administered by South Tyneside Council;
- **The LGPS Unfunded Scheme** administered by Northumberland County Council;
- **The Teachers' Unfunded Scheme** administered by Northumberland County Council;
- **The 1992 Firefighters' Pension Scheme** administered by Northumberland County Council;
- **The 2006 Firefighters' Pension Scheme** administered by Northumberland County Council;
- **The 2015 Firefighters' Pension Scheme** administered by Northumberland County Council;
- **The Firefighters' Compensation Scheme** Pensions administered by Northumberland County Council;
- **The Teachers' Pension Scheme** administered by Capita Teachers' Pensions on behalf of the Department for Education; and,
- **The NHS Pension Scheme** administered by NHS Business Services Authority on behalf of the Department of Health.

These schemes provide members with defined benefits, earned as employees worked for the Council.

However, the arrangements for the Teachers' and NHS Pension Schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payment of benefits is recognised in the Council's Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to these schemes in the year.

The other seven schemes are accounted for as defined benefit schemes.

Local Government Pension Scheme

Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020.

The Merger Regulations removed Northumberland County Council from the LGPS Regulations as a body required to maintain a LGPS fund or prepare accounts from 1 April 2020. South Tyneside Council is the administering body for that Fund and the Tyne and Wear Pension Fund Accounts are presented in South Tyneside Council's Statement of Accounts only on this basis.

- The liabilities of the Tyne and Wear 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, and former employees, based on assumptions about mortality rates, commutation rates, and projected earnings for current employees, etc.
- Liabilities are discounted to their current value, using the appropriate discount rate (based on the rate of return on high quality corporate bonds).
- The assets of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
- quoted securities at current bid price
- unquoted securities at professional estimate
- unitized securities at current bid price
- property at market value.

The change in the Net Pensions Liability is analysed into the following components:

Component	Description

Service cost comprising:	
Current service cost	The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
Past service cost	The increase in liabilities arising 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 authority	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.
Remeasurement comprising:	
Return on 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 of changes in the actuarial assumptions from the previous year – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities – not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council in the year not the amount calculated in accordance with relevant accounting standards. There are appropriations to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional debits and credits for retirement benefits and replace them with debits for the employer contributions paid or payable in the year. The negative balance that arises on the Pensions Reserve thereby measures the beneficial 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.

9. 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:

- 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; and,
- 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.

10. Financial Instruments

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 then 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/loss over either the term of the replacement loan or the remaining term 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.

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 largely 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).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised in 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 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 loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), and, interest credited to the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be forgone 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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.

Financial Assets Measured at Fair Value through Other Comprehensive Income

The Council has elected to classify its equity shareholdings in Newcastle Airport Local Authority Holding Company Limited (NALAHCL) and Advance Northumberland Limited into a 'fair value through other comprehensive income' treatment, rather than 'fair value through profit or loss', as the assets are not held for trading.

The impact of the election is that movements in fair value will not be debited/credited to the Surplus or Deficit on the Provision of Services as they arise. Instead, movements will be accumulated in the Financial Instruments Revaluation Reserve until the asset is derecognised, at which point the net gain or loss would be transferred to the General Fund Balance.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

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.

11. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

12. 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 attaching 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 acquired using 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 Revenue Grants Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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 Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

13. Heritage Assets

Tangible and Intangible Heritage Assets (described here as “Heritage Assets”)

The Council’s Heritage Assets are held with the aim of increasing the knowledge, understanding and appreciation of the Council’s history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed; these rules together with the accounting treatment for heritage assets are as follows.

Museum, Art and Artefact Collection

The Council’s museum and art collections are reported on the Balance Sheet based on their insurance valuations, which are periodically reviewed.

The Council does not consider it appropriate to charge depreciation on the assets as they have high residual values and indeterminate lives.

The collection is relatively static and acquisitions and donations are rare. Where these do occur, acquisitions are initially recognised at cost and donations are recognised at valuation.

Public Sculptures and Memorials

Due to the nature of the assets held and the lack of comparable values, the Council considers that obtaining valuations for the vast majority of Public Sculptures & Memorials would involve a disproportionate cost in comparison to the benefits to the users of the Council’s financial statements. This is because of the nature of the assets held and the lack of comparable values. Other than recently acquired public art, which is held at cost, the Council does not recognise these heritage assets on the Balance Sheet.

These assets have indeterminate lives hence the Council does not consider it appropriate to charge depreciation.

Historic Buildings

Similar to community assets, the Council considers that obtaining valuations for this type of asset would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. The Council holds this class of asset at cost on the Balance Sheet.

Archaeology

Due to the diverse nature of the assets held and lack of comparable market values, the Council does not consider that reliable cost or valuation information can be obtained for archaeological assets. Consequently, the Council does not recognise these assets on the balance sheet.

The Council does not make any purchases of archaeological items.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. Heritage assets which have a doubtful provenance or are unsuitable for public display may be disposed of. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

14. Intangible Assets

Capital expenditure on non-monetary assets that do not have physical substance but are controlled by the Council (e.g. software licences), and are expected to have future economic benefits or service potential to the Council, are classified as intangible assets.

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 at cost. Amounts are only revalued where the fair value of the assets can be determined by reference to an active market.

Intangible assets are given finite useful lives, based on an assessment of the period that the asset is expected to be of use to the Council. The useful lives assigned to the major intangible asset types are:

Asset Type	Estimated Useful Life
Applications Software	5 Years
Library Management System & Housing Management System	5 Years

Fire Service call taking and mobilising system	5 Years
Vehicle Tracking System & Parking Enforcement Software	5 Years

The carrying amount of an intangible asset is amortised on a straight-line basis, over its useful life.

For statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. They 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 £0.01 million) the Capital Receipts Reserve.

15. Interests in Companies and Other Entities

The Council has material interests in companies that have the nature of subsidiaries and is required to prepare group accounts. In the Council's own single entity accounts the interests are recorded as financial assets at cost, less any provision for losses. In preparing the Group accounts, the following have been applied:

- All relationships within the scope of the Group accounts have been assessed;
- Transactions between the Council and its subsidiaries have been eliminated from the Group statement of accounts and accompanying notes; and,
- The financial statements of the subsidiaries are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 the Financial Reporting standard and this may give rise to difference in accounting treatment. Where material differences are identified, the subsidiary accounts are aligned to the accounting policy of the Council upon consolidation.

16. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

17. Investment Properties

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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. 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 and Expenditure 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 £0.01 million) the Capital Receipts Reserve.

18. 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.

The Council as Lessee

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 years 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 provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting 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).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain, representing the Council's net investment in the lease, is 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), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and,
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits 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 premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

19. Non-current Assets Held for Sale

Property assets where a disposal is highly probable within the next 12 months and the asset is available for sale in its present condition are classified as assets held for sale. Management must be committed to the sale within one year from the date of classification. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Subsequent decreases in fair value less costs to sell are charged directly to the Comprehensive Income and Expenditure Account. Gains in fair value are only recognised to the extent that they reverse a loss previously recognised in the surplus or deficit on provision of services. No depreciation is charged on assets held for sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets and valued at the lower of either:

- the carrying amount before classification as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, or,
- the recoverable amount at the date of the decision not to sell.

When an asset is disposed of the carrying amount of the asset on the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, alongside any receipts from the disposal.

Amounts received are categorised as capital receipts and credited to the Capital Receipts Reserve. 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 and is appropriated to the Capital Adjustment Account through the Movement in Reserves Statement.

Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

20. Overheads and Support Services

Corporate departments work within predetermined budgets and generally their costs are not distributed to service departments. The exceptions are primarily services funded by external grant or where the service operates within a ring-fenced budget, for example the Housing Revenue Account.

21. 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.

22. Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that 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. For General Fund items of property, plant and equipment, a de minimis level of £0.01 million is applied below which expenditure is charged directly to the Comprehensive Income and Expenditure Statement as it is incurred.

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.

23. Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- 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 not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current 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 current value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income 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;
- vehicles, plant and equipment - depreciated historical cost basis as a proxy for current value due to the short useful lives, or low value (or both), Energy from Waste PFI plant is valued at current value;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- surplus assets - current value, determined using the fair value approach by the measurement of the highest and best use value.
- all other assets – current value, determined using 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Assets included in the Balance Sheet at current value are revalued at least every 5 years to ensure that their carrying amount is not materially different from their current value at the year-end.

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.

24. Impairment

Assets are assessed each year for possible impairment. If a material impairment is identified a material change valuation is carried out to value the asset at its current value.

25. Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, alongside any receipts from the disposal.

Amounts received for a disposal in excess of £0.01 million are categorised as capital receipts and credited to the Capital Receipts Reserve, this can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). A proportion of receipts relating to housing is payable to the government.

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.

Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

26. 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).

The depreciation charge is applied on a straight line basis over the following periods:

Asset	Depreciation Period
Land & Buildings & Community Assets	4 to 40 years (as determined by the valuation officers)
(after deducting residual value)	
Infrastructure:	
Other	40 years
Surface Dressing	10 years
Vehicles, Plant and Equipment:	
CCTV equipment	3 to 30 years
Fire engines	10 to 15 years
Furniture and Fittings, ICT, other equipment	3 to 15 years
Grounds maintenance / car parking equipment	3 to 15 years
Other vehicles	3 to 10 years
Play / sport / gym equipment	3 to 20 years
Salt Barns	25 years
Solar Panels	25 years
PFI Assets:	
Buildings and Infrastructure	25 to 40 years
Waste Plant Shell & Equipment	3 to 50 years

Where an item of Property, Plant and Equipment has major components where the 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.

27. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge (with the exception of the energy from waste plant as it is deemed to have negligible value at the end of the period), the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge applied to the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability due to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

28. Provisions, Contingent Liabilities and Contingent Assets

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 in the year that the Council becomes aware of the obligation, and 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.

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.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council 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 Council.

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.

29. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund

Balance in the Movement in Reserves Statement 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 and retirement benefits and do not represent usable resources for the Council – these reserves are explained therefore in the relevant policies below.

30. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but 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.

31. Value Added Tax (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.

32. Tax Income - Council Tax and National Non Domestic Rates (NNDR).

Council Tax and NNDR income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year.

Council Tax and NNDR income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a Billing Authority, the difference between the Council Tax and NNDR included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

Council Tax and NNDR income is recognised when the obligating event that triggers the payment to the Council has taken place; it is probable that the economic benefits or service potential associated with the transaction will flow to the Council; and the amount of revenue can be measured reliably.

Revenue relating to Council Tax and NNDR is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

33. Accounting for Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) are considered to be entities controlled by the Council and are recognised in the Council's single entity accounts. Therefore all schools' transactions, cash flows and balances are recognised in each of the financial statements.

Schools' non-current assets (school buildings and playing fields) are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body own the assets or have had rights to use the assets transferred to them through a licence arrangement.

When a maintained school converts to an Academy, the schools non-current assets held on the Council's balance sheet are treated as a disposal. The carrying value of the asset is written off to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy 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.

34. Fair Value

The Council measures some of its non-current assets such as surplus assets and Investment Properties and some of its financial instruments such as equity share holdings at fair value at the 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:

- in the principal market for the asset or liability; or,
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The measurement 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 valuation of these assets and liabilities, use appropriate techniques for each circumstance, maximising the use, relevant known data, and minimising the use of estimates.

To increase consistency and comparability in fair value measurement and related disclosures, the inputs to valuation techniques used to measure fair value are categorised into three levels:

- **Level 1** inputs - unadjusted quoted prices in active markets for items identical to the asset being measured.
- **Level 2** inputs – inputs other than those in level 1 that are directly or indirectly observable.
- **Level 3** inputs – unobservable inputs for the asset or liability.

Northumberland County Council

COMMITTEE: **AUDIT COMMITTEE**

DATE: **25 JANUARY 2023**

ANNUAL GOVERNANCE REVIEW AND DRAFT ANNUAL GOVERNANCE STATEMENT 2021/22

Report of Jan Willis, Interim Executive Director of Finance & Section 151 Officer

Cabinet Members: Councillor Glen Sanderson, Leader of Council

Purpose of report

The purpose of this report is to enable the Audit Committee to review the draft Annual Governance Statement for 2021-22 and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Recommendations

It is recommended that Audit Committee:

- Approve the draft Annual Governance Statement (shown in Appendix A); and
- Agree to the draft Annual Governance Statement being published on the Council's website alongside the draft statement of accounts and reviewed by the Council's external auditors as part of the 21-22 Audit.

Link to Corporate Plan

Effective governance arrangements are critical to the delivery of all priorities in the Council's Corporate Plan which was refreshed and agreed by Council in February 2022.

Key issues

Under the Accounts and Audit Regulations 2015, the Council must ensure that it has a sound system of internal control, which:

- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- Ensures that the financial and operational management of the authority is effective; and,

- Includes effective arrangements for the management of risk.

The 2015 Regulations also require that the Council reviews (at least annually) the effectiveness of those systems of internal control, to ensure that governance arrangements are up to date and relevant.

The outcome of that review must be considered by a committee of the Council and published in the Annual Governance Statement (AGS), alongside the Statement of Accounts.

The Audit Committee has responsibility for reviewing the Council's corporate governance arrangements against the good governance framework and for considering annual governance reports and assurances.

Background

Local authorities are required to prepare an annual governance statement to publicly report on the extent to which they comply with their own code of governance. This includes how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming year. In essence, the AGS is an accountability statement from the Council to its stakeholders on how well it has delivered on governance over the course of the previous year.

The AGS should provide a meaningful but brief communication regarding the review of governance that has taken place. It should be high level, strategic and written in an open and readable style. The AGS does not need to describe in detail the key elements of an authority's governance arrangements if they are already easily accessible by the public, such as through the authority's code of governance. The AGS should be signed by the Chief Executive and Leader of the Council and approved by a resolution of a Committee or Full Council. In Northumberland, approval of the AGS has been delegated to the Council's Audit Committee.

An independent governance review was requested by the Leader of Council and subsequently commissioned in February 2022 ("the Caller Review"). This was in response to the Administration's concerns with the Council's corporate governance arrangements.

Subsequently, on 23 May 2022 the Interim Executive Director of Finance and Section 151 Officer issued a Section 114 Notice in relation to the following matters as she believed that unlawful expenditure had been incurred by the Council:

- The expenditure incurred by the Council's International business established in 2017. The International business had been trading commercially as part of the Council and without appropriate approvals, or via a Council company; and,
- The payment of an annual International Allowance of £40,000 (plus oncosts) to the Council's Chief Executive and Head of Paid Service which had been paid since 2017. This allowance in the opinion of the Interim Executive Director of Finance and Section 151 Officer had never been properly authorised and, was contrary to the Council's pay policy statement.

The Independent Review of Governance ('Caller Review') in February 2022 reported to Full Council on 8th June 2022. The final report of the 'Caller Review' identified serious failings in governance and made recommendations for improving and strengthening the governance of the Council. An action plan was agreed for addressing these recommendations. Oversight arrangements have also been established to advise on and oversee delivery of the action plan.

The draft Annual Governance Statement (AGS) for 2021-22 takes account of the S114 Notice, the final report of the Caller Review, the resolution of employment issues with the Chief Executive and, updates to the Code of Conduct as well as ongoing work on the Whistleblowing Policy. The draft AGS is set out at Appendix A.

Implications

Policy	Effective corporate governance supports the delivery of the Council's priorities, as outlined in the Corporate Plan.
Finance and value for money	There are no direct financial implications associated with this report. However, financial planning and management are key components of effective corporate governance.
Legal	The governance review process and publication of an Annual Governance Statement ensures that the Council discharges its statutory duties under the Local Government Act 1999 and the Accounts and Audit Regulations 2015. The Local Code of Corporate Governance enables the Council to demonstrate how it complies with the CIPFA/SOLACE 'Delivering Good Governance In Local Government Framework (2016)' It is the role and function of the Audit Committee to review the Council's corporate governance arrangements against the good governance framework including the approval of the Annual Governance Statement.
Procurement	None
Human Resources	None
Property	None
Equalities (Impact Assessment attached) Yes ☐ No ☐ N/A ☒	None
Risk Assessment	There are no direct risks associated with this report, but the assessment of corporate risk is a key component of the Council's governance arrangements.
Crime & Disorder	None
Customer Consideration	None

Carbon reduction	None
Health and Wellbeing	None
Wards	All Wards

Background papers:

None

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

	Full Name of Officer
Interim Monitoring Officer/Legal	Suki Binjal
Interim Executive Director of Finance & S151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
Interim Chief Executive	Rick O'Farrell
Portfolio Holder(s)	Cllr Glen Sanderson, Leader of Council

Author and Contact Details

Jan Willis
Executive Director of Finance & S151 Officer
email: Jan.Willis@northumberland.gov.uk

APPENDIX A

Draft Annual Governance Statement

For year ended 31 March 2022

Foreword

The past two years have been profoundly challenging for communities across Northumberland, largely due to the social, health and economic pressures resulting from the Covid Pandemic. The Council, working with partners, responded well to Covid, ensuring a successful Public Health response as well as supporting residents and businesses to deal with the restrictions and economic pressures. As we continue to recover from Covid and are faced with new challenges the Council will continue to deliver the high-quality services our residents need, supporting and protecting the people who need help and, doing all we can to help communities and businesses to thrive.

Our Corporate Plan sets out the Council's priorities for delivering for all our communities in the coming years, building on what we have achieved so far.

All of our services and functions as well as our partnership working will be harnessed to deliver on the Corporate Plan priorities. Our Budget and Medium-Term Financial Plan sets out how our spending plans will contribute to achieving our priorities.

