Northumberland
County Council

Your ref:
Our ref:
Enquiries to: Andrea Todd
Email: andrea.todd@northumberland.gov.uk
Tel direct: 01670 622606
Date: Tuesday, 23 January 2024

Dear Sir or Madam,

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

WEDNESDAY, 31 JANUARY 2024 at **10.15 AM in THE COUNCIL CHAMBER, COUNTY HALL, MORPETH, NE61 2EF.**

Yours faithfully

Dr Helen Paterson
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 - 10)

Minutes of the meeting of the Audit Committee held on 29 November 2023, 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 2023-24 (Pages 11 - 16)

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 2023/24 council year.

5. REPORT OF THE DEPUTY LEADER AND CABINET MEMBER FOR CORPORATE SERVICES (Pages 17 - 26)

Best Value for Money Workstream Progress Report

The purpose of the report is to update the Audit Committee on work undertaken to date as part of the Best Value for Money Workstream, covering the period 1st April 2023 – 15th January 2024.

6. REPORT OF THE DIRECTOR OF LAW AND CORPORATE GOVERNANCE (Pages 27 - 54)

Regulation of Investigatory Powers Act 2000 (RIPA) Policy

To advise members of the requirements of the Regulation of Investigatory Powers Act 2000 and to ask Audit Committee to adopt a revised policy under this legislation.

7. REPORT OF THE DEPUTY LEADER AND CABINET MEMBER FOR CORPORATE SERVICES (Pages 55 - 60)

Changes to the Code of Practice for Local Authority Accounting in the UK for 2023-24

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 which will apply to the 2023-24 Statement of Accounts.

8. REPORT OF THE DEPUTY LEADER AND CABINET MEMBER FOR CORPORATE SERVICES (Pages 61 - 92)

Northumberland County Council - Statement of Accounts 2023-24

The purpose of this report is to provide the Audit Committee with:
a. an overview of the timetable for publishing the 2023-24 Statement of Accounts
b. an update on the Accounting Policies to be applied in the preparation of the 2023-24 Statement of Accounts.

9. EXTERNAL AUDIT (Pages 93 - 116)

Audit Progress Report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors. It updates members on the current position with the 2019/20 audit and the national delays in completing the 2020/21 and 2021/22 audits, how they impact the Council and the timing of the 2022/23 audit. It also includes, at Section 2, a summary of recent national reports and publications for information.

10. REPORT OF THE DEPUTY LEADER AND CABINET MEMBER FOR CORPORATE SERVICES (Pages 117 - 186)

Treasury Management Strategy Statement 2024-25

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 2024-25, Prudential Indicators 2024-25 to 2027-28 and the Minimum Revenue Provision Policy 2024-25.

11. REPORT OF THE EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES AND S151 OFFICER (Pages 187 - 198)

International Lessons Learned Review – Update

To update the Committee on progress in implementing the recommendations of the international lessons learned review commissioned following the issue of the S151 Officer’s S114 report in May 2022.

12. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT (Pages 199 - 226)

Outcomes from the External Quality Assessment of the Internal Audit Service

The purpose of the report is to advise Audit Committee of the findings / outcomes from the external quality assessment of the Internal Audit Service, undertaken in accordance with the Public Sector Internal Audit Standards.

13. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT (Pages 227 - 232)

Preparation of the Strategic Audit Plan 2024/25

The purpose of this report is to outline the approach to preparing the 2024/25 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.

14. REPORT OF THE DEPUTY LEADER AND CABINET MEMBER FOR CORPORATE SERVICES (Pages 233 - 250)

Corporate Risk Management Update

The purpose of this report is to provide Audit Committee with an update on the latest position of the corporate risk register following review by Executive Management Team and Cabinet.

15. URGENT BUSINESS

16. DATE OF NEXT MEETING

The next meeting is scheduled for Wednesday, 27 March 2024 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".

17. 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

18, 19	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.

18. REPORT OF THE DEPUTY LEADER AND CABINET MEMBER FOR CORPORATE SERVICES (Pages 251 - 316)

Corporate Risk Management Update

To consider a confidential appendix in relation to item 14 on this agenda.

19. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT (Pages 317 - 328)

Group Audit Committee: Update on Internal Audit work in relation to active group entities

The purpose of this report is to update Group Audit Committee on progress against planned internal audit activity in relation to Advance Northumberland, including a summary of work finalised since the previous update to Group Audit Committee in September 2023. This report was presented to Advance Northumberland Audit Committee on 30 November 2023.

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, 29 November 2023 at 10.15 a.m.

PRESENT

COUNCILLORS

Cessford, T.	Oliver, N.
Dale, A.	Reid, J.
Grimshaw, L.	Wallace, A.

CO-OPTED MEMBERS

Topping, P.

OFFICERS IN ATTENDANCE

Candlish, T.	Group Assurance Manager
Gerrard, S.	Director of Law and Corporate Governance (MO)
Hall, S.	Group Assurance Manager
McDonald, K.	Head of Internal Audit and Risk Management
Nicklen, L.	Lead HR Advisor
Todd, A.	Democratic Services Officer
Willis, J.	Executive Director of Transformation and Resources & S151 Officer

ALSO IN ATTENDANCE

Earl, R.	Advance Northumberland Chief Operating Officer (observing)
Sanderson, H.G.H.	Leader of the County Council (part)
Waddell, C.	Mazars (External Audit)

1 member of the press was present.

30. ELECTION OF CHAIR

RESOLVED that Councillor J. Reid be appointed Chair for this meeting.

(Councillor J. Reid, Chair, in the Chair).

31. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors D. Towns and P. Jackson.

32. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on 27 September 2023, as circulated, be confirmed as a true record and signed by the Chair.

33. DISCLOSURE OF MEMBERS' INTERESTS

Councillor Reid declared an interest in item 14 on the agenda (Update on Internal Audit work in relation to active group entities) as Chair of Advance Northumberland.

Councillor Cessford declared an interest in item 6 on the agenda (FPS Local Pension Board Annual Report) as he was a retired member of the Tyne and Wear Metropolitan Fire Brigade with a pension managed by West Yorkshire Pension Fund. He advised that he would leave the room while this item was debated.

34. MONITORING REPORT / ACTION LIST 2023-24

The Committee was asked to review and note its monitoring report/action list for the 2023/24 council year (a copy of which had been filed with the signed minutes).

S. Gerrard read out the following statement:

"I would like to thank the chair for the opportunity to address the committee. This is a prepared statement I am presenting in my capacity as the Director of Law and Governance.

Following the Report to the committee on 26 July 2023, on the Review of Exit Payments by the Executive Director of Transformation and Resources and S151 Officer, further enquiries have been undertaken and further advice has been sought on the matters identified.

Having consulted widely, including with the Leader and with the other statutory officers, I have decided to refer the matter to the Northumbria Police for further consideration. I have advised them that I am taking this action and am currently assembling the detailed relevant material to refer to them.

These matters inevitably take a considerable time to conclude. While the matter is under consideration I will not be making further comment and would urge a similar course of conduct upon members.

I would also like to take this occasion to advise members of recent communication from the Northumbria Police in relation to matters concerning ARCH North East. This was a matter raised by Northumberland County Council in 2017.

The Police advise that since 2017, Northumbria Police have undertaken three separate investigations, led by trained and accredited Senior Investigating Officers. Following the conclusion of all investigations, they are satisfied that the threshold of criminality has not been met and the evidence does not support any further police action.

In the circumstances I will not be taking questions".

Actions 5 and 6. Following the statement made by the Director of Law and Governance reports would be prepared once the additional work had been concluded.

Regarding Action 2, a report was to be prepared for the next meeting of Audit Committee which would focus on BEST and how the Council would deliver value for money services. It was noted that the Strategic Transformation Programme Business Case had already gone through the decision-making process and been agreed. Updates on BEST, workforce and recruitment had been considered recently through respective committees. Focusing on how the programme would ensure the Council was meeting its best value duty accords with the remit of Audit Committee and would ensure no duplication of work between different Council committees. It was noted that all past reports and presentations to Scrutiny, Cabinet and Council were in the public domain and available to view. Members agreed to move away from the strategic business case and receive an update report which would focus on best value duty aspects.

Action 4 could be closed as the meeting between officer and member had taken place.

Actions 3 and 7 had been programmed to be considered at the January 2024 meeting.

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

35. REPORT OF THE DIRECTOR OF LAW AND GOVERNANCE

Governance Review – Update on Continued Progress

S. Gerrard, Director of Law and Governance presented the report which summarised progress on delivering the Council's action plan following the independent review of governance undertaken in 2022. (A copy of the report has been filed with the signed minutes).

Councillor Dale commented on member development and some of the difficulties members were having accessing IT systems and general internet connectivity. It was agreed for Councillor Dale to contact S. Gerrard following this meeting to discuss her comments in more detail.

P. Topping suggested that it would be helpful within Appendix 1 of the report to have a traffic light assessment in place. This tool would indicate how well activities and milestones were being achieved and show how the overall governance actions were progressing.

P. Topping also suggested that within action number 10.2.9 (establishing a scheme of performance appraisal) a percentage be included to demonstrate and measure the number of people within the scheme. S. Gerrard thanked P. Topping for the suggestions to improve Appendix 1.

P. Topping raised a query about the Constitution. In response S. Gerrard confirmed that the document had been agreed at the annual meeting of County Council. It was noted that although the action was marked as complete the Constitution would be kept under continuous review.

Councillor Dale asked for a timeline for action number 10.2.6 (establishing a rationale for the establishment or continuation of any company established under the provisions of the Localism Act 2011). J. Willis confirmed that the framework and rationale was completed and agreed by Cabinet at the end of 2022. There had been two meetings of the Council's Shareholder Committee, and this would run for a year before inviting Local Partnerships (or another provider) to review how the new company governance arrangements were working. The findings of the review would be reported to Audit Committee in due course.

RESOLVED that Audit Committee consider and comment on progress on delivering the Council's action plan following the independent review of governance undertaken in 2022.

Councillor T. Cessford declared an interest in this item and withdrew from the meeting during consideration thereof.

36. REPORT OF THE EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES

FPS Local Pension Board Annual Report

J. Willis, Executive Director of Transformation and Resources introduced the annual report of the Northumberland County Council Firefighters' Pension Scheme (FPS) Local Pension Board ("the Board"), which was constituted in 2015 as part of changes introduced by the Public Service Pensions Act 2013. It was the intent of the Board to use the annual report to inform the Scheme Manager (i.e. NCC's S151 Officer in consultation with the Chief Fire Officer) of NCC's data on FPS membership, statement of accounts, and issues progressed through the Internal Disputes Resolution Procedure (IDRP) and Fire Disputes Panel. (A copy of the report has been filed with the signed minutes).