Effective corporate governance is essential to support the Council in meeting these challenges.

All of our residents and service users, together with our suppliers and partners, must be able to have confidence in our governance arrangements; that our ways of working enable us to provide the right services effectively and efficiently and on a consistent basis, and that we take informed, transparent and lawful decisions. They must also be assured that we properly account for the money we receive and spend.

During the latter part of 2020 and early 2021 it became apparent that there were weaknesses in the Council's corporate governance arrangements. Accordingly, an independent governance review was requested by the Leader of Council and subsequently commissioned in February 2022 ("the Caller Review"). This was undertaken on a basis akin to a Best Value governance inspection. Mr Caller's report, which was received by Council on 8 June 2022, highlighted a number of areas of concern and made recommendations for addressing these issues.

Following this, during June and July 2022, the Council moved swiftly to respond to the recommendations in the 'Caller Review' report. A cross-party Member Task & Finish Group was established to develop an action plan that will implement the Caller Report recommendations in full. This action plan was reported to and agreed by Council in July 2022. Delivery of the action plan commenced from July 2022 with detailed work packages for each action (outlining milestones and resources for delivery) have been developed. The following oversight and support arrangements continue to shape, advise and oversee the delivery of the action plan:

- An external Challenge Board has been established. This is made up of external experienced, senior local government officers, Local Government Association and Members (retired and current). The Challenge Board acts as a 'critical friend' for the Council as it delivers on its improvement plan, providing external support and assurance.
- A Members' Oversight Group (formerly the 'Task & Finish Group' that developed the action plan) provides cross-party oversight of the work needed to ensure the Governance Review recommendations are met and provide updates to Full Council.
- A Programme Group has been established and is responsible, on behalf of the interim Chief Executive Officer and Executive Team, for delivering the activities needed to meet the recommendations of the Governance Review. This group reports to the Members' Oversight Group as well as supporting the work of the external Challenge Board.
- Full Council receives regular update reports to its scheduled meetings.

Prior to the 'Caller Review', we had highlighted opportunities for improvement, identified through our monitoring and review arrangements. We will continue to ensure the necessary actions are taken to address these. In some instances, this improvement work has been re-profiled and integrated to the work of the Caller Action Plan (set out above) to ensure the Caller Review recommendations are delivered in a joined-up way.

Alongside the Independent Review of Governance ('Caller' Report), on 23 May 2022 the Interim Executive Director of Finance and Section 151 Officer issued a Section 114 Notice in relation to the following matters as she believed that unlawful expenditure had been incurred by the Council:

- The expenditure incurred by the Council's International business established in 2017. The International business had been trading commercially as part of the Council and without appropriate approvals, or via a Council company; and,
- The payment of an annual International Allowance of £40,000 (plus oncosts) to the Council's Chief Executive and Head of Paid Service which had been paid since 2017. This allowance in the opinion of the Interim Executive Director of Finance and Section 151 Officer had never been properly authorised and was contrary to the Council's pay policy statement.

These matters are referenced in the post 2021/22 events section of this Appendix.

What is Corporate Governance?

Good Governance in the public sector means:
‘**achieving intended outcomes while acting in the public interest at all times’**

Corporate Governance refers to the processes by which organisations are directed, controlled, led and held to account. It is also about culture and values.

The Council’s Corporate Governance arrangements aim to ensure that it:

- Operates in a lawful, open, inclusive and honest manner;
- Safeguards public money and assets from inappropriate use, loss or fraud, and ensures that they are properly accounted for and uses its resources economically, efficiently and effectively;
- Has effective arrangements for risk management;
- Secures continuous improvements in the way it operates;
- Properly maintains records and information; and,
- Ensures that its values and ethical standards are met.

What this Statement tells you

This Statement describes the extent to which the Council has, for the year ended 31 March 2022, complied with its Local Code of Corporate Governance and the requirements of the Accounts and Audit Regulations 2015.

It also describes how the effectiveness of the governance arrangements has been monitored and evaluated during the year and sets out any changes planned for the 2022-23 period.

The statement has been prepared in accordance with guidance produced in 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) - the ‘Delivering Good Governance in Local Government Framework’. It embraces the elements of internal control required by the ‘Code of Practice on Local Authority Accounting in the United Kingdom’ (CIPFA).

How this Statement is prepared

In preparing the Annual Governance Statement the Council has:

- Reviewed the Council's existing governance arrangements against the revised CIPFA / SOLACE 'Delivering Good Governance in Local Governments framework – 2016 Edition' good practice guidance;
- Ensured the Council's Local Code of Corporate Governance reflects this guidance which includes the seven principles of good governance and the actions and behaviours taken by the Council that demonstrate good governance;
- Assessed the effectiveness of the Council's governance arrangements against the Local Code of Corporate Governance, and,
- Taken account of a number of significant post 2021/2022 events. These are set out in the relevant sections in this document as well as at the end of the document in the section entitled 'Post 2021/22 Events'

The annual assessment of the effectiveness of the processes contained within the Local Code of Corporate Governance includes assessments such as:

- Service level review of Governance arrangements;
- Review of the Corporate risk Register;
- Review of the Constitution;
- Review of the opinion of the Head of Internal Audit;
- Review of external Audit Annual ISA 260 Report;
- Review of reports from External Inspectorates;
- Review of the 2020-21 Improvement Plan;
- Review of Governance arrangements of subsidiary companies.

1 The Council's Governance responsibilities

The Council is responsible for ensuring it conducts its business in accordance with the law and to proper standards, and that public money is properly accounted for and is used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiency and innovation.

To meet these responsibilities, the Council acknowledges its duty to have in place sound and proper arrangements for the governance of its affairs, including a reliable system of internal control, and for reviewing the effectiveness of those arrangements. This also applies to the Council's wholly owned subsidiary, Advance Northumberland, an arm's length company which is the Council's primary regeneration delivery vehicle as well as Northumberland Enterprise Holdings Ltd.

The Council's Local Code of Corporate Governance, produced in accordance with the governance guidance produced by CIPFA and SOLACE, states the importance of good corporate governance and sets out its commitment to the principles involved.

The Code is available on our website:
www.northumberland.gov.uk

Northumberland County Council Governance Code
Principles of Corporate Governance

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
B. Ensuring openness and comprehensive stakeholder engagement;
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 risk and performance through robust internal control and strong public financial management;
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

2 The Governance Framework

The Governance Framework consists of the systems and processes by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It also includes our values and culture.

It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost-effective services.

As the Council improves the way it provides services, it is important the governance arrangements remain robust whilst being proportionate and able to adapt to changing circumstances.

To review the effectiveness of the governance framework, assurances are provided, and challenged by the Audit Committee, Scrutiny Committees, Cabinet or Council as appropriate. Key elements of the Governance Framework are highlighted on the next pages.

It's simply not possible for any governance framework, by itself, to eliminate all risk of failure to meet targets in our policies, aims and objectives. Instead, it provides **reasonable** and not **absolute** assurance of effectiveness.

The Three Lines of Defence in effective Risk Management and Control

Assurance can come from any sources within the Council. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance.

By defining these sources into three categories, this helps the Council understand how each contributes to the overall level of assurance and how best they can be integrated and supported. These are

- **First Line** - functions that own and manage risks, e.g. management and supervisory controls;
- **Second Line** - functions that oversee risks, e.g. governance structures and processes such as Audit Committee, Scrutiny, Boards;
- **Third Line** - functions that provide independent assurance on the management of risks, e.g. OFSTED, Internal/External Audit).

The table below summarises the Council's Governance Assurance Framework, which is based on the Three Lines of Defence model:

Annual Governance Statement (AGS)
Audit Committee

Leader, Cabinet Members, Chief Executive, Chief Financial Officer, Monitoring Officer, Executive Team
(provides oversight of the Three Lines of Defence assurance framework)

2nd Line of Defence Oversight and Support Strategy / Policy / Direction setting, decision-making, assurance oversight	1st Line of Defence Business & Operational Management Delivering objectives, identifying risks and improvement actions, implementing controls, progress reporting, provides management assurance, ensuring compliance.	3rd Line of Defence Independent Assurance Independent challenge and audit, reporting assurance, audit opinion assurance levels
Committee and Scrutiny Functions	Operational Management and Staff	Internal Audit
Senior Management Functions	Managing Performance and Data Quality	External Audit
Quality Control Checks	Programme and Project Management	External Inspections
Risk Management	Delivery of Service Plans	Review Agencies
Functional compliance (Information Management, HR, Legal, Procurement and Financial Management)		Regulators

The Council Plan

The Council's Corporate Plan (2021-24) was refreshed and was adopted in February 2022 and covers the period up to 2024 alongside the Budget and Medium-Term Financial Plan. The current Plan identifies the following priority areas:

- **Thriving** - We will vigorously secure more and new investment and good quality jobs into the County;
- **Living -** We will care for our residents, support the most vulnerable in our society and help people to live healthy lives;
- **Learning -** We will ensure the best education standards for our children and young people;
- **Enjoying -** We will maintain, protect and enhance the environment, prioritising our commitments on Climate Change;
- **Connecting -** We will deliver high-quality services in all our communities and secure investment in housing and transport across the County;
- **How -** In everything we do, we will listen to and communicate with residents, businesses and partners and, ensure value for money in our services. We will pull our weight regionally and nationally, working with our partners to secure maximum benefit for residents and businesses.

In June 2022, the 'Caller Report' made specific recommendations on how the Council's Corporate Plan could be strengthened alongside improvements to service planning, performance management as well use of data and intelligence. This is dealt with in the Post 2021/22 Events section of this Statement. Following this, the Council is currently reviewing and re-writing its Corporate Plan which will embed three key priorities:

- Tackling inequalities;
- Ensuring growth and jobs; and,
- Delivering value for money services.

Each service prepares a Service plan annually setting out its priorities in delivering the Council's Corporate Plan together with a Corporate Performance framework identifying key measures of performance, current and targeted performance levels.

The Council's Local Plan sets out the long-term spatial vision and strategic planning policies of the Council. It identifies the scale and distribution of new development which is required to deliver the Council's economic growth ambitions. It also provides the strategic planning principles that will be used to inform Neighbourhood Development Plans across Northumberland.

The Northumberland Local Plan was submitted to the Government in May 2019, and an Inspector was appointed to undertake the independent examination of the plan. The Inspector's role was to determine whether or not the Local Plan is sound and complies with all relevant legal requirements. Following the Examination Hearing Sessions, the Inspector concluded that the Plan could be made 'sound' through modifications. Following consultation on the modifications to the Local Plan, the

Inspector issued her final report on the Local Plan, and the Local Plan was adopted by the Council on 31st March 2022.

Evaluating Performance

The Council's Performance Management framework is published on the website and performance information is updated regularly. Performance is reported quarterly and Key Performance Indicators are reviewed annually. In addition to operational service delivery indicators, workforce data is included in quarterly and annual Corporate Performance reports. Publicly available reports map the information to services, Corporate Plan priorities, Cabinet member portfolios and Scrutiny committees.

Finance officers meet regularly with budget holders across the Council and prepare a monthly financial monitoring statement. Cabinet receives quarterly finance and performance updates. There are also quarterly reports to Cabinet on financial performance of Council-owned companies.

The Workforce Committee continues to provide regular scrutiny, challenge and accountability for all workforce related improvement initiatives. Monthly publication of workforce intelligence data and performance reports is used to monitor and steer improvement actions.

At a service level, regular, regulatory inspections of Adult and Children's Services by Ofsted and CQC continue as part of the programme of inspections by the relevant bodies. Reports are provided to the Audit Committee, informing Members of findings and providing assurance of how the actions resulting from inspections are implemented and monitored.

The Ofsted inspection of Children's Social Care in January 2020 was recognised as 'Good' across all areas.

His Majesty's Inspectorate of Constabulary and Fire and Rescue Service (HMICFRS) conducted an assessment of Northumberland Fire and Rescue Service during 2021/22. As a benchmark had been determined during inspections undertaken in 2018/19, the same methodology was applied. The Service was assessed against the following three pillars:

Effectiveness - including prevention, protection, resilience, and response;

Efficiency - How well it provides value for money, allocates resources to match risk, and collaborates with the Police and Ambulance services; and

People - How well it promotes its values and culture, trains its staff and ensures they have the necessary skills, ensures fairness and diversity for the workforce and develops leadership and service capability.

Despite Northumberland Fire and Rescue Service being judged as 'requires improvement' across all three pillars, inspectors saw significant progress. HMI of Fire and Rescue Services stated 'The Service has made significant improvements since our last inspection in 2019. It has made progress against most of the areas for improvement we found two years ago.'

The Service received 25 areas for improvement and the Service has appointed a Continuous Improvement and Inspection Manager, who oversees a Continuous Improvement Plan. Using the plan, senior officers monitor progress against all areas for improvement monthly, as part of the Service's Performance and Assurance Framework. The Continuous Improvement Plan has been approved by Northumberland County Council Internal Audit Team.

In addition, the Service received a Cause of Concern regarding the management of dual contracts. These are for firefighters who have both a wholetime and on-call contract. The Service was asked to address the Cause of Concern and was revisited in March 2022 by inspectors. The re-visit team found that 'The robust plans that the service now has in place in response to this cause of concern reflect its determination and commitment to make the improvements that are needed'. They found the cause of concern complete.

HMICFRS are expected to deliver their third full inspection on Northumberland Fire and Rescue Service during the summer of 2023.

The Independent Review of Governance (‘Caller Review’) which reported to an extraordinary meeting of Full Council in June 2022, set out recommendations on how the Council must review and strengthen its processes for managing data & information as well as performance reporting. These are dealt with in the Post 2021/22 Events section of this Statement.

Managing Risk

The management of risk is key to achieving what is set out in the Council Plan and to ensuring that we meet all our responsibilities.

Our Risk Management Policy is fundamental to the system of internal control and forms part of a sound business operating model. It involves an ongoing process to identify risks and to prioritise them according to likelihood and impact.

The Council has a process to manage risks and assist the achievement of its objectives, alongside national and local performance targets. The process is reviewed and updated on a regular basis with reference to available good practice and to ensure it reflects the rapidly changing environment in local government.

The risk management process includes a hierarchy of corporate, service strategic and operational risk registers and allows for dynamic escalation and de-escalation of risks, so that risks are managed at the appropriate level of the organisation. Project risks may impact and be owned and managed at any level.

Audit Committee is responsible for monitoring the effective development and operation of risk management in the Council. Corporate risks are ‘owned’ by the nominated Executive Team Officer and the designated Cabinet Member with relevant portfolio responsibility. Corporate risks are subject to review twice per year and are presented to Executive Team and Cabinet portfolio holders for discussion, challenge and agreement.

As well as these risk arrangements, there also exists cross-cutting arrangements to address specific areas of risk on a time-limited basis (e.g. the COVID-19 response) or through corporate standing groups (e.g. health and safety and information governance).

The Corporate Risk Register plays a critical role in supporting achievement of priorities as set out in the Corporate Plan. Key risks identified and being management at a corporate level are highlighted below:

Corporate Level Risks 2021-22

1. Financial Assumptions

2. Engagement of Communities

3. Economic Inclusion

4. Organisational Development/Workforce

5. Civil Contingency and Business Continuity

6. Corporate Compliance

7. Information Governance

8. Multiple and Concurrent High-profile Large-scale Capital Projects

9. Contract Management

10. Response to Climate Change

11. Northumberland Enterprise Holdings Limited

12. Regeneration

13. Covid-19 Outbreak Prevention and Control Plan

14. Covid-19 Recovery

15. Exceptional Governance Matters

16. Advance Northumberland

Covid-19

The Covid pandemic had profound impacts on individuals, families, communities and businesses in every part of Northumberland. At the time of writing, all restrictions on normal, daily life in England have been lifted. The vaccination programme in the UK appears to have broken the link between increasing cases and high numbers of hospital admissions. National and local government as well as other agencies continue to encourage people to take safe and sensible measure to limit the rate of infection and new cases.

Throughout the pandemic, our governance arrangements enabled the Council to maintain the services residents need every day, supporting and protecting the people who need help and, doing all we can to help businesses survive, recover and thrive once again. Indeed, in many cases frontline services maintained their normal levels of service, albeit with changes to delivery.

Decision Making and Responsibilities

The Council consists of 67 elected Members, with a Cabinet of Leader, Deputy Leader and Portfolio members. The decisions of Cabinet are scrutinised and shaped by the Council's Scrutiny Committees.

The Council has also established five Local Area Councils which cover: North Northumberland; Tynedale; Castle Morpeth; Cramlington, Bedlington and Seaton Valley; and Ashington and Blyth. Their overall aim is to empower residents, strengthen communities and improve services.

The key document supporting the Council's governance arrangements is the Constitution. This sets out how the Council operates, how decisions are made, as well as the rules and procedures that must be followed to ensure that work is efficient and transparent and, the Council is accountable to local people. The Council as a whole is responsible for agreeing the Constitution, and any amendments require the agreement of Full Council.

To ensure the Constitution is up to date and fit for purpose, the Council has established a Constitution Working Group. This is a cross-party Member working group. The work of the Group is determined by the areas of review proposed by Members; there is an open invitation to all members to add to the Constitution Working Group's work plan. The reports and recommendations of the Constitution Working Group are reported to Full Council for review and agreement.

The Constitution sets out the functions of key governance officers, including the statutory posts of 'Head of Paid Service' (Chief Executive), 'Monitoring Officer' and 'Section 151 Officer' (Executive Director of Finance). It sets out the respective roles of these officers in ensuring processes are in place for enabling the Council to meet its statutory obligations and, also for providing advice to Members, officers and committees on staff management, financial, legal and governance issues.