Councillor Dale commented on attendance at the regular meetings of the Local Pension Board and the commitment needed before agreeing to sit on the Board as a County Councillor representative.

RESOLVED that Audit Committee receive the Annual Report of the FPS Local Pension Board for 2022/23, attached as Appendix 1 to this report and provide comment to the Board and NCC's FPS Scheme Manager, if appropriate.

37. REPORTS OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

(a) Strategic Audit Plan 2023/24 - Interim Monitoring Statement

K. McDonald, Head of Internal Audit and Risk Management presented Audit Committee with an interim (half yearly) monitoring statement in respect of the Strategic Audit Plan for 2023/24 (a copy of the report has been filed with the signed minutes).

It was reported that during the 2023/24 Strategic Audit Plan 49 assignments had been programmed. At the mid-year point, 24 of these assignments were either in progress or completed. Work had also been undertaken on finalising 17 assignments from the previous financial year. In addition, a significant amount of unplanned work has been undertaken.

It was noted that the Strategic Audit Plan was under continuous review and following engagement, 5 additional assignments had been identified for inclusion within the 2023/24 plan of work. Of these assignments, 3 were currently underway and 2 planned for the second half of the year.

The Interim Monitoring Statement was attached as Appendix 1 and an update on all actions had been set out in Appendix 2 of the report.

P. Topping commented on some of the reviews that had been reprogrammed to 2024/25. In response it was confirmed that where this had been the case it had been done following discussions with officers. Often the reprogramming had taken place to ensure a more optimum time for the review. Agreement to reprogramme would only take place once the risk was mitigated. No assignments were forgotten about, and all recommendations made were followed up to ensure progress was made or action had been taken to address issues identified.

Councillor Oliver commented on the multiple large scale capital schemes which had been moved to 2024/25. He asked if there was a timetable of when this was to be reviewed as these capital schemes amounted to a large proportion of Council spend. Councillor Grimshaw reiterated the comments made by Councillor Oliver. It was confirmed that the review would take place as soon as possible and assurance was provided that no reprogrammed assignments were delayed without due cause.

Councillor Dale asked a question about the Borderlands project and specifically what progress was being made in Prudhoe. J. Willis advised that she would liaise with the Borderlands Team and provide a note to Councillor Dale following the meeting.

RESOLVED that Audit Committee notes and considers the progress set out in the Strategic Audit Plan Interim Monitoring Statement, attached as Appendix 1, and the level of coverage achieved by Internal Audit at this stage in the year.

(b) Key Outcomes from Internal Audit Reports

K. McDonald, Head of Internal Audit and Risk Management introduced the report which sought to advise Audit Committee of key outcomes from Internal Audit reports issued between May 2023 and October 2023 (a copy of which has been filed with the signed minutes).

RESOLVED that Audit Committee considers the key findings from, good practice identified in, and management action taken in response to the Internal Audit reports issued in this period, summarised in Appendix 1.

(c) Corporate Risk Management Update

K. McDonald, Head of Internal Audit and Risk Management introduced the report which provided Audit Committee with an update on the latest position of the corporate risks following review by Executive Team and Cabinet portfolio holders. (A copy of the report has been filed with the signed minutes).

RESOLVED that Audit Committee note the contents of the report.

38. REPORT OF THE DEPUTY LEADER AND CABINET MEMBER FOR CORPORATE SERVICES

Treasury Management Mid-Year Report 2023-24

J. Willis, Executive Director of Transformation and Resources reported the mid-year review of treasury management activities for the period 1 April to 30 September 2023, and performance against the Treasury Management Strategy Statement (TMSS) 2023-24 - as approved by the County Council on 22 February 2023. The report provided a review of borrowing and investment performance for the period set in the context of the general 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. (A copy of the report has been filed with the signed minutes).

It was noted that interest rates remained high and accordingly the current strategy was to minimise external borrowing and instead, wherever possible, rely on internal borrowing. There had been no new borrowing taken out in the first half of 2023-24. It was forecast that by the end of quarter 3 there would be a requirement for new borrowing.

The external funding position of the Council was known for this year and next. However, beyond 2024-35 there was no visibility of what the funding position was likely to be making it extremely difficult to plan for the future. It was noted that although the Council could not control external funding it could control its spending.

It was reported that there was currently a major piece of work being carried out to establish more accurate Capital Programme expenditure profiles which would be reported to the January meeting of Cabinet. This would assist in establishing more accurate forecasts of future borrowing requirements.

RESOLVED that Audit Committee:
(a) receive the report and note the performance of the Treasury Management function from 1 April to 30 September 2023 and
(b) present the report to County Council.

39. EXTERNAL AUDIT

Audit Completion Report – year ended 31 March 2022 and update on 2020/21 accounts

(A copy of the Audit Completion Report – year ended 31 March 2022 had been filed with the signed minutes).

C. Waddell, Mazars External Auditor reported that good progress had been made regarding the audit of accounts which had allowed for the audit completion report to be issued. There were a few areas of work still to be completed. Subject to the work being completed and any further amendments being made it was thought that an unqualified opinion on the financial statements of the Council would be reached.

The Audit Completion Report detailed the scope of the work that had taken place, including identifying significant audit risks and other areas of management judgement, which had been previously reported in the Audit Strategy Memorandum at the Audit Committee meeting held on 22 November 2022. It was reported that External Audit had reviewed the Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remained appropriate.

It was noted that External Audit were currently discussing with management the value for money (VFM) considerations. External Audit were anticipating having significant weaknesses in arrangements to report in relation to the arrangements that the Council had in place to secure economy, efficiency and effectiveness in its use of resources.

The timing of the audit had been adversely impacted by several factors, including issues with valuations of the Council and Group's property assets, delays in completing the Advance Northumberland Limited audit, the national infrastructure issue, and the national issue in relation to pensions.

Work was on-going, and a number of points were reported including:

- Within the accounts there was a reference to the payment of the International allowance to the former Chief Executive. External Audit had looked at this in terms of disclosure requirements. It was anticipated that once this had been done External Audit's audit report would not need to be modified. It was envisaged that a disclosure note would need to appear in the 2020/21, 2021/22 and the 2023/24 audit reports. However, deliberations were still taking place to decide if a paragraph within the audit report would be needed to draw the reader's attention to the matter.
- Regarding VFM, External Audit were still working though the reporting on this for 2019/20, 2020/21 and 2021/22. Judgements concerning the lawfulness of historic exit packages would need to be finalised before External Audit could completely conclude.

- Infrastructure. As reported many times before this was a national infrastructure issue impacting on most councils. There were a few queries outstanding, but it was not thought any big issues would be identified.
- Pensions. The Council was issued with a new Pension Fund Auditor letter which resulted in a revaluation and adjustments made to the Tyne and Wear Pension Fund. Following testing and some queries, answers had now been provided. It was not anticipated that there would be any further amendments to the accounts in relation to this area.
- Regarding valuation of property, plant and equipment, work was ongoing. The findings would be reported in a follow-up letter. Discussions were taken place on how best to record this risk going forward to ensure the issues that had arisen did not continue in the future.
- Group Accounts. There would need to be some top up work for County Council to get assurance at group level. This was mainly to do with investment property.
- There were a few issues still to be resolved around the annual Government Statement relating to exit packages and the impact they may have had or not on the audit report.
- Significant management override control. This area of work was largely complete with only a small amount of top up work left to finalise. There were no significant issues to report.
- There was an error on page 16 of the report, the heading should have read ‘Significant findings-enhanced risk: accounting *for infrastructure assets*’.
- Regarding quality of the Council’s accounts, policies were in line with what External Audit would expect for a local authority of this size with the assets liabilities income and expenditure they had.
- Mazars deemed the accounts to be of good quality and had improved.

Regarding the removal of the reference of the British Volt development at Cambois detailed within the summary of misstatements, it was confirmed that discussions were taking place between officers and External Audit to determine if there needed to be an amendment made to any of the wording within the Statement of Accounts 2022-23.

RESOLVED that Audit Committee receive the Audit Completion Report for the year ended 31 March 2022 and information provided be noted.

40. REPORT OF THE DEPUTY LEADER AND CABINET MEMBER FOR CORPORATE SERVICES

Statement of Accounts 2021-22

The report sought approval of the Council’s Statement of Accounts for the financial year ended 31 March 2022. (A copy of the report has been filed with the signed minutes).

J. Willis, Executive Director of Transformation and Resources drew members’ attention to the main points within the report.

RESOLVED that the Audit Committee:

(a) approve the Statement of Accounts for the Council for the financial year ended 31 March 2022, noting the outstanding issues in Section 2 of the External Auditors Audit Completion Report.
(b) approve delegated authority for the Executive Director of Transformation and Resources to agree the outstanding issues detailed in Section 2 of the External Auditor's Audit Completion Report.

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

Update on Internal Audit work in relation to active group entities

It was noted that due to the timing of the active group entities meetings there was no update to report for this Audit Committee.

RESOLVED that the information be noted.

42. DATE OF NEXT MEETING

RESOLVED that the next meeting has be scheduled for Wednesday, 31 January 2024 at 10.15 am.

CHAIR………………………………

DATE………………………………….

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NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

MONITORING REPORT / ACTION LIST
2023-24

D. Towns, Vice-Chair of Audit Committee
E-mail David.Towns@northumberland.gov.uk

Updated: 23 January 2024

NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE ACTION LIST

Ref	Date	Report	Action	To be actioned by	Outcome
1.	28.09.22	Caller Report	Regular updates on progress made to address issues raised from the Caller Report including monitoring progress on the Action Plan and the subsequent recommendations of the Challenge Board. For the item to be placed on the Work Programme.	Executive Director for Resources & Transformation (S151) to update when appropriate.	Last update produced for November 2023 meeting.
2.	~~28.09.22~~ 29.11.23	~~Strategic Transformation Programme Business Case~~ BEST – Value for Money	29 November Meeting – Action List Amended to: Remove Strategic Transformation Programme Business Case and replace with BEST update.	Executive Director for Resources & Transformation (S151)	Report to be scheduled for January 2024 meeting
3.	26.07.23	International Lessons Learned Review	Report received by the Committee in July 23. Audit Committee will receive a further progress report in six months' time.	Executive Director for Resources & Transformation (S151).	Report scheduled for January 2024 meeting.
4	27.09.23	Member Request	Report on past dismissals of statutory officers.	Head of Internal Audit & Risk Management	
5	27.09.23	Member Request	Further report on the legality of exit payments.	Exec Director of Transformation and Resources (S151) and Director of Law & Governance (MO)	

Updated: 23 January 2024

6.	27.09.23	Member Request	Report on workforce issues including exit interviews.	Head of Workforce & OD	
7.	27.09.23	Review of External Inspection Reports – Adult Social Care and Children's Services	Future reports to include a longer history of CQC gradings within adult social care settings.	A. Curry, Senior Manager – Commissioning	Officer to include in future reports.
8.	29.11.23	Governance Review – update on Continued Progress	Query regarding member development and IT issues.	Director of Law & Governance (MO)	S. Gerrard to discuss with Cllr Dale.
9.	29.11.23	Strategic Audit Plan 2023/24 - Interim Monitoring Statement	Query regarding Borderlands Project.	Exec Director of Transformation and Resources (S151)	J. Willis to collate information for Cllr Dale.