Decisions are made by Cabinet, working within the agreed budget and policy framework. The Cabinet is held to account by the Council's Overview and Scrutiny

Committees. To enable a more streamlined process, responsibility for certain decisions is delegated to chief and senior officers, in line with powers set out in the Constitution.

The key roles of those responsible for the Governance Framework in Northumberland are outlined in the diagram below.

The Council	Approves the Council Strategy. Approves the Constitution (including Standing Orders and Financial Regulations). Approves key policies and budgetary framework.
Cabinet	The main decision-making body of the Council. Comprises eight Cabinet Members (including the Leader) and three deputy Cabinet Members who have responsibility for their respective portfolios.
Audit Committee	Provides independent assurance to the Council on the adequacy and effectiveness of the governance arrangements, risk management framework and internal control environment. Promotes high standards of member conduct. Approves the Annual Statement of Accounts and Annual Governance Statement.
Scrutiny Committees	There are four overview and scrutiny committees which support the work of the Cabinet and the Council as a whole. These allow citizens to have a greater say in Council matters by holding inquiries into matters of local concern. They hold Cabinet and Officers to account and scrutinise performance.
Executive Team	Implements the policy and budgetary framework set by the Council and provides advice to Cabinet and Council on the development of future policy and budgetary issues. Oversees the implementation of Council Policy.
Chief Financial Officer (s151)	Accountability for developing and maintaining the Council's governance, risk and control framework. Contributes to the effective corporate management and Governance of the Council.
Monitoring Officer	To report on contraventions or likely contraventions of any enactment of rule of law. To report on any maladministration or injustice where the Local Government Ombudsman has carried out an investigation.

	To establish and maintain registers of member interests and gifts and hospitality. To advise members on the interpretation of the Code of Conduct for Members and Co-opted Members. Overall responsibility for the maintenance and operation of the Confidential Reporting Procedure for employees (Whistleblowing) and, contributes to the effective corporate management and governance of the Council.
Internal Audit	Provides independent assurance and annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework. Delivers an annual programme of risk-based audit activity, including counter fraud and investigation activity. Makes recommendations for improvements in the management of risk.
External Audit	Audit / review and report on the Council's financial statements (including the annual Governance Statement), providing an opinion on the accounts and use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).
Managers	Responsible for developing, maintaining and implementing the Council's governance, risk and control framework. Contribute to the effective corporate management and governance of the Council.

In June 2022, the report of the Independent Governance Review (The 'Caller Report') recommended that the Council "*review and redraft the Constitution to ensure that decisions that should be taken at Member level, by Cabinet, Committee, Individual Member or Full Council are clearly identified and that the recording and scrutiny of officer decisions, both individually and in aggregate, is unambiguous*". This review and redraft of the Constitution is underway as part of the Council's Improvement Plan. This is dealt with in the Post 2021/22 Events section of this Statement.

Open Policy and Decision-making

Meetings are normally held, and decisions agreed in public, although, where appropriate, a small number of decisions are considered in private where commercially sensitive, confidential or otherwise exempt matters are being discussed. All reports considered and the minutes of decisions taken are, unless confidential, made available on the Council's website. Reports follow a standard template, ensuring corporate implications are considered and highlighted.

The Council's Forward Work Programme is published on the website and contains information about all matters that are likely to be the subject of a decision taken by the Council during the forthcoming four-month period.

Pay Policy

The Interim Monitoring Officer brought to the Council's attention in January 2022 that the existing Pay Policy Statement 2021 was at variance with the Terms of Reference of the Staffing and Appointments Committee and the Employment (Appeals) Committee in relation to the exercise of certain employment functions and, also was not compliant with the Local Government Standing Order Regulations 2001.

Equality

We are an accessible and inclusive organisation and welcome and respect the diversity of all people visiting, living and working in the county. As part of our duty under the Equality Act 2010, the Council publishes equality objectives every four years. These set out our equality priorities regarding employment practices and the way we provide services.

Any new Council policy, proposal or service, or any change to these that affects people must be the subject of an Equality Impact Assessment to ensure that the equality issues have been properly considered throughout the decision-making processes.

Financial Management, Procurement and Value for Money

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This ensures proper stewardship and governance, and the adequacy and effectiveness of these arrangements are reviewed regularly.

For the 2021-22 financial year, the Council set a balanced budget and after accounting for transfers to earmarked reserves and provisions has delivered an outturn overspend of £97,000, in the context of overall net expenditure of £401.18m.

The Council established an Innovation and Improvement Team during 2019/20, to support continuous review and improvement. The work of the Improvement and Innovation Team supports the Council to deliver efficient, sustainable and value for money services for its residents. A number of service reviews have already taken place on high priority areas identified by members and executives. During 2022 the Council made the decision to embark on a Strategic Change Programme and service reviews going forward will be aligned to focus and support this work over the next three years. The first phase of the Strategic Change Programme was an assessment resulting in a draft strategic business case outlining seven proposed workstreams for the Council to prioritise which will deliver the biggest impact over the next three years.

The Procurement function provides an important contribution to the development of new service delivery models, controls costs, achieving savings and delivering value for money solutions.

The Procurement Shared Service arrangement between Northumberland County Council and Northumbria Healthcare NHS Foundation Trust ended on 31st August 2021 following mutual agreement to enable each organisation to focus on their individual procurement requirements.

With the end of the Shared Service, the immediate priority is to maintain service continuity to both organisations post transfer. In parallel, a new Procurement Strategy was developed together with a review of the Contracting team to ensure the Service continues to fully support the Council's corporate objectives.

Indicators of Financial Stress

In 2022, CIPFA published its latest Financial Resilience Index for all English local authorities, measuring performance across nine financial ratios. The Financial Resilience Index for the Council for the year 2020/21 shows the following levels of risk across the nine primary indicators set out below:

- Reserves Sustainability Measure (Medium risk)
- Level of Reserves (Lower risk)
- Change in Reserves (Lower risk)
- Interest Payable / Net Revenue Expenditure (Higher risk)
- Gross External Debt (Higher risk)
- Social Care ratio (Lower risk)
- Fees & Charges to Service Expenditure Ratio (Lower risk)
- Council Tax Requirement/Net Revenue Expenditure (Lower risk)
- Growth Above Baseline (Medium to Lower risk)

The Executive Director of Finance is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972. Our financial management arrangements are compliant with the governance requirements set out in the Chartered Institute of Public Finance and Accountancy's 'Statement on the Role of the Chief Financial Officer in Local Government' (2016).

There are robust arrangements for effective financial control through our accounting procedures, key financial systems and the Finance and Contract Rules. These include established budget planning procedures, which are subject to risk assessment, and budget monitoring reports to Cabinet. Our Treasury Management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review.

Managing Information

Information is an asset at the heart of all Council decision-making processes, and it is therefore vital we manage it throughout its lifecycle. Information governance is the framework of law and best practice that regulates the way information and data is managed, obtained, handled, used and disclosed.

The Council is a registered Data Controller with the Information Commissioner's Office (ICO) and we have a robust Information Governance Framework. Our framework sets out the roles, responsibilities, policies and procedures, along with best practice and standards adopted to manage our information and data assets. it also describes the approach to assurance and risk management.

As a Council we recognise our responsibilities to ensure information is available to the right person, in the right format at the right time to achieve accurate, reliable decisions that inspire confidence and transparency in our decision-making processes.

The Council's website provides details on information governance including the council's policies covering data protections, freedom of information, environmental information regulations and records management. The Publication Scheme advises the public about how to get the information they seek from the Council and the transparency pages on the website meet the requirements of the Local Government Transparency Code 2015.

The Council were notified of a number of data breaches within the financial year 2021/22. These were all registered within the Council as personal data breaches and comprehensively investigated. Security measures were reviewed and enhanced to protect information and assets across the Council's IT infrastructure to minimise risks.

The Independent Review of Governance ('Caller Review') which reported to an extraordinary meeting of Full Council in June 2022, set out recommendations on how the Council must review and strengthen its processes for managing data & information as well as performance reporting. These are dealt with in the Post 2022/22 Events section of this Statement.

Audit and Audit Assurances

The County Council had since 2010/11 operated a Shared Internal Audit and Risk Management service jointly with North Tyneside Council, which has acted as host authority. A decade into the shared arrangement it was timely to consider whether this service delivery vehicle still met the needs of each partner authority.

Over the period since 2010/11 there was significant change within the wider local government sector and the environment within which local government operates has also altered. Shared service models of delivery are now implemented much more seldomly than a decade ago. Accordingly, following discussion between the Chief Executives of the two authorities in 2020/21 and subsequently, it was jointly decided to bring the shared service to an end. This ended formally on 31 March 2022 Plans were put in place to return Internal Audit and Risk Management to the direct management of each respective authority.

The Council's Internal Audit and Risk Management Service operates in accordance with the Accounts and Audit Regulations 2015, the Public Sector Internal Audit Standards (revised April 2017) and the related Local Government Application Note published jointly by the Chartered Institute of Public Finance and Accountancy and Institute of Internal Auditors (revised February 2019).

Following consultation with stakeholders and assessment of risk, a Strategic Audit Plan is presented annually to the Audit Committee to consider and review the planned work and coverage proposed by the Chief Internal Auditor, who is autonomous in determining how Internal Audit resources will be deployed and who is bound by legislation and professional standards in delivering an effective Internal Audit. There are reports to the Audit Committee on the key outcomes of Internal Audits completed on a bi-annual basis with a summary of audits undertaken, opinion levels, good practice identified, issues identified and actions taken since the audit was completed.

Internal Audit also provide assurance to Audit Committee that audit recommendations have been implemented. Internal Audit also has responsibility for investigating possible irregularities. The aim is to give assurance to management and members that key processes operate in an efficient and effective manner and ensure the integrity of transactions.

The overall opinion on the organisation's internal systems of governance, risk management and control was reported to Audit Committee in May 2022 (before the publication of the 'Caller Report') and contains the following statement:

"Internal Audit's work performed during 2021/22 found that the County Council's internal systems of control and risk management are satisfactory overall. This judgement is informed by the outcomes of Internal Audit work during 2021/22 and recognises the 'significant assurance' or 'full assurance' audit opinions issued in relation to the County Council's key financial systems during the year. No 'critical priority' recommendations were made by Internal Audit during the year, and no 'no assurance' audit opinions have been issued or are pending.

However, the Chief Internal Auditor would draw attention to specific aspects of governance within the County Council's framework of governance, risk management and control, where weaknesses exhibited during 2021/22 require strengthening. These matters should continue to be a specific focus of the County Council's attention in improving governance and control. The Chief Internal Auditor is also aware that the County Council has commissioned an independent external governance review, which has not yet been concluded."

Audit Committee is a key component of the Council's corporate governance arrangements. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the Audit Committee is to provide independent assurance to those charged with governance on the adequacy of the risk management framework and the internal control environment.

It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees Internal Audit and External Audit, helping to ensure efficient and effective assurance arrangements are in place. An independent Chair of Audit Committee was appointed in July 2021.

The Audit Committee's responsibilities with regards to Governance, Risk and Control are:

- To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- To monitor the effective development and operation of risk management in the Council.
- To monitor progress in addressing risk-related issues reported to the Committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- To monitor the counter-fraud strategy, actions and resources.

Conduct

Our Codes of Conduct for Members and Employees set out the standards of conduct and behaviour that are required. They are regularly reviewed and updated as necessary and Members and officers are regularly reminded of the requirements.

The Monitoring Officer has maintained the Councillors' register of interests, established following the elections in May 2017, as required under the Localism Act 2011. This is available online for public inspection. The register includes the declaration of gifts and hospitality received by Members in connection with their official duties.

Advice has been given throughout the year to Members on the need to make appropriate declarations of interests under both the 2011 Act and the local members' code of conduct. For the period 1st April 2021 to 31st March 2022 the Council received 32 complaints under the member's code of conduct, which maintains the relatively high volume of complaints in comparison to previous years prior to 2020.

Within this year work has been ongoing with regards to updating the Council's Code of Conduct for Elected Members and in particular, whether it should be aligned with the new LGA model code of conduct. The 'Caller' Report highlighted an "…excessive use of allegations of bullying, code of conduct breaches and misuse of SARs and FOIs by Members to other Members and also by officers." The Report also noted some thirty conduct complaints, with only two from the public with the majority between officers and Members and also Member to Member. The Report stated this is not the prime purpose of the standards process, originally designed for the public to use.

Whistleblowing

People who work for, or with the Council are often the first to realise that there may be something wrong within the organisation. However, they may feel unable to express their concerns for various reasons, including the fear of victimisation.

The Council operates a whistleblowing policy, and has a robust complaints process, designed to ensure that all issues are properly investigated.

The Council also provides an independent, confidential 'Safecall' service where employees can report any concerns. The hotline does not replace internal reporting procedures but is used alongside them to provide an alternative for employees who may not wish to use the internal options.

The Independent Review of Governance ('Caller Review') which reported to an extraordinary meeting of Full Council in June 2022, contained significant findings and recommendations in relation to Code of Conduct issues. These are dealt with in the Post 2021/22 Events section of this Statement.

Counter Fraud

We recognise that as well as causing financial loss, fraud and corruption also adversely impact service provision and morale, undermining confidence in the Council.

We're committed to a zero-tolerance approach on all aspects of fraud. We have a dedicated Corporate Fraud Team, who investigate fraud and irregularity allegations. A dedicated resource is available within the Corporate Fraud Team to lead investigations into breaches of policy and suspected irregularities, including pro-active work, and developing an anti-fraud culture. The Audit Committee receives regular updates on all fraud investigations.

Our website informs people how they can report suspected fraud against the Council.

3 Improving Governance

The progress made during 2021-22 on the improvement areas identified in our 2020-21 Annual Governance statement is shown below:

1	Digital programme Continue to improve the Council's online provision enabling customers to self-serve.	**Partially complete** - We have implemented Amazon Connect to modernise our contact centres, and we're currently implementing PlaceCube, which will provide more streamlined digital services for our residents allowing our residents to interact with more of our services digitally. We have also secured funding via the Strategic Change Programme to procure and implement FixMyStreet, which will allow our residents to report and view public realm issues in a much more dynamic way; residents will be kept informed of issues reported, reducing the volume of chase-up calls we receive.
2	Strengthen Business Continuity Plans Work with Civil Contingencies Team to lead a programme of training and development of Business Continuity Planning	**Complete –** The Civil Contingencies Team led a programme of training and development on Business Continuity Planning across the Council. Following this, the work was evaluated by Internal Audit and recommendations were made to strengthen this further.
3	Council's Constitution To further review and update the Council's Constitution and in particular finance and contract procedure rules and schemes of delegation arrangements following the recent changes to the Council's management structure	**Partially complete** – Commencement of this work was delayed due to a number of extraordinary matters and challenges that were being managed by Legal Services colleagues. This work has now commenced as part of the 'Caller' Report recommendations July 2022.
4	Members Registers of Interests To effectively maintain established register of interests following May 2021 elections	**Complete:** Advice has been given throughout the year to Members on the need to make appropriate declarations of interests under both the 2011 Act and the local members' code of conduct.

5	Adult Social Care Partnership with the NHS Ensure effective programme management for the complex changes required by the ending of the Adult Social Care Partnership with the NHS. This includes staff transfers, migration of IT systems, financial and estates issues, and changes to management and governance arrangements.	**Complete -** The transfer was completed successfully and the staff who were agreed should TUPE to the Council moved over on 1st October 2021. The programme was effectively managed between the service, corporate HR and corporate finance with further assistance on some specific technical issues (e.g. Legal and Property). There were some residual issues in relation to setting up new governance arrangements and structures within Adult Services that carried on after 1st November but they were in place by 31st March 2022.
6	Disaster Recovery/Business Continuity/ Cyber Resilience testing. Following several cyber-attacks on local authorities and Northumbria Healthcare Trust, the service proposes to continue to run simulation exercises to test the resilience and continuity plans.	**Partially complete -** We have implemented offsite (Cloud-based) backup systems to reduce the risk of contamination from any ransomware attack and allowing the organisation to recover critical systems and data responsively. We have run small-scale simulations in the IT department, and are planning on working with Business Continuity and Resilience team to run an organisation-wide simulation in Q1, to further test business continuity and cyber resilience.
7	Pipeline of Service Reviews Develop a clear calendar of proposed service reviews based on set prioritisation criteria	**Partially complete** - A number of service reviews have taken place on high priority areas identified by members and executives. During 2022 the Council made the decision to embark on a Strategic Change Programme and service reviews going forward will be aligned to focus and support this work over the next three years. The first phase of the Strategic Change Programme was an assessment resulting in a draft strategic business case outlining seven proposed workstreams for the Council to prioritise which will deliver the biggest impact over the next three years. The draft SBC will be considered by Cabinet for approval in January 2023.
8	Housing Review Review to examine whether Council is meeting is statutory responsibilities as a “local housing authority”, strategic priorities and objectives	**Complete –** the Review has been concluded and in agreement with the project sponsor, we have now agreed that the discrete housing actions set out within the action plan have also been completed. There are a number of outstanding issues, which it has been agreed form part of other programmes, such as strategic change.