WORK PROGRAMME

ISSUE
31 January 2024
Internal Audit, Risk Management & Corporate Fraud Preparation of the Strategic Audit Plan 2024/25 Update on Internal Audit work in relation to active group entities Corporate Risk Management Update Outcomes from the External Quality Assessment of the Internal Audit Service **Corporate Finance** Statement of Accounts 2023/24 - Timetable and Policies Changes to the Code of Practice for Local Authority Accounting in the UK 2023/24 Treasury Management Strategy Statement 2024/25 International Lessons Learned Review 6-month update Best Value for money Workstream Progress Report **External Audit** Audit Progress Report **Reports from Other Service Areas** **Reports previously deferred** Regulation of Investigatory Powers Act 2000 (RIPA) Policy
27 March 2024

Internal Audit, Risk Management & Corporate Fraud Counter Fraud Update Risk Management Update Report Strategic Audit Plan 2024/25 Annual Audit Committee Work Programme Annual Review of Audit Committee Effectiveness Update on Internal Audit work in relation to active group entities **Corporate Finance** Group Boundary Review 2023/24 Annual Governance Statement 2023/24 Northumberland County Council – Consideration of ‘Going Concern Status’ for the Statement of Accounts for the year ended 31 March 2024 **External Audit** Audit Progress Report **Reports from Other Service Areas** Education & Safeguarding Performance – Review of External Inspection Reports
29 May 2024
Internal Audit, Risk Management & Corporate Fraud **Corporate Finance** **External Audit** **Reports from Other Service Areas**

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 where/when appropriate.

Northumberland County Council

COMMITTEE : AUDIT COMMITTEE

DATE: 29TH JANUARY 2024

Best Value for Money Workstream Progress Report

Report of : Jan Willis, Executive Director – Transformation and Resources, and Executive Sponsor of BEST, Audrey Kingham, Executive Director - Children, Young People and Education and Senior Responsible Officer for Best Value for Money Workstream

Cabinet Member: Cllr Richard Wearmouth, Deputy Leader and Cabinet Member for Corporate Services

1 Purpose of report

The purpose of the report is to update the Audit Committee on work undertaken to date as part of the Best Value for Money Workstream, covering the period 1st April 2023 – 15th January 2024.

2 Recommendations

The Audit Committee is invited to note and comment on the activity and progress of the Best Value for Money Workstream.

3 Link to Corporate Plan

3.1 The Best Value approach and Planning, Performance and Accountability Framework form part of the Corporate Plan, to provide us with a clear mechanism to ensure we are doing the right things well, achieving the best impact from our decisions and demonstrating the value we are delivering for our residents. In order to achieve our Best Value ambition, and operationalise and embed our Planning, Performance and Accountability Framework, a number of targets were set within the Corporate Plan:

- PPAF – develop and launch the Framework for how the Council plans, prioritises and measures and ensures its strategic objectives are delivered (March 24)
- Develop Value for Money Assessment process and pilot through the Workstream (Summer 23)

- All services complete a value for money assessment to inform the improvement actions within their service plan and set a baseline for improvement to be measured against (Summer 23)
- A forward plan prioritising how services will be identified for a deep dive will be developed through the Planning, Performance and Accountability Framework. Deep dives into the performance of individual services to be completed in line with the prioritisation plan (Summer 23)
- Service Planning – to be developed to set out how each division will contribute to the Corporate Plan outcomes and how impact will be measured (Summer 23)

4 Key issues

The Best Value for Money Workstream forms part of BEST delivery. The aim of the Workstream is to introduce a more rigorous approach to planning and performance management, and perform Deep Dive reviews into specific service areas, with the aim of achieving better outcomes for customers while reducing demand on higher cost public services to make savings of: LOW £1.88m HIGH £2.68m.

5 Workstream Project Delivery:

5.1 Corporate Plan:

5.1.1 The Corporate Plan was developed by a core working group, supported by a wider Corporate Plan group with representation from each service area. Additionally, two policy conferences were held with Members, which took place on the 11th January 2023(focussing on the proposed priorities), and a second on 3rd April 2023, which covered priorities, outcomes and actions, as well as an update covering values and behaviours. This activity was designed to inform the development of the Corporate Plan, and share learning from the summary and comparison of good practice to influence this approach. It was also designed to address relevant points on the previous Corporate Plan from the Caller Review. The Corporate Plan was approved in May 2023

5.2 Planning, Performance and Accountability Framework:

5.2.1 To endorse Northumberland as a land of great opportunities, we want to achieve best value in how we make our evidence based decisions and deliver our services. Our Planning, Performance and Accountability Framework is fundamental to achieving best value as it describes how we do and will do things in Northumberland. It sets out the rhythm of our council, describing the processes and mechanisms we have in place to ensure a consistent and effective approach to planning, performance, and assurance across our complex range of services.

5.2.2 The Framework guides officers and members by clearly describing our decision-making process. It shows the link between strategic corporate decisions and the work of all our staff, ensuring our services do the right things in the right way to achieve the greatest impact for residents in Northumberland. Our Framework gives us a shared approach, supporting all our staff to be clear about their role in achieving our shared vision of Northumberland as a land of great opportunities.

5.2.3 The Planning, Performance and Accountability Framework has been developed following a number of workshops with stakeholders from across the organisation, and has been co-designed with the aim of creating a clear thread from Corporate Plan throughout the organisation, and influence down to appraisal and supervision. Following on from the work to develop the Corporate Plan, the Task & Finish Group was merged in to the Planning, Performance and Accountability Framework Development Stakeholder Group, to ensure a level of consistency in approach and membership, as well as alignment to the principles of the Corporate Plan. Further engagement work has been undertaken via Corporate Briefings and attendance at DMT meetings. The Planning, Performance and Accountability Framework is currently in draft format, due for approval process at the end of February 2024, and embedding and comms activity will take place once approved.

5.3 Service Plans

5.3.1 Following three workshops held with a variety of staff from across the organisation to co-design the Service Plan approach, the first iteration of the Service Planning document was released in Summer 23 and has been completed by Service areas. During this process three more sessions were held virtually and in-person to provide support to officers who had any questions about the template or the process. Live learning sessions were then held in November 2023 with Service Directors following completion of the Service Plan document by Service Directors and their Heads of Services. The aim of this workshop was to learn from their experience completing the document and their reflections of the process providing the direction to refine and iterate the approach; leading to the imminent release of an updated second version of the Service Planning document for the next cycle of planning. The Service Plans are an integral part of corporate planning and the work underway to refresh the cycle for recording and reporting corporate performance will be core to the planning cycle and to reinforce links to the Corporate Plan.

5.4 Data & BI Strategy (Data Leaders)

5.4.1 A Data Leaders group has been set up, to identify ways of working together across the organisation to develop solutions to common data issues, and develop the Data and BI Strategy. This is held on a monthly basis, with representation from over 35 staff, from a variety of service areas. Key achievements of the Data Leaders group to date include:

- Sharing skills, knowledge and practice
- Assessment and consolidation of tooling (i.e. the apps and systems we use to complete our work)
- Set up an Emergency Response data working group and data set
- Helped review the Data Academy offer and continued assessment of value
- Removal of service blockers around data use / data sharing

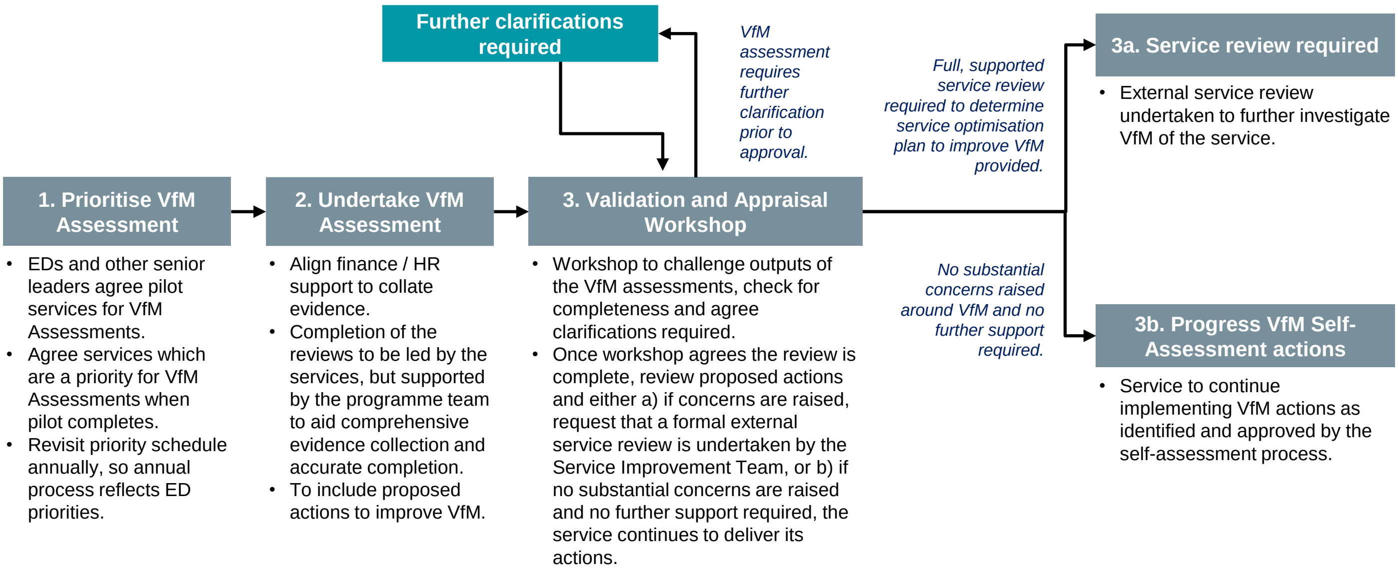
- Helped govern the GIS strategy and work to modernise and set standards for GIS across NCC

5.4.2 The Data Academy proposal has been developed and launched, with 50 staff members engaged in the first training cohort, due for completion December 2024. The impact of this will be around equipping staff with the skills to make faster and more accurate data-informed decisions. The Data and BI Strategy is currently in draft format, and is due to be completed by the end of the Financial year and will be part of the corporate document suite with the Corporate plan and the Planning, Performance and Accountability Framework.