9	Financial Management Financial Management review to ensure that arrangements are fit for purpose and support compliance with the updated CIPFA Financial Management Code.	**Complete** – assessment against the CIPFA FM Code completed and an action plan has been developed.
10	Review of operating agreement and financial structure (Advance) Ensure operating agreement is up to date and that the financial structure of the company reflects the needs of the business and the interests of NCC as shareholder.	**Partially complete -** The current Operating Agreement was signed on 6th March 2020. In February 2021, a new set of Articles of Association were drafted by a lawyer seconded to NCC, approved by Cabinet on 23rd February 2021 and adopted by the Company on 23rd April 2021. These "2021 Articles" meant that the Operating Agreement was out of step with the current Articles. Work on the review of the Operating Agreement was commenced in August 2021 but there was a clear need to have agreement on the purpose of Advance Northumberland, so that the company governance and structure could reflect such purpose accordingly. A Review of Advance Northumberland's business was commenced in late 2021. At that time, an updated set of Articles and Financial Delegations were drafted to better reflect the working arrangements between Shareholder and Company, since the Operating Agreement had essentially become out of date and did not reflect the reality of interactions between the Company and Shareholder. These were drafted in November 2021 and approved by both Cabinet and the Company in July 2022 (the "2022 Articles"). The initial proposals from the Review were presented to the Company Board and Cabinet in November 2022, and both have agreed the "direction of travel" for the Company as proposed by the Review. Work is planned for early 2023 to finalise the recommended operational purpose

		of Advance Northumberland, at the same time as a review of the financial structure is carried out by specialist advisors. These advisors have now been commissioned to undertake a review of Advance Northumberland financial and funding model. Once the purpose and structure are agreed, new Articles and a new Operating Agreement will be drafted and agreed by Cabinet and the Company Board to reflect the future governance and operational - including financial - needs of the two parties.

The table below summarises key areas of improvement identified during the 2021/22 annual governance review and outlines the planned actions to be completed to enhance the Council's Governance arrangements

1	Independent Review of Governance ('Caller')	To consider the recommendations of the Report of the Independent Review of Governance and develop and deliver an improvement plan based on these. For list of 'Caller' Recommendations see post-2021/22 events section of this Appendix.
2	Development of "place" function within the ICS	Work with Northumberland CCG and the emerging regional Integrated Care System leadership to ensure that the benefits of current formal and informal partnerships between the Council and the CCG are carried forward into new "place" arrangements for the planning and commissioning of health and social care services in Northumberland.
3	External Audit Internal Control recommendations from 2020-21 audit of accounts	Implement recommendations once the External Audit has been completed and reported.

4	Cyber threat	Review of the critical systems in finance, what back up provisions we have in place, what is the process to recover, how long would recovery take, what contingency processes are needed to develop Business Continuity Plan.
5	Deliver service improvements as outlined in the Fire & Rescue Service Continuous Improvement Plan (CIP)	The service has a comprehensive Continuous Improvement Plan (CIP) detailing a suite of actions against HMICFRS Areas for Improvement, CRMP priorities, and Priority programmes and projects. The Strategic Performance Board will monitor progress as part of the Service's Performance and Assurance Framework.
6	Reporting progress on Capital Schemes	Improve systems for reporting progress and updating Members on Local Transport Plan and Members Local Improvement Scheme capital projects.
7	Review and update Finance and Contract Procedure Rules to ensure up to date and fit for purpose.	Engage with Finance Directorate and Monitoring Officer so that proposed revisions are aligned with planned review of Scheme of Delegation.
8	Update Pay Policy Statement	Review the Council's pay policy statement to ensure that it is up to date and complies with the requirements of s38 of the Localism Act 2011 and report any required changes to the County Council.

These areas of improvement will be monitored during 2022-23 and reported to the Audit Committee as part of the Council's Governance review arrangements.

Post 2021/22 Events

Since the end of the 2021/22 year covered by the AGS the County Council has continued to monitor and manage risk in accordance with the agreed risk hierarchy.

Issue of Section 114 Notice

On 23 May 2022 the Interim Executive Director of Finance and Section 151 Officer issued a Section 114 Notice in relation to the following matters as she believed that unlawful expenditure had been incurred by the Council:

- The expenditure incurred by the Council's International Team established in 2017. The International Team has been trading as part of the Council and without appropriate approvals, and any commercial trading needs to go through a proper approval process and must be done through a Council company and,

- The payment of an annual International Allowance of £40,000 (plus oncosts) to the Council's Chief Executive and Head of Paid Service which has been paid since 2017. This allowance in the opinion of the Interim Executive Director of Finance and Section 151 Officer has never been properly authorised and, was contrary to the Council's pay policy statement.

The Interim Executive Director of Finance and Section 151 Officer received independent legal advice which deemed that both of these matters constituted unlawful expenditure. The report (Link) was discussed on 8 June 2022 at an extraordinary meeting of the full Council.

The International Team had also entered into contracts to provide services to non-public organisations without seeking appropriate approvals. As this was a "new" and unknown activity for the Council and the proper approval channels were not followed, this area is not currently covered in the Council's Constitution. In order to make this clear for the future working of the Council, it is intended that this is picked up when the Finance and Contract Rules, and Council Constitution are re-drafted later this financial year.

The report of the S114 Notice to all Members of Council May set out the following recommendations:

6.1. Given that the Council does not appear to have suffered any financial loss and may have been a net beneficiary of international consultancy activities and the position has now been regularised by the establishment of NICL, I do not consider that it would be in the Council's interests to seek to unwind the previous contractual arrangements. Nevertheless, the following actions are proposed to ensure that lessons are learned, controls strengthened so that the Council does not find itself in a similar situation in future and that the current position is regularised.

In relation to trading for a commercial purpose, the Cabinet is invited to agree the contents of this report and:

- 6.1.1. Agree that Audit Committee be requested to commission a full, independent investigation into the circumstances that gave rise to the unlawful trading activities.

- 6.1.2. Note that the Chief Finance Officer will revise finance and contract procedure rules to strengthen control and oversight of commercial trading activities and issue updated guidance on the requirements relating to trading accounts for such activities.

- 6.1.3. Note that the Chief Finance Officer in consultation with the Monitoring Officer will undertake a review of the Council's commercial activities to ensure that they are taking place on a lawful basis and issue further formal guidance as appropriate.

- 6.1.4. Note that the Chief Finance Officer will commission further advice and consult the external auditor with regard to any disclosures and/or adjustments that may be required to the Council's statement of accounts for 2020/21 and prior years, in respect of income and expenditure relating to international consultancy contracts between 2018 and 2021, or as between the Council and the NHCT.

- 6.1.5. Note that the Chief Finance Officer will consider whether, and if so what, disclosures should be made to HMRC in relation to corporation tax or other liabilities.

6.2. With regard to the payment of the international allowance to the Chief Executive (and previously to the Deputy Chief Executive) from 2017, Council is invited to agree the contents of this report and:

- 6.2.1. Note that payment of the international allowance has been stopped from the date of this report as a result of the prohibition period provisions in the Local Government Finance Act.
- 6.2.2. Agree that payment of the International Allowance will remain suspended pending consideration of further legal advice with regard to potential recovery of unlawful payments and any related issues by the Staff and Appointments Committee and any recommendations arising being reported to County Council for consideration.
- 6.2.3. Note that legal and (if necessary) actuarial advice will be taken regarding any potential adjustment of pension contributions made to the Local Government Pension Scheme in relation to the International Allowance.
- 6.2.4. Note that the Chief Finance Officer will undertake further investigation to establish whether any other unlawful payments have been made to any officers or former officers, including severance payments, which may require further reports under S114 of the Local Government Finance Act 1988.
- 6.2.5. Instruct the Director of HR in consultation with the Chief Finance Officer and Monitoring Officer to review the Council's pay policy statement to ensure that it is up to date and complies with the requirements of s38 of the Localism Act 2011 and report any required changes to the County Council.

Independent Review of Governance (Caller Review)

In the summer of 2021, the Council Leader requested that the Council commission a Best Value-style corporate governance review of the Council. This review commenced in February 2022 and reported to a meeting of the Full Council on 8th June 2022.

Key findings from the Independent Governance Review Report (known as the Caller Report) included:

- NCC needs to undergo a fundamental reset of its philosophy, processes, and relationships, starting with a clear understanding of what the council is about, the respective roles of members and officers, how decisions are formulated, taken, recorded, and challenged in a robust and appropriate way.
- NCC has delivered real wins for the area in the recent past and has a lot to be proud of, but some of this has been achieved through conflict rather than co-operation. It has many great hard-working staff committed to the area who need support but are constrained by the tensions at the top of the organisation.
- Any dismissal or exit involving the three statutory officer roles should be reported to full council. In most Local Authorities, it is usual for the CEx to at least consult with the Leader and then cabinet and sometimes even more widely if a Monitoring

Officer or a S151 officer (Finance Director) is due to leave the council, particularly if exit arrangements involve payments and contractual conditions. Furthermore, any renumeration over £100K should be transparent and reported to full council. These regular Local Government procedures and practices have not been universally followed at NCC.

- The 'turn over' of statutory officers, particularly, MO's and the S151 officers at NCC, can be viewed as indicative of a culture where constructive advice and challenge has not been welcomed by senior officers of the council.
- Many staff who had left, described in harrowing terms how they had been treated extremely poorly by senior officers at NCC.
- The operation of the council is described by many Members and officers as being dysfunctional. One Member described how the council and senior officers spend too much time 'fighting with each other,' rather than doing business for residents.
- There is little substantive trust in the most senior officer levels of the council and there exists a climate of fear and intimidation as reflected in many of the interviews conducted by the review team.
- Middle leaders and senior councillors describe senior executive officers as being dismissive of Member views and that this has developed into contempt for the current cabinet. Many senior executive officers have had a career background in the NHS and had relatively little experience of working within a political environment. This has resulted in misunderstanding the concept of Member primacy, or of a 'Member led' organisation. This approach, at times dismissive to cabinet Members, whether deliberate or due to lack of experience, has led to the current situation.
- There are many hard-working staff in Northumberland CC providing good services for residents, but they look to the dysfunctionality in the senior levels of the council with despair and embarrassment.
- What is required now is a fundamental reset to establish an appropriate operating model and clear working rules for both Members and officers. This cannot be commenced until there is some seasoned local government professional input to help NCC scope and start this process. Bringing this episode to a speedy conclusion is essential.
- Before the review had reported, the Interim Executive Director of Resources issued a s114 report determining that the council has committed unlawful expenditure in relation to the international business. This relates to undertaking trading activity outside of a company structure and the payment of an allowance in addition to salary to the CEx.
- The processes to ensure effective senior Member and senior officer communication, planning and agreement have broken down in part, for example on corporate issues. Service Executives do maintain regular engagement with lead Members responsible for their service area, and this has strengthened recently.

- In relation to the oversight of Council-owned companies, many Members acknowledged that they did not fully understand the different roles required, and some of those who do hold directly relevant roles also conceded that they did not fully understand their role. There is an absence of appropriate training and support for councillors in this regard.
- The Constitution requires a comprehensive review. It needs to start from establishing the principles of what is properly delegated, whether it be from Cabinet to individual Members, from Council to officers and how each and every decision can be documented and reported, individually or collectively, for scrutiny or as part of performance measurement and improvement.
- It is common ground between the Chief Executive herself and Leaders of the political parties that this improvement journey is not something she can lead on.

The Caller Report made the following recommendations:

- Northumberland County Council needs to establish what it means to be a Best Value Unitary Local Authority in its geographic area delivering appropriate services and community leadership to every resident and entity in its area. To do this, it needs new seasoned local government professional leadership at the top of the organisation now to help it do this.

Once this has been done, it needs to:

- Redraft its Corporate Plan in terms of the Administration's Goals and Objectives, moderated by the capacity of the organisation and the legislative framework.
- Ensure the values by which it seeks to operate are lived within the organisation.
- Use the data it holds, collects, or needs to collect to define priorities and monitor and improve performance in a systematic way and publish the outcomes.
- Review and redraft the Constitution to ensure that decisions that should be taken at Member level, by Cabinet, Committee, Individual Member or Full Council are clearly identified and that the recording and scrutiny of officer decisions, both individually and in aggregate, is unambiguous.
- Review and redraft the codes of conduct which regulate Member and officer behaviours and working relationships with each other, to make it clear what the expectations of each party should be and how robust challenge can be handled, to ensure proper accountability can be achieved. This needs to recognise the legitimate rights of Councillors for information to enable

them to do their role and for Councillors to recognise that policy is the preserve of the Council unless delegated and saying no is a legitimate outcome.

- Establish a rationale for the establishment or continuation of any company established under the provisions of the Localism Act 2011.
- Establish a specific governance framework by which, for those companies wholly or partly owned by NCC, their Directors are appointed, report on performance are presented to a Cabinet Sub-Committee, conflicts of interest are dealt with and risk and how shareholder agreements are ratified, by both the company and NCC.
- Establish an officer structure which is designed to deliver against earlier recommendations and seek to appoint permanent employees to fulfil those objectives.
- Establish a scheme of performance appraisal, starting with the Chief Executive at Member level, in line with the JNC provisions, which cascades throughout the organisation so that every employee is clear about their targets and how they fit into plan delivery. As the Chief Executive is accountable to the Council as a whole for their performance, publish the targets and how they have been achieved as an annual statement to Council.
- With the help of the Local Government Association, establish a challenge board with appropriate experience at both top officer and elected Member level in unitary authorities to work with NCC, on a cross-party basis, as it addresses these recommendations.

The Governance Review report, setting out eleven recommendations, was welcomed by the Leader of the Council at the Council meeting on 8 June 2022. Following publication of the report, the Council moved quickly to establish a cross-party Task and Finish Group which has agreed a plan of action to implement each of the Caller Report Recommendations. This was agreed by full Council at its meeting of 21 June 2022. Delivery of the action plan will take place from July 2022 onwards and detailed work packages for each action (outlining milestones and resources for delivery) have been developed. The following governance arrangements will shape, advise on and oversee the delivery of the action plan:

- An external Challenge Board has been established. This is made up of external experienced, senior local government officers, Local Government Association expertise and Members (retired and current). The Challenge Board will act as a ‘critical friend’ for the Council as it delivers on its improvement plan, providing external support and assurance.
- A Members’ Oversight Group (formerly the ‘Task & Finish Group’ that developed the action plan) will provide cross-party oversight of the work needed to ensure the Governance Review recommendations are met and provide updates to Full Council meetings.

- A Programme Group has been established and will be responsible, on behalf of the interim CEO and Executive team, for delivering the activities needed to meet the recommendations of the Governance Review. This group will report to the Members' Oversight Group and the external Challenge Board.
- Finally, Full Council will receive regular update reports to its scheduled meetings.

Resolution of employment issues with the Chief Executive

On 27th July 2022, Full Council received and considered a report from the Staff and Appointments Committee (SAC) in respect of a settlement of the Employment Tribunal claim presented by the Chief Executive in June 2021. Council noted the Heads of Terms negotiated with the Chief Executive and her representatives to terminate her employment on 31st July 2022 and to settle all outstanding disputes as between the County Council, its members and officers and the Chief Executive, including the withdrawal of any and all complaints that any of the parties have against each other; and (b) Council agreed the terms of the settlement as set out in the Heads of Terms at Appendix 1 to the report, as recommended by the Staff and Appointments Committee. The appointment of an Interim Head of Paid Service and Chief Executive was agreed at the same meeting of Council on 27th July.

Code of Conduct and Whistleblowing

Since April 2022, the Code of Conduct has now been revised and adopted by Council along with the Members form to disclose Disclosable Pecuniary Interests and other interests. Revised internal processes have also been introduced which has helped process efficiently the relatively high number of complaints.

Work has been ongoing to review and update the Council's whistleblowing policy. A new policy entitled 'Raising Concerns at Work Policy' was completed and agreed by JCC in April 2022.

4. Assurance

Any system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, and, that significant risks impacting on the achievement of the Council's objectives have been mitigated.

Progress had been made against the governance improvement plan identified during the 2020/21 governance review, and where actions have not yet been fully completed, they will continue to be progressed. In addition, a number of opportunities to strengthen the Council's governance arrangements were identified during the 2021/22 governance review process. Where areas of improvement were identified, actions were agreed in each service area to address these issues.

However, as highlighted in this document, two significant post-2021/22 events confirmed weaknesses in the Council's governance arrangements. Specifically, these events were: the S114 Notice issued by the Interim Director of Finance and S151 Officer in May 2022; and the findings of the Independent Review of Governance ('Caller Review') which was undertaken in early 2022 and reported to Full Council in June 2022.

Considering these post-2021/22 events, it is clear the Council must take swift actions to address the weaknesses identified and to ensure adequate governance arrangements moving forward. The Council has commenced delivery of the actions identified in the recommendations of both the S114 Notice and Caller Report with a clear aim to complete delivery of these by May 2023.

Signed ….. **Dated: ....**
Interim Chief Executive

Signed .... **Dated: …...**
Leader

Northumberland County Council

AUDIT COMMITTEE

DATE: 25 JANUARY 2023

Review of Exit Packages

Report of the Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to provide an update to Audit Committee on findings and recommendations from a review of exit packages paid to former employees, as requested by the Section 151 Officer following the issuing of a report under s114 and s114A of the Local Government Finance Act 1988 on 23 May 2022.

Recommendations

It is recommended that Audit Committee:

a) notes the findings and recommendations highlighted by Internal Audit;
b) considers the update as a source of assurance at the time it considers the Annual Governance Statement and as part of Audit Committee's role in 'monitoring the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.'

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the overall achievement of all priorities in the Council's Corporate Plan. In particular, it supports the "How" priority of the Corporate Plan 2021-24.

Key issues

The County Council's Section 151 Officer issued a report under s114 and s114A of the Local Government Finance Act 1988 on 23 May 2022. The report explained the Section 151 Officer's view that the County Council had incurred items of unlawful expenditure and the background information regarding that view, including with regard to the payment of an allowance to a former officer.