5.5 Value for Money Assessment Framework

5.5.1 The Executive Team have completed a high-level Best Value Assessment. A pilot with three service areas is now underway, the framework for the pilot has been developed in conjunction with our Delivery Partners. The self-assessment tool is being completed with the service areas and is also being reviewed, the core team are listening to the service team as this is our opportunity to adjust the tool and template prior to rolling out across all services.

Stages of the Value for Money Assessment Framework:



5.6 Service Reviews:

5.6.1 As a result of Value for Money Assessments corporately NCC will be able to identify areas/services requiring a Service Review or a topical Deep Dive. Ahead of having the VFM assessments Service Reviews were identified within the original Strategic Business Case proposals as a means of looking at service areas with high levels of demand. Key lines of enquiry were determined upon level of expenditure and demand pressures on the service. Service Reviews were recommended as ways to determine opportunities to drive down demand or change operating models. The following service areas were identified as initial areas to explore.

5.6.2 Home to School Transport

5.6.3 Best Value for Money has brought together and extended the review of Home to School Transport which initially took place in 2022, with the aim of delivering on the subsequent recommendations. The Transformation Fund has supported with funding monies to develop roles and the work of Independent Travel Trainers as a proof of concept project. Two Independent Travel Trainers have now been employed on a 1 year fixed-term basis to develop the project, aimed at supporting travel independence for our SEND young people, developing skills and confidence, where it is identified that the potential to use public transport or walking to school may be achievable. The initial target it to work with 21 young people in this first year.

5.6.4 Engagement work with parent carers regarding the potential for developing Enhanced Personal Budgets to enable them to organise or deliver their own home to school transport arrangements has been undertaken, and the project team are developing the policy and eligibility criteria. The engagement work consisted of an initial questionnaire to a cohort of 51 families, based on users of single occupancy vehicles in the top 10% of cost, followed by the opportunity to engage more on a one to one basis, which was taken up by five parent carers. There is an intention to go back out to these families for further engagement once proposals are more advanced.

5.6.5 Terms and conditions are being drafted to support pilot activity around devolving elements of the school transport budget directly to schools, with two schools having been identified, as well as the limited pilot activity currently being operated in partnership with Mowbray Primary School. Business Cases are currently being developed with identified schools.

5.6.6 A Service Review of contracting arrangements and finance was commenced in November 2023 to determine whether best value is being achieved and identify opportunities for improvement, alongside recommendations to be used as part of the contract review cycle. This is due for completion March 2024, and has been undertaken by the Service Review team, in conjunction with Internal Audit, who completed a baseline of reviewing internal processes covering Governance, contract terms and conditions, contract awards and compliance.

5.6.7 A key aspect of the Overall review is to determine a new way of working for home to school transport with children and families at the heart of our systems and approaches. This will include all Home to School Transport and School Admissions processes. This includes Transport policies, Service User Consultation development, Child Safeguarding, working groups around Childrens and Adults Social Care, Transport Eligibility and Transport Management System options.

5.6.8 Environment

5.6.9 The Service Review of Environment is to be the first Review to be completed under the joint approach of our internal Service Review Team and our Delivery Partner, and it has been agreed at an Executive level that rather than focusing on individual areas, as set out in the original Strategic Business Case, an overarching review of the service would be more efficient, looking at structure, process, technology etc. The joint approach and design principles are being agreed with Deloitte, and it is intended that the review will be complete by the end of the financial year/early 24-25. The review will focus on both financial and non-financial outcomes and any financial savings will feed in to the budget. The project team will be made up of Service Review Team, Delivery Partner and SME's from the service, working jointly to identify improvement and efficiencies alongside identifying best practice to share with the wider organisation. The Project Lead will be agreed from within the Service Review team.

6 Implications

Policy	This paper provides an overview of activities to date of the Best Value for Money Workstream. Policy implications identified within the Workstream relate to Home to School Transport. Working groups containing Subject Matter Experts have been established to consider these implications and ensure process will be adhered to.
Finance and value for money	No additional funding required. Savings of between £1.88m - £2.68m have been attributed to this Workstream, as part of BEST.
Legal	It is not anticipated that the actions of the Value for Money will have any legal implications, however there may be implications in relation to any policy changes required. Some developments relating to the development of the PPAF should support our reporting of performance measures and statutory obligations.
Procurement	None identified
Human Resources	No new recruitment is identified. However, service areas will need to devote resources in terms of staff / officer time to deliver these actions. It may be that as part of developing implementation plans, organisations will need to consider recruitment or resourcing implications.
Property	There are no specific implications for Estates.
Equalities	None.

(Impact Assessment attached) Yes ☐ No ☐ N/A ☒	An Impact Assessment is not applicable as the report does not require a key decision.
Risk Assessment	N/A
Crime & Disorder	None identified
Customer Consideration	Engagement work with parent carers has provided a starting point for work around Home to School Transport, and is considered against any proposals to be taken forward. The proposals are intended to improve the lives of our residents.
Carbon reduction	None identified at present, though some recommendations around Home to School Transport, and options that may come out of the proposed review of Environment, will be considered as means of contributing to carbon reduction aims.
Health and Wellbeing	Potential positive impact on the health and wellbeing of residents through enabling independence and healthy options in travel related to Home to School Transport
Wards	All

Background papers:

None

Report sign off.