Within her report, the Section 151 Officer recommended (at paragraph 6.2.4) that the Section 151 Officer "will undertake further investigation to establish whether any other unlawful payments have been made to any officers or former officers, including severance payments, which may require further reports under s114 of the Local Government Finance Act 1988". Under the 'Next Steps & Timescales' section of the report (paragraph 7.7), the

Section 151 Officer explained that “Internal Audit has been requested to investigate a small number of other potentially unlawful payments to officers and to review all exit packages with a value of £100k or more over the last 2 years.”

A discussion took place during the meeting of Audit Committee on 30 September 2022, in relation to the issues arising from the Section 151 Officer’s report. As reported in the minutes of the meeting,

> “Councillor Jackson requested a report detailing the processes and practices of employment and redundancy payments to be added to the work programme. J. Willis advised that an Internal Audit report had been drafted on this issue. She stated that she may need to seek further legal advice, but it was hoped to present the paper to the next meeting of Audit Committee.”

Internal Audit has undertaken a review in accordance with the Section 151 Officer’s report and between June and November 2022 provided detailed findings to the Section 151 Officer for consideration as to whether any further unlawful payments have been made. Internal Audit has been requested to prepare a report to Audit Committee, detailing a summary of findings from work undertaken. This report has therefore been prepared to update Audit Committee on findings related to weaknesses in systems and procedures and associated recommendations made.

In addition to this work, Internal Audit’s plan of work for 2022/23 was agreed by Audit Committee on 23 March 2022. The 2022/23 Strategic Audit Plan included a proposed review of recruitment and retention – processes governing changes to terms and conditions and how employees leave the organisation. This planned internal audit is currently underway and the findings will be reported to Audit Committee in the normal manner, once completed.

Background

Following discussion with the Section 151 Officer, the Internal Audit review requested was expanded to include exit packages within the previous 5 years, rather than the previous 2 years as initially requested. The review undertaken therefore covered exit packages from May 2017 to May 2022.

Internal Audit’s review included any exit package where the package exceeded £100k and any package made to a former statutory officer, and in total, 8 exit packages in respect of former postholders were identified, from May 2017 to October 2021.

Internal Audit’s review was undertaken on the basis of the following objectives:
- To establish the relevant County Council policies in place at the time of each exit payment;
- To assess whether the policies complied with relevant legislation;
- To assess whether exit payments made to former postholders were in accordance with these policies and relevant legislation.

It is important to distinguish that of the 8 former postholders identified during this review, 5 left the organisation via a redundancy / voluntary redundancy situation, and 3 former postholders entered into a mutual agreement to end their employment with the County Council. This is an important distinction in terms of the County Council’s policies in place during the period under review.

A number of significant weaknesses were identified within the County Council's control framework governing exit packages, with no specified policy in place for exit arrangements other than through severance or redundancy. The County Council's Pay Policy Statements did not comply with the Localism Act 2011 in in the following key areas:

- The Act's definition of a Chief Officer; and
- The required authorisation by Full Council of severance packages in excess of £100,000. It was established that the 2018/19 Pay Policy Statement had complied with the Localism Act 2011 and the Pay Policy Statement for 2022/23 has been amended to reflect the Localism Act 2011 in this regard, before this was agreed by full Council in March 2022. However, the review has identified that the annual Pay Policy Statements for 2019/20, 2020/21 and 2021/22 did not comply with this requirement. 6 of the exit packages reviewed were greater than £100,000, however, approval of Full Council could only be evidenced in relation to 1 of these packages.

A number of exit payments made to former postholders do not comply with the requirements of the Localism Act 2011. There is therefore the potential that these payments may be unlawful. Internal Audit is aware that the County Council is seeking appropriate advice in order to determine whether payments made were unlawful and this aspect will be considered further by the s151 Officer and Monitoring Officer. Where any additional action is identified by the s151 Officer and / or Monitoring Officer, subsequent reports to update Audit Committee will be prepared as required.

Internal Audit has been made aware of a number of measures taken by the County Council to improve the control framework in place for exit payments, including

- Clarifying the situation regarding the inclusion of Pay in Lieu of Notice for all exit arrangements and whether this may be discretionary.
- Procedures have been amended to require the development of a formal business case as part of the approval process for a postholder leaving the County Council.
- Ensuring any approvals required by Staff and Appointments Committee in accordance with the Pay Policy Statement and the Committee's Terms of Reference are now obtained, with Full Council approval where required.
- Internal procedures reflecting new statutory guidance issued on Special Severance Payments and related CIPFA Advisory Note.

The planned internal audit currently underway as referenced above, in addition to future internal audit reviews undertaken, will assess the effectiveness of these measures and will be reported to Audit Committee as part of established reporting mechanisms.

Objective 1: To identify exit packages and establish relevant County Council policies and procedures in place at the time of each payment

A review of the County Council's published Statement of Accounts from 2017/18 to 2021/22 was undertaken, to identify exit packages paid to former officers. A schedule of exit packages was also provided by Finance and this was reviewed. For the period May 2017 to May 2022, 8 exit packages were identified where the value of the package exceeded £100k and / or were made to a former statutory officer.

Postholder	Type of Exit	Value of Package	Year	Published in Annual Accounts?
Postholder A	Mutual Agreement	Over £100,000	2017/18	Yes –Final Statement of Account 2017/18
Postholder B	Mutual Agreement	£50,000 - £100,000	2018/19	Yes – Final Statement of Accounts 2018/19
Postholder C	Voluntary Redundancy	Over £100,000	2018/19	***No exit packages exceeding £100,000 reported in the 2018/19 Final Statement of Accounts***
Postholder D	Voluntary Redundancy	Over £100,000	2020/21	Yes - Recorded in the 2020/21 Statement of Accounts (unaudited)
Postholder E	Voluntary Redundancy	Over £100,000	2020/21	Yes - Recorded in the 2020/21 Statement of Accounts (unaudited)
Postholder F	Mutual Agreement	£50,000 - £100,000	2021/22	Eight exit payments are recorded in the £40,001 to £80,000 range in the Statement of Accounts 2021/22 (unaudited)
Postholder G	Voluntary Redundancy	Over £100,000	2021/22	Yes – Recorded in the Statement of Accounts 2021/22 (unaudited)
Postholder H	Voluntary Redundancy	Over £100,000	2021/22	Yes – Recorded in the Statement of Accounts 2021/22 (unaudited)

Of the 8 exit packages identified, there were 5 redundancy / voluntary redundancy situations. Following discussions with HR, an associated Voluntary Severance or Voluntary Redundancy Scheme could not be identified for 1 voluntary redundancy agreed in May 2018 (Postholder C). The circumstances of this voluntary redundancy have been evaluated using the processes established for the first policy identified, issued in October 2018. It should be noted that the various versions of policies reviewed by Internal Audit were similar in all material respects.

In situations where the County Council does not intend to remove a post from the structure or cannot remove the post due to it being a statutory position, but enters into a mutual agreement with an employee that it is in the best interests of the Council to end the employment, this does not fall under either a severance or redundancy policy. These policies apply where posts are made redundant (removed from the County Council's establishment) and the postholder's pension entitlement would form part of any package and payback calculation. Of the 8 exit packages identified, 3 are in respect of such mutually agreed exit arrangements. In the absence of a specific policy the provisions of the Constitution and Pay Policy Statement apply.

One of these exit packages does not appear to have been reported (or correctly categorised) in the appropriate Notes to the Accounts within the Annual Statement of Accounts.

Objective 2: To determine whether the applicable legislative requirements have been complied with in relation to exit packages agreed

The Localism Act 2011 sets out the requirement for relevant authorities in relation to pay accountability, particularly senior pay. In February 2012 the Department for Communities and Local Government (DCLG) published 'Openness and Accountability in Local Pay: Guidance under Section 40 of the Localism Act 2011' and in February 2013 published a supplementary guidance document. The documents cover Sections 38 to 43 of the Localism Act 2011 and set out the key principles that underpin the pay accountability provisions in the Act.

Internal Audit has examined the Localism Act 2011 and notes the Act's requirements in relation to a pay policy statement and the ceasing to hold office of a chief officer. Relevant requirements of the Localism Act 2011 are that:

- The County Council must prepare a pay policy statement (Section 38 (1));
- The pay policy statement must include the County Council's policies relating to the approach to the payment of chief officers on their ceasing to hold office under or to be employed by the County Council (Section 38 (4) (f));
- A pay policy statement must be approved by a resolution of the County Council before it comes into force (Section 39 (1));
- Each pay policy statement must be prepared and approved before the end of the 31 March immediately preceding the financial year to which it relates (Section 39 (3));
- For any determination made by the County Council which relates to the remuneration of or other terms and conditions applying to a chief officer of the County Council, the County Council must comply with its pay policy statement for the financial year in making the determination (Section 41 (1) and (2)).

Taking each of these requirements in turn:

The County Council must prepare a pay policy statement.

The County Council prepared a Pay Policy Statement for each of the years covered as part of Internal Audit's review.

The pay policy statement must include the County Council's policies relating to … the approach to the payment of chief officers on their ceasing to hold office under or to be employed by the County Council.

In each of the Pay Policy Statements reviewed, there is a section entitled 'Severance and Redundancy Payments' which include the following in relation to the payment of chief officers on their ceasing to hold office:

> *"Payments must always be in the financial and managerial interests of the County Council and all cases must be approved by the relevant Executive Director and the Head of Paid Service or their nominated representative."* (The assessment of financial and managerial interests and relevant approvals were reviewed by Internal Audit under Objective 3).

"The Staff and Appointments Committee has delegated authority from Full Council to approve severance and redundancy payments for Chief Officers."

However, Pay Policy Statements did not make reference to other types of payment to chief officers on their ceasing to hold office (those that are not severance or redundancy payments). It was noted however that the County Council updated its Pay Policy Statement for 2022/23 and additional wording is now included (at paragraph 23). This wording states that the Staffing and Appointments Committee *"will approve additional special payments for Chief Officers and senior officers and in the interests of transparency all special payments should be reported to the SAC."* Whilst Internal Audit is aware of statutory guidance published in May 2022 relating to 'special severance payments', it is not clear what would constitute a "special payment" as stated within the Pay Policy Statement.

Paragraph 11 of the Pay Policy Statements for 2017/18 and 2018/19 state:

"The following posts are defined as Chief Officers:

- *Chief Executive*
- *Deputy Chief Executive"* (The 2018/19 document adds that *"one of the Executive Directors will act as Deputy Chief Executive and an allowance will be paid to them for this responsibility").*

Paragraph 11 of the Pay Policy Statements for 2019/20, 2020/21 and 2021/22 state:

"The following posts are defined as Chief Officers:

- *Chief Executive*
- *Executive Director of HR/OD & Deputy Chief Executive*
- *Executive Director of Finance*
- *Executive Director of Place*
- *Executive Director of Regeneration, Economy & Commercial*
- *Executive Director of Adult Social Care and Children's Services".*

The definition of 'Chief Officers' within the Pay Policy Statement for 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22 (and within the County Council's Constitution) do not agree with the definition of 'Chief Officers' within the Localism Act 2011. Section 43 (2) of the Localism Act 2011 states:

"*In this Chapter "chief officer", in relation to a relevant authority, means each of the following—*

(a) the head of its paid service designated under section 4(1) of the Local Government and Housing Act 1989;
(b) its monitoring officer designated under section 5(1) of that Act;
(c) a statutory chief officer mentioned in section 2(6) of that Act;
(d) a non-statutory chief officer mentioned in section 2(7) of that Act;
(e) a deputy chief officer mentioned in section 2(8) of that Act."

It is noted that the County Council updated its Pay Policy Statement for 2022/23 to comply with the Localism Act 2011 and paragraph 12 of the Pay Policy Statement has been expanded to reference s43 of the Localism Act 2011 when defining a 'Chief Officer'. However, the definition in the 2022/23 Pay Policy Statement omits reference to a 'deputy chief officer' (bullet (e) above), only referencing bullets (a) to (d) above. It will be important that this is reviewed and corrected to help ensure full compliance.

The review undertaken by Internal Audit identified that, of the 8 exit packages covered by the review, 4 met the definition of a Chief Officer established by the Localism Act 2011, however, 2 of these 4 were not defined as Chief Officers by the County Council Pay Policy Statement.

Of these 2 exit packages, 1 was not in relation to either a severance or redundancy situation. The County Council's Pay Policy Statements for the period reviewed only refer to a chief officer leaving the County Council via a severance or redundancy route. The remaining exit package was in relation to the voluntary redundancy of a former postholder who should have been defined as a 'chief officer' within the County Council's Pay Policy Statement and therefore this exit arrangement should have been subject to arrangements specified within the County Council's Pay Policy Statement.

The 'Openness and Accountability in Local Pay: Guidance under Section 40 of the Localism Act 2011 Supplementary Guidance' document contains a specific section on severance payments. At paragraph 13 of the document, the guidance details measures to enable greater scrutiny of the money spent by authorities on severance and decisions on 'large pay-offs' being subject to appropriate levels of accountability. The guidance document states:

> *"Authorities should, therefore, offer full council (or a meeting of members in the case of fire authorities) the opportunity to vote before large severance packages beyond a particular threshold are approved for staff leaving the organisation. As with salaries on appointment, the Secretary of State considers that £100,000 is the right level for that threshold to be set."*

The County Council's Pay Policy Statements for 2017/18 and 2018/19 adequately covered this provision, with Paragraphs 24 and 25 of both documents including the following provision:

> *"The Staff and Appointments Committee has delegated authority from Full Council to approve severance and redundancy payments for Chief Officers, unless the severance package (including redundancy, any discretionary elements, strain on pension fund costs and any pay in lieu of notice) exceeds £100,000, in which case the proposal must be approved by Full Council.*
> *Any severance or redundancy package for any other employee where the cost exceeds £100,000 (including redundancy pay, any discretionary elements, strain on pension fund costs and any pay in lieu of notice) must be approved by Full Council."*

However, this requirement was not included within the Pay Policy Statements for 2019/20, 2020/21 or 2021/22. The 2022/23 Pay Policy Statement, agreed by Full Council on 30 March 2022 explicitly references the requirements of Section 43 of the Localism Act and any "exit packages over £100k."

The review undertaken by Internal Audit identified that, of the 8 exit packages covered by the review, 6 were in excess of £100,000 and should have been subject to the requirements of the Localism Act 2011. In 1 case, the requirements of the Localism Act 2011 were complied with (although some issues regarding the transparency of information presented have been identified), however, 5 exit packages were not subjected to the required agreement by Full Council.

A pay policy statement must be approved by a resolution of the County Council before it comes into force.

The Pay Policy Statements for each of the years covered as part of Internal Audit's review were approved by the County Council prior to the commencement of the financial year to which it applied.

Each pay policy statement must be prepared and approved before the end of the 31 March immediately preceding the financial year to which it relates.

As stated above, each of the Pay Policy Statements relevant to Internal Audit's review were approved by County Council prior to the commencement of the financial year to which they relate.

For any determination made by the County Council which relates to the remuneration of or other terms and conditions applying to a chief officer of the County Council, the County Council must comply with its pay policy statement for the financial year in making the determination.

As stated earlier in this report this review has identified errors contained within the County Council's Pay Policy Statements for each of the years reviewed and, specifically in relation to the 2019/20, 2020/21 and 2021/22 Pay Policy Statements, a lack of adherence to the requirements of the Localism Act 2011. As a result, only 2 (rather than 4) of the 8 exit packages covered by the review met the definition of a Chief Officer as established by the County Council's Pay Policy Statement. In both of these cases the Pay Policy Statement requirement regarding publishing severance or redundancy payments in the Council's Statement of Accounts was complied with. The remaining Pay Policy Statement requirements relate to the decision to enter into, and authorisation of, exit packages, and an assessment as to whether each requirement was complied with is set out in Objective 3 of this report.

In relation to the 8 exit packages identified, these requirements and associated findings are summarised in the table below:

Postholder	Pay Policy Statement (PPS) approved by County Council prior to coming into force?	Approach to Payment of Chief Officers on ceasing to hold office included in PPS?	PPS definition of Chief Officer compliant with Localism Act?	Exit Payment relates to a Chief Officer (as defined by Localism Act)? If Yes, was the Postholder defined as a Chief Officer by PPS?		PPS covers Localism Act provision re packages in excess of £100k?	Localism Act provision re packages in excess of £100k complied with?
Postholder A	Yes – February 2017 for 2017/18	Yes – Paragraphs 22 to 25	No	Yes	Yes – Approved by Full Council	Yes	Yes
Postholder B	Yes – February 2018 for 2018/19	Yes – Paragraphs 22 to 27	No	Yes	Yes (Mutual Agreement – circumstance not covered by PPS)	Yes	N/A – less than £100k
Postholder C	Yes – February 2018 for 2018/19	Yes – Paragraphs 22 to 27	No	No	N/A	Yes	No
Postholder D	Yes – February 2019 for 2019/20	Yes – Paragraphs 21 to 23	No	No	N/A	No	No
Postholder E	Yes – February 2020 for 2020/21	Yes – Paragraphs 21 to 23	No	Yes	No	No	No
Postholder F	Yes – February 2021 for 2021/22	Yes – Paragraphs 21 to 24	No	Yes	No (Mutual Agreement – circumstance not covered by PPS)	No	N/A – less than £100k
Postholder G	Yes – February 2021 for 2021/22	Yes – Paragraphs 21 to 24	No	No	N/A	No	No
Postholder H	Yes – February 2021 for 2021/22	Yes – Paragraphs 21 to 24	No	No	N/A	No	No

Objective 3: To determine compliance with the requirements of the relevant County Council policies in place at the time of each exit package

Objective 3.1 Voluntary Severance / Voluntary Redundancy (5 exit packages):

Internal Audit have undertaken a comparison of the various Voluntary Severance / Voluntary Redundancy Schemes issued by the County Council, relevant to the 5 associated exit packages covered by this review. This includes a Voluntary Severance Scheme dated October 2018, a Voluntary Redundancy Scheme 1.1 dated November 2019 to August 2020, a Voluntary Redundancy Scheme 1.2 dated July 2020 to August 2020, and a Voluntary Redundancy Scheme 1.3 dated January 2021 to September 2021. This review found that these schemes were fundamentally the same, with one significant change introduced to Voluntary Redundancy Scheme 1.3, requiring both the Chief Executive and Section 151 Officer to make the financial decision on whether to accept or reject an application, whereas prior to scheme 1.3 only the Chief Executive was required to make this decision. The following are the key approval stages identified:

1. Employee's Executive Director to be contacted by HR to indicate their support or otherwise for the application and to outline potential financial savings.
2. Approved applications submitted to Chief Executive for financial decision (VR Scheme 1.3 adds or Deputy Chief Executive in their absence, and Section 151 Officer).
3. Settlement Agreement entered into.
4. A salary cap of £80,000 be applied to the calculation of severance payments.

In respect of the 5 exit packages which relate to Voluntary Severance / Voluntary Redundancy, each of the key approval stages of the policies are summarised in the table below:

Postholder	Application Supported / Financial Savings Outlined	Financial Package approved by Chief Executive (and s151 Officer from January 2021)	Settlement Agreement	Salary Cap applied (where salary more than £80,000)
Postholder C	Yes – although subsequently identified that costs were significantly understated.	1) Chief Executive approval prior to additional costs being identified 2) s151 approval of additional costs 3) 2 year pay back period exceeded	No	N/A
Postholder D	Yes	Deputy Chief Executive Approval	Yes	N/A
Postholder E	1) Business case created after the postholder had left the County Council 2) Invoice for significant additional costs received a number of months after the postholder left	1) Chief Executive's name added to business case after the postholder had left 2) Redundancy Approval Form does not record Chief Executive approval	Yes	No – salary exceeded threshold but cap not applied
Postholder G	Yes. Approval recorded after offer in writing issued to employee.	1) Approval of Chief Executive and s151 Officer recorded after offer in writing issued to employee 2) 2 year pay back period exceeded	Yes	N/A
Postholder H	Yes	Yes – Chief Executive and s151 Officer	Yes	N/A

Taking each requirement in turn:

<u>Employee's Executive Director to be contacted by HR to indicate their support or otherwise for the application and to outline potential financial savings</u>

In all cases examined, evidence was obtained demonstrating that the relevant Executive Director supported the application, although some issues of timeliness and agreement of financial savings were identified.

In one instance, the application was approved before additional costs were identified. Additional costs not originally identified due to a process error, were subsequently approved by the then Section 151 Officer. However, these additional costs resulted in the total package exceeding £100,000 and it is this case which was identified as not correctly recorded within the Notes to the Statement of Accounts under Objective 1 of the review.

In one instance, although the Executive Director supported the application, weaknesses were identified in relation to the calculation of financial savings. A business case sighted by Internal Audit was completed after the former postholder had left the Authority. Initial payback calculations, demonstrating financial savings, were correctly completed by HR and Payroll officers, but all relevant information was not available until after the exit package had been agreed. In addition, officers were not aware of further costs which were identified some months after the exit package had been agreed, resulting in the original costs being significantly understated. Whilst the payback period for the exit payment could initially be demonstrated to be within the required 2-year period, this was not the case when the additional costs were added. The process in place at the time of this payment did not require the agreement of the Section 151 Officer (or nominated representative) prior to redundancy packages being authorised. No evidence of the Section 151 Officer (or their nominated representative) being requested to check financial calculations in relation to this payment were sighted during the review. Internal Audit has been advised that a revised process expressly requiring the approval of the Section 151 Officer was implemented in June 2021. As detailed above, Voluntary Redundancy Scheme 1.3 also added in this requirement.

<u>Approved applications submitted to Chief Executive (and from January 2021 the Section 151 Officer) for financial decision</u>

In 3 instances, evidence of the Chief Executive's approval being obtained before the respective payment was processed has not been sighted by Internal Audit.

Whilst Internal Audit has sighted some mitigating reasons, there are 2 instances where the Section 151 Officer has approved the value of the exit package, although the required 2-year payback period was not demonstrated.

Internal Audit's review has highlighted weaknesses in the production of formal business cases which should be prepared and considered as part of the approval process. As detailed above, the revised process requiring the approval of the Section 151 Officer in the approval process, in addition to the Chief Executive, should help to ensure that applications are correctly approved.

<u>Settlement Agreement entered into</u>

In respect of the 5 Voluntary Redundancy situations examined, a Settlement Agreement was sighted by Internal Audit in relation to 4 exit packages. In respect of the 1 exit package for which a Settlement Agreement could not be located, this related to an exit agreed in May 2018, for which an agreed policy was not in place, as detailed above under Objective 1. Internal Audit were advised that at that time, settlement agreements had not always been utilised but that this became standard practice for all voluntary redundancies as part of relevant policies.

<u>A salary cap of £80,000 be applied to the calculation of severance payments</u>

The County Council's Voluntary Severance and Voluntary Redundancy Schemes covered by this review state, that for the calculation of severance payments, *"a salary cap of £80,000 will apply. For employees with total earnings of more than £80,000, the figure used for calculating a severance payment will be £80,000."*

In 4 of the 5 Voluntary Redundancy cases examined, the salary cap did not apply. In the remaining case, the salary cap required does not appear to have been applied when payment values were calculated. Using the 'ready reckoner' within the Voluntary Redundancy Scheme, Internal Audit's calculations would indicate that this exit payment was overstated.

Objective 3.2 Mutual Agreements (3 exit packages)

As set out in Objective 1 of this report, not all exit packages identified were in respect of a redundancy or severance payment and this was the case in relation to 3 of the packages reviewed. As identified under Objective 1 above, in the absence of a policy the provisions of the Constitution and Pay Policy Statement would apply in these cases and it is on this basis that the remaining 3 exit payments were assessed.

The County Council's Constitution refers to the dismissal of a chief officer and the Pay Policy Statements refer to severance and redundancy. Neither of these situations are relevant to the circumstances in which these postholders left the County Council. The Pay Policy Statement establishes the following requirements in relation to severance and redundancy payments:

- Payments must always be in the financial and managerial interests of the County Council.
- All cases must be approved by the relevant Executive Director and Head of Paid Service, or their nominated representatives.
- The Staff and Appointments Committee has delegated authority from the Full Council to approve severance and redundancy payments for Chief Officers (unless the severance package exceeds £100,000).

Whilst these 3 exit packages do not relate to severance or redundancy, the above requirements can be used as principles to assess these cases against. Each of these principles are considered in turn below and are summarised in the following table:

Postholder	Financial / Managerial Interests Considered	Approval of Executive Director and Head of Paid Service	Staff and Appointment Committee approval
Postholder A	Yes – value for money considered although some issues regarding the transparency of information presented have been identified.	Yes. Determined at a meeting of the County Council	N/A - Determined at a meeting of the County Council
Postholder B	No Business Case sighted, however, documentation sighted indicate these matters were considered.	No formal record of approval but documentary evidence sighted that the Chief Executive and relevant Executive Director were involved in the negotiation and approval of this exit arrangement.	No. However, PPS covers severance or redundancy and this was a mutual agreement case.
Postholder F	Evidence sighted of various financial options being considered. A formal business case was not prepared. Redundancy Approval Form significantly overstated costs.	Approval of Executive Director, s151 Officer and Chief Executive sighted. However, the costs recorded were significantly overstated. The Chief Executive's approval was recorded after the postholder had left the County Council (but before the exit payment was made).	No. However, postholder (incorrectly) not defined as a Chief Officer in 2021/22 PPS, and this was a mutual agreement case.

Payments must always be in the financial and managerial interests of the County Council.

In each of the 3 cases, documentation sighted by Internal Audit relating to the exit agreement being entered into indicates that the financial and managerial interests of the County Council were considered. However, weaknesses were identified in these cases, relating to the lack of formal business cases with all financial and managerial interests clearly and transparently documented as part of the decision-making process.

It is noted by Internal Audit that the County Council commissioned an Independent Governance Review led by Max Caller CBE and that the findings of this review were reported to a meeting of the County Council on 8 June 2022. Included within the review's report is a paragraph (5.5) which references a postholder leaving the organisation and the paragraph concludes with the following statement:

> *"The exit agreement was signed off by the CEx and the S151 officer, based on a business case. However, the S151 officer later established that costs were added after her sign off."*

The review undertaken by Internal Audit has identified that the statement within the Governance Review report is not correct and costs were not added after a business case was signed off.

All cases must be approved by the relevant Executive Director and Head of Paid Service, or their nominated representatives

In the most recent of the 3 cases, the County Council's on-line Redundancy Approval Form, set up on the Council's Lagan system, was utilised. This records that the relevant approvals were obtained for the exit. Whilst it was evident that senior officers were aware of this situation as it progressed, all required approvals in the Lagan system were not provided until after the final offer was issued to the postholder and after the employment end date. All approvals were recorded before any payment was made to the former postholder. However, the amounts on the approved Redundancy Approval Form were applicable to a redundancy situation and were significantly higher than the actual cost of the exit agreement entered into with the postholder.

The earlier 2 cases pre-dated the use of the Lagan system to record such approvals. In 1 case, whilst no formal record approving the entering into this exit agreement has been located, it is clear from the documentation reviewed that the then Head of Paid Service and relevant Executive Director were involved in the negotiation and approval of this exit package. In the final case, there was again no formal record approving the entering into the exit agreement, however, it was again evident from the documentation reviewed that the relevant Executive Director and Head of Paid Service representative were involved in the approval of the exit payment and the decision to enter into the agreement was taken at a meeting of the County Council.

As stated above, an on-line 'Redundancy Approval Form' form process has been established to record approvals. Evidence from the more recent exit payments reviewed confirmed that this document is used to record the required approvals, including in exit payments that are not redundancy cases.

The Staff and Appointments Committee has delegated authority from Full Council to approve severance and redundancy payments for Chief Officers

In two of these cases, the former postholder met the definition of a Chief Officer as defined within the County Council's Pay Policy Statement. Due to the value of the exit package being in excess of £100,000, one of these cases was approved at a meeting of Full Council, as required by the Localism Act 2011.

In the second case, no evidence of member involvement could be identified. Whilst the former postholder met the definition of a Chief Officer as established by the County Council's Pay Policy Statement, the postholder was not made redundant or dismissed by the County Council. An alternative to these situations was not included within the Pay Policy Statement and consequently, in this regard, the County Council has not failed to comply with its published Pay Policy Statement in relation to this exit package.

No evidence of member involvement in the third case could be identified. The former postholder did not meet the definition of a Chief Officer post by the County Council's Pay Policy Statement and therefore approval was not required by the County Council's Pay Policy Statement at that time. As a consequence, the County Council has again not failed to comply with its published Pay Policy Statement in relation to this exit package. The former postholder would however have met the definition of a Chief Officer under the Localism Act 2011.

Having examined the evidence available, Internal Audit is of the opinion that member involvement in the second and third cases was not required by the Localism Act 2011. The Localism Act 2011 only makes a requirement for member approval in respect of payments in excess of £100,000, which was not applicable in either of these cases. The Localism Act 2011 then requires the County Council to state its own policies for dealing with payments made to chief officers when leaving the Council.

The Council's agreed policies and procedures were silent on what should happen in situations such as this, where there is a mutual agreement to end an employment. Whilst there may be a reasonable expectation that any such decision relating to chief officers would be subject to member involvement, Internal Audit is not aware of any reason to form the view that this *should* have happened.

Internal Audit Recommendations

This Internal Audit review has identified a number of significant weaknesses within the County Council's control framework governing redundancy / exit packages, and non-compliance with relevant legislation and policies that were in place. Internal Audit have recommended to the Section 151 Officer that a review of the relevant policies and procedures governing all forms of exit packages is undertaken and that this review includes:

- Ensuring compliance with relevant legislation, including s43 of the Localism Act 2011;
- Ensuring calculation of redundancy payments to reflect the requirements of the salary cap where required;
- Formally setting out the role of the s151 Officer (or their nominated representative) in the agreement / confirmation of a formal business case and financial calculations prior to any exit from the organisation being agreed to;
- Ensuring that any payback requirements are clearly demonstrated;
- The process for authorising exit packages, to ensure that formal approvals are obtained and recorded for the correct amounts, prior to any settlement agreement being entered into;

- Formally setting out the authorisations required depending on the value of the exit package or the level of the officer exiting the organisation. This should include a combination of the s151 Officer, relevant Executive Director, Chief Executive, Full Council or Staff and Appointments Committee.

It was also recommended that a review of any implications regarding the exit package that does not appear to have been reported (or correctly categorised) in the appropriate Notes to the Accounts within the respective Annual Statement of Accounts is undertaken and any necessary action taken.

Implications

Policy	Effective internal audit is an essential part of the County Council's governance arrangements. Internal Audit examines the Council's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. This report provides information on work undertaken by Internal Audit and findings related to the Council's processes and systems of internal control.
Finance and value for money	The audit of the Council's activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.
Legal	The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards. This report includes information relating to the County Council's adherence to the requirements of the Localism Act 2011.
Procurement	None
Human Resources	None
Property	None
Equalities (Impact Assessment attached) Yes ☐ No ☐ N/A ☐	None
Risk Assessment	Internal Audit activity is based on a risk-based approach, thus ensuring that coverage is focussed on areas of Council activity where Internal Audit resource will deliver most benefit and assist most effectively in the management of risk.

Crime & Disorder	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified.
Customer Consideration	This report summarises Internal Audit findings reported during 2022, for consideration by Audit Committee.
Carbon reduction	None
Wards	All

Background papers:

- Report of Section 151 Officer of Northumberland County Council, under s114 and s114A of the Local Government and Finance Act 1988, May 2022;
- The Localism Act 2011, November 2011
- Openness and Accountability in Local Pay: Guidance under Section 40 of the Localism Act 2011 Supplementary Guidance, February 2013
- The Accounts and Audit Regulations 2015, April 2015;
- Northumberland County Council Constitution and Finance and Contract Rules;
- Strategic Audit Plan 2022-2023, March 2022.

Report sign off.

	Name
Monitoring Officer/Legal	N/A
Executive Director of Finance & S151 Officer	N/A
Relevant Executive Director	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

Author and Contact Details

Kevin McDonald, Head of Internal Audit and Risk Management
07966 325215
Kevin.McDonald@northumberland.gov.uk

Tony Candlish, Group Assurance Manager
Tony.Candlish@northumberland.gov.uk

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Agenda Item 11

Northumberland
County Council

AUDIT COMMITTEE

DATE: 25 JANUARY 2023

PREPARATION OF THE STRATEGIC AUDIT PLAN – 2023/24

Report of the Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to outline the approach to preparing the 2023/24 Strategic Audit Plan, for consideration and endorsement by the Audit Committee. The report also ensures the Audit Committee, as a key stakeholder of Internal Audit's work, is engaged at an early stage in the planning process.

Recommendations

It is recommended that Audit Committee consider and endorse the approach to preparation of the 2023/24 Strategic Audit Plan.

Audit Committee are also invited to highlight any areas for consideration by the Head of Internal Audit and Risk Management, for inclusion in the 2023/24 Strategic Audit Plan.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan. In particular it supports the "How" priority of the Corporate Plan 2021-24

Key issues

The approach to preparing the next Strategic Audit Plan (2023/24) has been designed to ensure that all legislative responsibilities and professional standards are fully complied with and that a plan of work is agreed for the coming year which will help ensure that internal auditing can fulfil its prescribed definition as "*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.*" [1]

[1] Public Sector Internal Audit Standards, CIPFA/IIA, 2017

Background

1 Internal Auditing *"is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"* [1]*.* It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

2 The Internal Audit team has a key role in helping the Authority to achieve its objectives. We are an independent resource available to assist the organisation to explore areas of potential efficiency, and, matters of probity and internal control. We seek to use our business intelligence and knowledge of the Authority to make sensible, informed recommendations for improvement, and thus contribute to the effective running of the organisation.

3 Internal Audit provides assurance to the organisation that controls established to manage risks to the achievement of the Council's objectives are operating effectively. This has a positive impact on the risk environment, informing management whether the action they are taking to control and manage risks are working as they should.

4 Preparation of a Strategic Audit Plan ensures that Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Authority. This is key to Internal Audit achieving its objectives as an independent assurance function for the Authority and to provide an independent and objective opinion on the adequacy and effectiveness of the framework of governance, risk management and control.

5 This report outlines the approach to preparing the next Strategic Audit Plan (2023/24), for consideration and endorsement by the Audit Committee. This approach has been designed to ensure that all legislative responsibilities and professional standards are fully complied with, and that a plan of work is agreed for the coming year which will meet the Authority's key assurance requirements, stakeholder aspirations and help ensure internal auditing fulfils its prescribed definition of "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations."

6 The Authority's Finance and Contract Rules recognise that Internal Audit must be independent in its planning and operation, and, have an unrestricted range of coverage of the Authority's operations.

7 The Public Sector Internal Audit Standards (PSIAS) introduced in 2013 and revised in 2017, and the specific Local Government Application Note accompanying the Standards, build upon the good practice set out in previous professional regulations, including audit planning requirements, and have the force of law. The PSIAS set out the professional standards which Internal Audit must apply when planning the use of its resources. It states that:

(a) The Chief Internal Auditor (Chief Audit Executive) must establish risk-based plans to determine the priorities of internal audit activity, consistent with the organisation’s goals;
(b) The plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and Audit Committee (the ‘board’) must be considered in this process. The Chief Internal Auditor must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions;
(c) The Chief Internal Auditor should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value and improve the organisation’s operations. Accepted engagements must be included in the plan;
(d) The Chief Internal Auditor must communicate plans and resource requirements, including significant interim changes, to senior management and Audit Committee for review and approval. The Chief Internal Auditor must also communicate the impact of any resource limitations; and
(e) The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

8 The Strategic Audit Plan is scheduled to be presented to the Audit Committee in March 2023. When considering the Strategic Audit Plan in March, the Committee will wish to be assured that the requirements of the Council’s Finance and Contract Rules and PSIAS have been met. The approach to ensure this is the case is set out below.

9 Preparation of the Strategic Audit Plan is now underway and involves:
(a) Developing and enhancing Internal Audit’s intelligence base on the breadth of the Authority’s functions from published plans, strategies, reports, available risk information and knowledge gained from previous audit work;
(b) Consulting with the Chief Executive, Executive Directors, Service Directors, Heads of Service, and Audit Committee Members upon this preparatory work, and their aspirations for Internal Audit work and coverage in the coming year. This consultation allows us to identify the areas where stakeholders consider Internal Audit can provide the greatest assistance and benefit;
(c) Utilising the Authority’s risk management framework, combined with an assessment of audit risks, to prioritise audit coverage and ensure the Strategic Audit Plan includes all key areas of audit assurance, with resources targeted at those areas of highest priority;
(d) Developing the outcomes which each Internal Audit assignment in the Strategic Audit Plan will deliver, and the objectives which each audit will meet; and
(e) Ensuring that each proposed audit assignment will help assess and support a priority or priorities as set out in the Council’s Corporate Plan.

10 Once this process is finalised, the Strategic Audit Plan presented to the Audit Committee for approval in March 2023 will set out Internal Audit’s planned 2023/24 coverage. This will include detail on all key areas of Internal Audit provision, and the objectives which each assignment will deliver.

Implications

Policy	Effective internal audit is an essential part of the County Council's corporate governance arrangements. Internal Audit examines the Council's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. Based on an assessment of risk the Strategic Audit Plan sets out the planned areas in which this coverage will be focused.
Finance and value for money	The audit of the Council's activities, as set out in the Strategic Audit Plan, promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste, and inefficiencies.
Legal	The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards. The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources.
Procurement	None
Human Resources	None
Property	None
Equalities(Impact Assessment attached) Yes ☐ No ☐ N/A ☐	None
Risk Assessment	The Strategic Audit Plan is prepared using a risk-based approach, thus ensuring that coverage is focused on those areas of Council activity with high levels of risk to the achievement of key objectives.
Crime & Disorder	There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.
Customer Considerations	The Strategic Audit Plan is prepared following consultation with customers of our Service including the Audit Committee, Chief Executive, Executive Directors, Directors, Heads of Service and the external auditor.
Carbon reduction	None
Wards	All

Consultation

The Strategic Audit Plan 2023/24 will be prepared following consultation with the following:

- Audit Committee;
- Chief Executive;
- Executive Directors;
- Service Directors;
- Heads of Service; and
- The external auditor.

Background papers:

- Public Sector Internal Audit Standards (PSIAS), Chartered Institute of Public Finance and Accountancy / Institute of Internal Auditors, revised April 2017;
- Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019;
- The Accounts and Audit Regulations 2015, April 2015;
- NCC Constitution, February 2021; and
- NCC Finance and Contract Rules, December 2011.

Report sign off.

	Name
Monitoring Officer/Legal	N/A
Executive Director of Finance & S151 Officer	N/A
Relevant Executive Director	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

Author and Contact Details

Kevin McDonald, Head of Internal Audit and Risk Management
07966 325215
Kevin.McDonald@northumberland.gov.uk

Tony Candlish, Group Assurance Manager
Tony.Candlish@northumberland.gov.uk

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Northumberland County Council

AUDIT COMMITTEE

DATE: 25 JANUARY 2023

Public Sector Internal Audit Standards

Report of the Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to inform Audit Committee of the requirements of the Public Sector Internal Audit Standards (April 2017) and the related Local Government Application Note; and the conformance by Northumberland County Council's Internal Audit service to the requirements of these standards.

Recommendations

It is recommended that Audit Committee:

a) Note the legal requirements to be fulfilled by all providers delivering Internal Audit activity within relevant authorities in England and Wales (the Public Sector Internal Audit Standards and related Local Government Application Note);
b) Note that a self-assessment of adherence to the Public Sector Internal Audit Standards and the related Local Government Application Note has been performed and a summary is attached **as Appendix A**. This demonstrates that Northumberland County Council's Internal Audit service has demonstrated a high level of conformance to the requirements of the standards;
c) Note that in the small number of areas where further development has been identified to secure full conformance to the standards, appropriate actions are planned to ensure this is the case, and that updates will be provided to future meetings of Audit Committee on progress in relation to these actions;
d) Agree the Quality Assurance and Improvement Programme which is attached as **Appendix B**, which is a requirement of the Public Sector Internal Audit Standards;
e) Note that it is a requirement that the Internal Audit service will be externally assessed at least once in every five years, and agree that Northumberland County Council's external assessment will be performed before the end of March 2023 by CIPFA (Chartered Institute of Public Finance and Accountancy);
f) Agree that the outcomes from the external assessment will be reported to a future meeting of Audit Committee once the external assessment has been completed.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the overall achievement of all priorities in the Council's Corporate Plan. In particular, it supports the "How" priority of the Corporate Plan 2021-24.

Key issues

This report outlines conformance with the Public Sector Internal Audit Standards, in order that the Audit Committee, as the designated 'board' under the Public Sector Internal Audit Standards, is aware of adherence to the standards demonstrated by Northumberland County Council's Internal Audit service.

The report also sets out a Quality Assurance and Improvement Programme, and details arrangements for an external assessment of the Internal Audit service, which will allow the County Council to fulfil its responsibilities regarding the Public Sector Internal Audit Standards.

Background

Under the Accounts and Audit Regulations 2015, it is a statutory requirement for all relevant authorities (including Northumberland County Council) to "undertake an effective internal audit to evaluate the effectiveness of…risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." [1]

The Institute of Internal Auditors (IIA) has published an International Professional Practices Framework (IPPF) which includes certain mandatory elements with which every Internal Audit service provider must comply. For the Public Sector in the UK, 'Relevant Internal Audit Standard Setters' have been designated for central government, the NHS and local government. The role of these standards setters is to adopt a common set of Public Sector Internal Audit Standards (PSIAS) which encompass the mandatory elements issued by the IIA and any additional requirements and interpretations for the UK public sector, whilst maintaining the integrity of the text of the mandatory elements of the IPPF.

In April 2017, the 'Relevant Internal Audit Standard Setters' published updated specific Public Sector Internal Audit Standards, applying the IIA International Standards to the UK Public Sector. These standards apply to all parts of the public sector (local government, central government and the NHS). For local government, the Chartered Institute of Public Finance and Accountancy (CIPFA) has been designated as 'the relevant standard setter'. To support the PSIAS in local government, CIPFA have published a Local Government Application Note (updated in February 2019), which accompanies and underpins the mandatory elements of the full PSIAS. The PSIAS and Local Government Application Note together comprise the 'public sector internal auditing standards' which are necessary to undertake the effective internal audit required by the Accounts and Audit Regulations 2015.

All local government Internal Audit providers in the UK are expected to comply fully with the PSIAS. It is also a requirement that the degree of conformance to the standards is assessed and reported to 'senior management' and the 'board' of the organisation. The Audit Committee fulfils the role of the 'board' in Northumberland County Council. This report therefore provides Audit Committee with a summary of a self-assessment of conformance with the PSIAS and highlights a small number of areas in which further development would assure greater adherence to the require standards. The self-assessment summary is attached **as Appendix A**.

---

[1] The Accounts and Audit Regulations 2015 – Regulation 5 (1)

The PSIAS include a requirement that a Quality Assurance and Improvement Programme (QAIP) is developed by every relevant authority. A QAIP has therefore been developed to codify existing arrangements in order to ensure that the exact requirements of the PSIAS can be met and demonstrated. The QAIP is attached **as Appendix B**.

It is a requirement of the PSIAS that Internal Audit is externally assessed for its conformance to the standards at least once in every five years. The previous external assessment was undertaken of the shared Internal Audit service with North Tyneside Council via a tripartite arrangement involving Newcastle City Council and South Tyneside Council. The outcomes were reported to Audit Committee in March 2018.

This report proposes that an external assessment for Northumberland County Council's Internal Audit service is performed before the end of March 2023, by CIPFA. The shared Internal Audit service with North Tyneside Council ended on 31 March 2022, therefore the external assessment will take place only a short time after some fundamental changes in service delivery have taken place. However, it is proposed that by using a leading local government governance body for the external assessment, this will provide suitable recommendations to assist the transition in service delivery, in addition to complying with the requirement to ensure suitable independence, objectivity, experience and skill of the external assessor.

<u>Implications</u>

Policy	Effective internal audit is an essential part of the County Council's governance arrangements. Internal Audit examines the Council's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed.
Finance and value for money	The only direct financial implication arising from the recommendations set out in this report is the cost of the external assessment. This cost is minor and will be met entirely from existing budget.
Legal	The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards. Internal auditing standards / guidance comprise the Public Sector Internal Audit Standards and the accompanying Local Government Application Note. Adherence to these standards is the subject of this report.
Procurement	The external assessor will be engaged in accordance with all of the County Council's procurement requirements.
Human Resources	None
Property	None

Equalities (Impact Assessment attached) Yes ☐ No ☐ N/A ☐	None
Risk Assessment	There are no specific risks arising from this report, as the self-assessment demonstrates a high level of conformance with the required standards. Should this situation change, a further report would be brought back to Audit Committee as the designated 'board' under the PSIAS.
Crime & Disorder	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified.
Customer Consideration	This report has been prepared for Audit Committee, as the designated 'board' under the PSIAS, to consider.
Carbon reduction	None
Wards	All

Background papers:

- Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017
- Local Government Application Note for the UK Public Sector Internal Audit Standards, Charterd Institute of Public Finance & Accountancy, February 2019
- Northumberland County Council Finance and Contract Rules, February 2021
- The Accounts and Audit Regulations 2015, April 2015

Report sign off.

	Name
Monitoring Officer/Legal	N/A
Executive Director of Finance & S151 Officer	N/A
Relevant Executive Director	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

Author and Contact Details

Kevin McDonald, Head of Internal Audit and Risk Management
07966 325215
Kevin.McDonald@northumberland.gov.uk

Appendix A

Public Sector Internal Audit Standards: Summary of Conformance (January 2023)

The Local Government Application Note which accompanies the Public Sector Internal Audit Standards includes a checklist for local authority Internal Audit providers to assess their conformance to the requirements of the Public Sector Internal Audit Standards.

Each Standard includes a number of requirements and for each requirement, there is the ability to state whether there is conformance, partial conformance or non-conformance.

Of the 324 individual questions in the checklist, 21 refer to arrangements which are not currently applicable to the work undertaken by the Internal Audit service. For the remaining 303 requirements, the self-assessment has demonstrated a high level of conformance, summarised in the table below:

'Conforms'	289	95.4%
'Partial'	13	4.3%
'Not Conforming'	1	0.3%
Total	**303**	**100%**

For those questions where 'Partial' or 'Not conforming' has been judged, a corresponding action has been identified. These actions will be progressed as a matter of priority and progress will be reported to Audit Committee and senior management within the next six months.

The table below provides a summary of the self-assessment judgement of the requirements of the Public Sector Internal Audit Standards, against each Standard.

Standard	Overall Level of Conformance	Comments
Mission of Internal Audit	Fully Conforms	1 question, self-assessed as ‘Conforms’.
Definition of Internal Auditing	Fully Conforms	2 questions, both self-assessed as ‘Conforms’.
Core Principles	Fully Conforms	10 questions, relating to core principles such as independence, competence and due professional care, resourcing and position within the organisation, communication. All 10 questions self-assessed as ‘Conforms’.
Code of Ethics	Fully Conforms	13 questions, relating to integrity, objectivity, confidentiality, competency and the Seven Principles of Public Life. All 13 questions self-assessed as ‘Conforms’.
Attribute Standard 1000 – Purpose, Authority and Responsibility	Conforms	20 questions, relating to purpose, authority and responsibility, and the contents of the internal audit charter. 19 questions self-assessed as ‘Conforms’. 1 question self-assessed as ‘Partial’ with an action identified to make details of assurance services provided to external parties explicit within the Internal Audit Charter when next revised.
Attribute Standard 1100 – Independence and Objectivity	Conforms	36 questions, relating to organisational independence, direct interaction with the Board, additional responsibilities of the Chief Internal Auditor beyond Internal Audit, individual objectivity and impairment to independence or objectivity. 32 questions self-assessed as ‘Conforms’. 4 questions not applicable.
Attribute Standard 1200 – Proficiency and Due Professional Care	Fully Conforms	21 questions, relating to proficiency, due professional care, skills, qualifications, and capability. All 21 questions self-assessed as ‘Conforms’. However, an action has been identified relating to plans to formalising the use of computer-assisted audit techniques and automating audit processes where possible.
Attribute Standard 1300 – Quality Assurance and Improvement Programme	Conforms	33 questions, relating to the Quality Assurance and Improvement Programme, internal assessments, external assessments, reporting on the QAIP, stating that the service conforms with PSIAS requirements, and disclosure of non-conformance. 23 questions self-assessed as ‘Conforms’. 3 questions not applicable. 7 questions self-assessed as ‘Partial’

Standard	Overall Level of Conformance	Comments
		with actions identified relating to developing and agreeing a comprehensive set of service targets in addition to those used, using performance monitoring against targets to contribute to quality improvement more comprehensively, and ensuring that the results of the QAIP (and particularly internal assessments) and progress against improvement plans are reported to senior management and Audit Committee in accordance with the requirements of the QAIP developed.
Performance Standard 2000 – Managing the Internal Audit Activity	Conforms	40 questions, relating to planning, communication and approval, resource management, policies and procedures, coordination, and reporting to senior management and the Board. 37 questions self-assessed as 'Conforms'. 3 questions not applicable.
Performance Standard 2100 – Nature of Work	Conforms	29 questions, relating to governance, risk management, and control. 28 questions self-assessed as 'Conforms'. 1 question self-assessed as 'Partial' with actions identified to codify internal audit's activity relating to evaluation of 'the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities'.
Performance Standard 2200 – Engagement Planning	Conforms	51 questions, relating to engagement planning, engagement objectives, engagement scope, engagement resource allocation and engagement work programme. 44 questions self-assessed as 'Conforms'. 4 questions self-assessed as not applicable. 3 questions self-assessed as 'Partial' with actions identified to formalise arrangements within audit assignments to 'evaluate and report on whether management have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished'.
Performance Standard 2300 – Performing the Engagement	Fully Conforms	15 questions, relating to identifying information, analysis and evaluation, documenting information, and engagement supervision. All 15 questions self-assessed as 'Conforms'.

Standard	Overall Level of Conformance	Comments
Performance Standard 2400 – Communicating Results	Conforms	47 questions, relating to criteria for communicating, quality of communications, errors and omissions, use of ‘kite mark’ statements by the service, engagement disclosure of non-conformance, disseminating results, and overall opinion. 41 questions self-assessed as ‘Conforms’. 5 questions not applicable. 1 question self-assessed as ‘Not conforming’, with an action identified relating to including details of progress against improvement plans resulting from the QAIP within the annual overall opinion report.
Performance Standard 2500 – Monitoring Progress	Conforms	4 questions. 3 questions self-assessed as ‘Conforms’. 1 question self-assessed as ‘Partial’ with actions identified relating to seeking client feedback from consulting engagements. Action has already been taken but is not yet embedded within the service.
Performance Standard 2600 – Communicating the Acceptance of Risk	N/A	2 questions – both questions not applicable.

Appendix B

Northumberland County Council

Internal Audit Service

Quality Assurance and Improvement Programme (QAIP)

January 2023

Contents

1 Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and were revised on 1 April 2017. The PSIAS and associated Local Government Application Note are the mandatory standards with which every Internal Audit provider delivering such services in local government is required to comply.

1.2 The PSIAS include a mission for internal audit, which articulates what internal audit aspires to accomplish within an organisation. The Mission of Internal Audit is:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."

1.3 The PSIAS require that a quality assurance and improvement programme be developed, which covers all aspects of the internal audit activity within the organisation. The quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's compliance with the Standards and Code of Ethics, and assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The quality assurance and improvement programme must include both internal and external assessments.

1.4 This Quality Assurance and Improvement Programme (QAIP) has been developed to codify arrangements in place and provide assurance to stakeholders of Internal Audit (including Audit Committee and Executive Management Team), that Internal Audit's work:

- Is undertaken in accordance with the Internal Audit Charter, the Public Sector Internal Audit Standards and Code of Ethics.
- Is effective and efficient.
- Meets the Mission of Internal Audit as defined by the Public Sector Internal Audit Standards.

1.5 The Head of Internal Audit and Risk Management is responsible for the QAIP, which covers all aspects of Internal Audit's work.

2 Internal Assessments

2.1 The Public Sector Internal Audit Standard 1311 requires that internal assessments undertaken must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

2.2 Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. This aspect of the PSIAS requirement will be met by:

- Supervision and review of all audit assignments
- Agreed working papers and procedures used for all audit assignments, to ensure consistent quality of work undertaken
- Review of all draft reports by Group Assurance Manager before draft report issued
- File feedback review undertaken for each assignment
- Regular peer reviews undertaken by Group Assurance Managers
- Review of all final reports, assurance levels, recommendations and priorities undertaken by Head of Internal Audit and Risk Management
- Feedback sought from audit clients at the conclusion of every assignment

2.3 Periodic assessments are designed to ensure that internal audit activity is sufficient to ensure achievement of the Mission of Internal Audit for stakeholders, including review of the internal audit charter and the role of the Chief Audit Executive within the organisation. Periodic assessments will be demonstrated by:

- Periodic reviews of a sample of assignments by the Head of Internal Audit and Risk Management, for performance in accordance with agreed procedures and with the Standards.
- Bimonthly reporting by the Head of Internal Audit and Risk Management to Executive Management Team on internal audit assignments completed, in progress and planned.
- Formal review of Internal Audit Plan undertaken at the mid-year point and reported to Audit Committee in November each year.
- Annual review of Internal Audit Charter and agreement with Audit Committee at least every two years.
- Annual risk assessments undertaken during development of Internal Audit Plan.
- Results of client feedback received included within the Head of Internal Audit and Risk Management's Annual Opinion Report, reported to Audit Committee in May each year.
- Annual declarations of interests sought from Internal Audit staff by Head of Internal Audit and Risk Management.
- Annual staff performance appraisal process.
- Ensuring that the Chief Executive undertakes, countersigns, contributes to or reviews the performance appraisal of the Head of Internal Audit and Risk Management and that feedback is sought from the Chair of Audit Committee(s), as required by PSIAS Standard 1110.
- Annual self-review of compliance with Standards.

3 External Assessments

3.1 The Public Sector Internal Audit Standard 1312 requires that external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation, and must assess conformance with the Code of Ethics and Public Sector Internal Audit Standards.

3.2 In accordance with this requirement, external assessments will be commissioned to assess and provide an opinion on Internal Audit's conformance with the Code of Ethics and Public Sector Internal Audit Standards, with recommendations for improvement as appropriate.

3.3 The Head of Internal Audit and Risk Management will decide on the type of external assessment and commission external assessments, in consultation with the Audit Committee. The appointment of external assessor and scope of external assessment will be approved by Audit Committee.

4 Reporting Arrangements

4.1 The results of assessments will be reported accordingly by the Head of Internal Audit and Risk Management.

<u>Internal Assessments</u>

4.2 Results of ongoing and periodic internal assessments will be reported by the Head of Internal Audit and Risk Management to Executive Team and Audit Committee as part of established reporting schedules in respect of Internal Audit's Internal Audit Plan.

4.3 Any required actions identified from ongoing and periodic internal assessments will be incorporated within Internal Audit's Annual Opinion Report, reported to Executive Team and Audit Committee.

4.4 Should any significant areas of non-compliance with the Public Sector Internal Audit Standards be identified, this will be reported in Internal Audit's Annual Opinion Report and be considered for inclusion within the County Council's Annual Governance Statement.

<u>External Assessments</u>

4.5 Results of external assessments will be reported by the Head of Internal Audit and Risk Management to Executive Team and Audit Committee.

4.6 For any required actions identified from external assessments, an Action Plan will be developed, including responses and target dates for implementation.

The Action Plan will be reported to Executive Team and Audit Committee, in addition to updates on progress with implementation of any required actions.

4.7 Should any significant areas of non-compliance with the Public Sector Internal Audit Standards be identified, this will be reported in Internal Audit's Annual Opinion Report and be considered for inclusion within the County Council's Annual Governance Statement.

IA/KM
January 2023

Audit Progress Report

Northumberland County Council

Audit Committee January 2023

Appendix 13

mazars

1. Audit Progress
2. National publications

01

Section 01:

Audit Progress

Audit progress

Purpose of this report

This report provides the Committee with:

- an update in respect of 2019/20 value for money (VFM) work;
- an update in respect of 2020/21 remaining audit work;
- an update in respect of 2021/22 audit work; and
- a summary of recent relevant national reports and publications for your information (Section 2).

2019/20 audit work

Our conclusions in respect of the Council's value for money (VFM) arrangements remain outstanding for the 2019/20 financial year; this, along with the 2020/21 Value for Money work, will be informed by completion of the matters outstanding relevant to the 2021/22 opinion, as detailed below.

2020/21 audit work

Audit work has been paused pending the resolution of the outstanding infrastructure national issues. It is hoped these will be addressed in the near future and we will be in a position to conclude our assessment of the audit opinion that will be given for 2020/21.

Our responsibilities to report on the Council's VFM arrangements remain outstanding, linked to the outstanding financial statements opinion area referenced above.

2021/22 audit work

Our work is ongoing. Work completed to date is subject to review however the significant matters currently outstanding are set out overleaf

We anticipate bringing our 2021/22 Audit Completion Report to this Committee on 29 March 2023.

2. Status of the audit

Our work is on-going and is subject to review; the significant matters outstanding are set out below:

Audit area	Status	Description of the outstanding matters
Property, Plant and Equipment - infrastructure	Red	Consultation was carried out in November 2022 on an optional temporary Statutory Override to allow audits to be completed. We say more on this at page 10. To date, CIPFA have not issued the final guidance to resolve this issue. In addition, we have a number of queries outstanding in relation to PPE valuations.
Pensions	Amber	Work is ongoing in this area. In addition, we are awaiting a response from the auditor of Tyne & Wear Pension Fund. The pension fund auditor has been unable to confirm a date for reporting to us.
Group accounts	Amber	We are awaiting relevant assurance from the external auditors of Advance Northumberland on completion of their work on the audit of the 2021/22 financial statements.
Other	Green	Completion of various other work, including: - review of work by the partner and independent partner - review of the final revised financial statements by our technical team
Revised annual governance statement	Green	We will need to consider, at the point of sign-off, the revised annual governance statement (AGS), which should be updated to cover the period up to and including when our opinion is signed. Given the elapsed time since the AGS was produced, some amendments are anticipated.
Laws and Regulations	Green	Consideration of the outcome of the corporate governance review that is currently being undertaken by SOLACE (Society of Local Authority Chief Executives and Senior Managers).
Post balance sheet events	Green	Our review is ongoing up until the date of signing the auditor's report (the opinion).

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Key	
Red	Likely to result in material adjustment or significant change to disclosures within the financial statements, or impact on our auditor's report.
Amber	Potential to result in material adjustment or significant change to disclosures within the financial statements, or impact on our auditor's report.
Green	Not considered likely to result in material adjustment or change to disclosures within the financial statements. or impact on our auditor's report.

2. Status of the audit (continued)

:

Audit area	Status	Description of the outstanding matters
WGA		We are awaiting group instructions from the National Audit Office. This will impact on the timing of issuing our audit certificate to formally conclude and close the audit.
Closing procedures		Review of the revised financial statements.

Likely to result in material adjustment or significant change to disclosures within the financial statements, or impact on our auditor’s report.

Potential to result in material adjustment or significant change to disclosures within the financial statements, or impact on our auditor’s report.

Not considered likely to result in material adjustment or change to disclosures within the financial statements. or impact on our auditor’s report.

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02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1	CIPFA : Audit Committees Practical Guidance for local authorities and police 2022 edition	The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. New aspects include legislation changes in Wales and new expectations in England following the Redmond Review.
2	Consultation on Infrastructure Asset Accounting	CIPFA and CIPFA LASAAC have been seeking to assist in the resolution of this issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not so far been found that satisfies all stakeholders for the amount to be derecognised. The government, therefore, undertook to review the necessity for an accounting statutory override whereby, under the Local Government Act 2003, it may make provision for local authority accounting practices.
National Audit Office (NAO)		
3	Guide to Corporate Finance in the Public Sector	The NAO recently published a guide to corporate finance in the public sector. The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities

National publications

	Publication/update	Key points
Public Audit Forum		
4	Public Audit Forum consultation on Practice Note 10	The Public Audit Forum (PAF) is consulting on the exposure draft for the 2022 revision of Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10).
Public Sector Audit Appointments Ltd		
5	PSAA Announcement of Procurement Outcome	In October 2022, PSAA announced the outcome of its procurement of audit services for the 470 local government, police and fire bodies (99% of eligible local bodies) that have opted into its national scheme. PSAA have commenced a consultation on the proposed auditor appointments for all opted-in bodies for audits from 2023/24 to 2027/28 and will write to all bodies to confirm the Board's final decision on the auditor appointments on or before 31 December 2022.
Financial Reporting Council		
6	FRC Major Local Audit Inspection Report	The Financial Reporting Council has published its annual report on the quality of local audit work. This follows its 2022 inspections of files for the 20/21 audit cycle.

NATIONAL PUBLICATIONS
CIPFA

1. CIPFA : Audit Committees Practical Guidance for local authorities and police 2022 edition – October 2022

The guidance and suite of publications (only available for those with a subscription) has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee. New aspects include legislation changes in Wales and new expectations in England following the Redmond Review.

The link to the publication is here: https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition

2. Consultation on Infrastructure Asset Accounting – October 2022

CIPFA and CIPFA LASAAC have been seeking to assist in the resolution of this issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not so far been found that satisfies all stakeholders for the amount to be derecognised. The government, therefore, undertook to review the necessity for an accounting statutory override whereby, under the Local Government Act 2003, it may make provision for local authority accounting practices.

The government is proposing to put in place a statutory accounting override to allow local authorities to treat the value of any replaced component of infrastructure assets as nil, without the need to further evidence that this is the case. The override also removes the requirement for authorities to make prior period adjustments to infrastructure asset balances. The override will not include any provision for matters relating to gross cost or accumulated depreciation, as these matters are anticipated to be addressed through the Code. Use of the override is expected to optional, and authorities may choose not to apply it.

It is the government's view that this is a necessary, short-term solution to avoid the widespread qualification of local authority accounts. The government recognises that a long-term solution is required, but due to the complexity of the issue this will necessarily take time, and there is an immediate need to mitigate the risks of widespread qualifications and delays to audit. The proposed override applies to all local authority accounts for which an audit certificate has not been issued, and is time limited such that the last financial year to which it applies will be 2024/25. The government is conducting this call for evidence to seek views from sector stakeholders on the effectiveness and clarity of the proposed statutory override.

The consultation includes a draft Statutory Instrument and Explanatory Memorandum. The Indicative date when this Statutory Instrument could take effect is 25 December 2022, so it is unlikely that auditors will be able to issue any audit opinions on clients with material infrastructure assets until at least January 2023.

[The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022: call for evidence - Department for Levelling Up, Housing and Communities - Citizen Space]

NATIONAL PUBLICATIONS

National Audit Office

3. Guide to Corporate Finance in the Public Sector - September 2022

The NAO recently published a guide to corporate finance in the public sector. The guide uses insights from NAO stakeholder engagement and draws on NAO experience of auditing government interventions and corporate finance activities. It covers 14 themes over three core areas:

• Principles and concepts

• Organisations and functions

• Transactions

The interactive guide contains insights from 139 NAO reports and sets out key questions for senior decision-makers to consider when overseeing corporate finance activities. It may also be of interest to professionals supporting the government to deliver a range of transactions, including commercial investments, loans and guarantees. While not directly focussed on local public services the guide may be of interest to local auditors and audited bodies.

https://www.nao.org.uk/insights/guide-to-corporate-finance-in-the-public-sector/

NATIONAL PUBLICATIONS
Public Audit Forum

4. Public Audit Forum consultation on Practice Note 10, September 2022

The Public Audit Forum (PAF) is consulting on the exposure draft for the 2022 revision of Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (PN 10), which is expected to be issued in Autumn 2022.

PN 10 sets out how auditors of public sector bodies in England, Scotland, Northern Ireland and Wales apply auditing standards to their work on financial statements. The aim of the Practice Note is to support consistency in the application of auditing standards while also recognising the specific legislative and regulatory frameworks that apply to the audits of public sector bodies. PN 10 also provides guidance on the approach to the audit of regularity.

PN 10 was last revised in 2020 and there is a need to ensure the Practice Note is updated to take account of changes to International Standards on Auditing (UK) (ISAs (UK)) and other developments in the auditing profession.

The consultation draft has been approved by the Financial Reporting Council.

[Consultation on the 2022 revision of Practice Note 10 - Public Audit Forum (public-audit-forum.org.uk)](public-audit-forum.org.uk)

NATIONAL PUBLICATIONS
Public Sector Audit Appointments Ltd (PSAA)

5. PSAA Announcement of Procurement Outcome, October 2022

Public Sector Audit Appointments Limited (PSAA) is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. PSAA began the process of procurement of audit services for opted in bodies for the audit of accounts from 2023/24 to 2027/28. They issued an invitation to tender in April 2022, and tenderers has until 11 July 2022 to submit responses.

Only ten audit suppliers are currently registered to undertake local audits in England, three of which opted not to take part in this procurement. PSAA have offered contracts to six suppliers following a competitive process that was protracted reflecting the limited capacity available in the market. The scale of the contracts varies widely depending upon the capacity which each supplier is able to provide.

In October 2022, PSAA announced the outcome of its procurement of audit services for the 470 local government, police and fire bodies (99% of eligible local bodies) that have opted into its national scheme. PSAA have commenced a consultation on the proposed auditor appointments for all opted-in bodies for audits from 2023/24 to 2027/28 and will write to all bodies to confirm the Board’s final decision on the auditor appointments on or before 31 December 2022.

Press release: PSAA Announcement of Procurement Outcome – PSAA

6. FRC Major Local Audit Inspection Report - October 2022

The FRC is responsible for monitoring the quality of the audits of the largest health and local government entities (called Major Local Audits or MLAs). They do this by annually inspecting a sample of MLAs from each of the audit firms who deliver this work. In their most recent publication, they reported on their review of 20 MLAs, three of which related to Mazars. The ICAEW also reviewed 17 non-MLAs (none from Mazars).

For Mazars, the FRC found that all 3 files reviewed met the expected standards. This was the second successive year of 100% compliance. Whilst the sample size is small and focused on the higher risk audits, the improvement does reflect the investment we have made in people, technical expertise, specialists (such as building on in-house valuation team and strengthening our methodology. Maintaining and improving audit quality is a key objective of the firm and our investment will continue.

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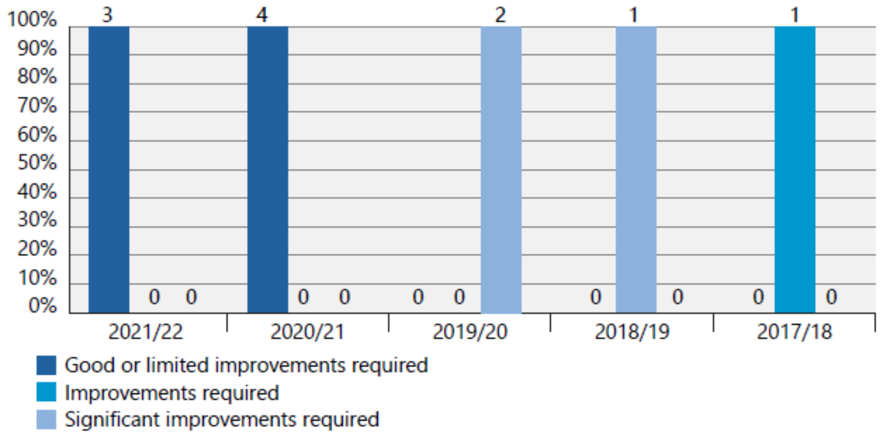
Overall, the FRC found that the number of audits categorised as good or limited improvements required has remained consistent with the prior year. However, there was an increase in the number of audits assessed as requiring significant improvements and they deemed this as unacceptable.

https://www.frc.org.uk/getattachment/aeb9149f-7bf9-45f2-802d-ca7b055b457e/Major-Local-Audits.pdf

Mazars LLP

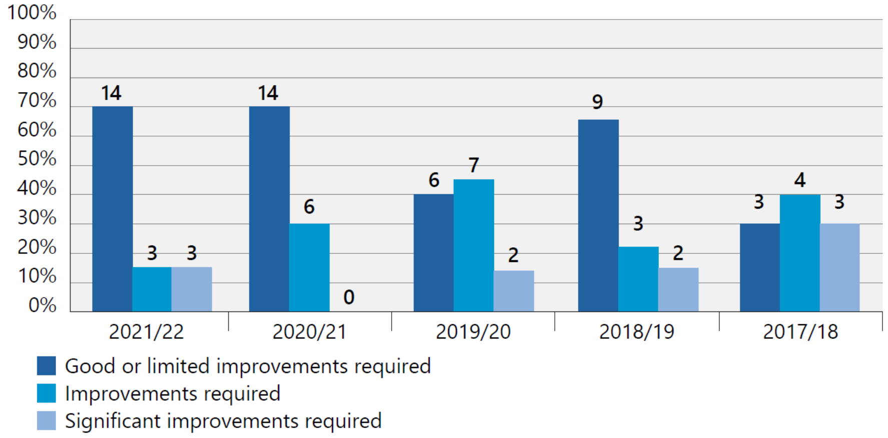
Our assessment of the quality of financial statement audits reviewed



100%

At Mazars LLP, all three financial statement audits inspected were assessed as good or limited improvements required.

All financial statement reviews – for the firms inspected



Contact

Mazars

Partner: Cameron Waddell

Email: cameron.waddell@mazars.co.uk

Manager: Jim Dafter

Email: jim.dafter@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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