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

	Full Name of Officer
Monitoring Officer/Legal	Neil Masson
Executive Director of Finance & S151 Officer	Jan Willis
Relevant Executive Director	Stephen Gerrard
Chief Executive	
Portfolio Holder(s)	Cllr Richard Wearmouth

Author and Contact Details

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Northumberland
County Council

Audit Committee

Wednesday, 31 January 2024

Regulation of Investigatory Powers Act 2000 (RIPA) Policy

Report of: Stephen Gerrard, Director of Law and Corporate Governance

Responsible Officer(s): Stephen Gerrard, Director of Law and Corporate Governance

1. Link to Key Priorities of the Corporate Plan

This report is relevant to the priorities included in the NCC Corporate Plan 2023 - 2026

Achieving value for money – operating efficiently and effectively. The policy will assist those in enforcement to comply with RIPA and the codes of practice, ensuring effective and efficient practices through good governance.

Tackling Inequalities – supporting everybody to live their best lives. We will use our enforcement powers in accordance with the policy to protect and support the community at large.

Driving Economic Growth – enabling prosperity across the country. Through good governance and proportionate / necessary enforcement communities and businesses can thrive and prosper.

2. Purpose of report

To advise members of the requirements of the Regulation of Investigatory Powers Act 2000 and to ask Audit Committee to adopt a revised policy under this legislation.

3. Recommendations

3.1 The Committee consider the report and approve the updated policy.

3.2 The Committee to agree to review and approve the RIPA policy on an annual basis.

3.3 The Committee agree to monitor the Council's use of RIPA powers and undertake a review of those powers annually.

4. Forward plan date and reason for urgency if applicable

This report does not require a key decision

5. Background

5.1 This report brings to the attention of the Audit Committee, the requirements of the Regulation of Investigatory Powers Act 2000 ('RIPA') through an updated policy which covers the approach to covert investigation techniques undertaken by the council and the steps needed to demonstrate compliance with RIPA and the associated Codes of Practice to the Investigatory Powers Commissioners Office (IPCO).

5.2 It should be noted that the Revised Code of Practice issued by the Home Office in August 2018 – Covert Surveillance and Property Interference, states at Paragraph 4.47:

5.3 "*Elected members of a local authority should review the authority's use of the 1997 Act and the 2000 Act and set the policy at least once a year. They should also consider internal reports on use of the 1997 Act and the 2000 Act on a regular basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose*."

5.4 <u>The purpose of RIPA</u> – RIPA provides a legal framework for the control and regulation of surveillance and information techniques which eligible public authorities under RIPA undertake as part of their duties.

5.5 <u>The scope of the Policy</u> – the Policy is intended to cover the covert surveillance and information gathering techniques which are most likely to be carried out by the Council. The policy is necessary to ensure that the Council complies with RIPA and the Codes of Practice in accordance with the principles of consistency, balance and fairness.

5.6 <u>Use of RIPA by Northumberland County Council</u> – whilst it is necessary for the council to have a policy in place to ensure we carry out our surveillance activities correctly, in recent years, there has been little use of the powers. There were no authorisations applied for in 2020/21, 2021/22 or 2022/23.

5.7 A central register must be kept of any applications and authorisations, and this is held by Legal Services. In accordance with the constitution, the RIPA monitoring officer is the Director of Law of Corporate Governance, who has responsibility in accordance with any approved policy to "monitor the integrity of operation of RIPA"

5.8 It is very important to ensure that we have appropriately trained officers in place to both make applications and grant authorisations and take appropriate steps to mitigate against the risk that officers of the council are unwittingly engaged in directed surveillance activities.

5.9 Training has been arranged for the newly appointed officers listed in Appendix A to the policy. It is also proposed, post adoption of the policy, that wider training for enforcement staff will be considered.

5.10 The Investigatory Powers Commissioner's Office – the IPCO provides independent oversight of the use of investigatory powers by intelligence agencies, the Police, and other Public Authorities. The Council will receive periodic inspections / requests for information from IPCO, during which it will check to see whether the Council is complying with RIPA. The next inspection will take place in 2026. It is important that the Council can demonstrate that it complies with the requirements of RIPA.

6. Options open to the Council and reasons for the recommendations

6.1 As stated above, the recommendations follow the legislation and Code of Practice issued by the Home Office. Any option not to review and set policies as stated within the recommendations would be contrary to the Code of Practice and would not give assurance to the IPCO that the Council had adequate processes to comply with the legislation.

7. Implications

Policy	Implementation of new policy which is intended to ensure the council in exercising its statutory enforcement powers, which includes the use of "surveillance", and may involve breaching an individual residents' human rights, does so in a manner which is lawful, balanced, and proportionate
Finance and value for money	There are no specific financial implications arising directly from this report
Legal	In accordance with the constitution the RIPA policy needs to be reviewed and agreed by Audit Committee
Procurement	There are no specific procurement implications arising directly from this report
Human resources	There are no specific human resources implications arising directly from this report
Property	There are no specific property implications arising directly from this report
The Equalities Act: is a full impact assessment required and attached?	No - not required at this point The use of surveillance powers will only be undertaken as an option of last resort and all applications will be subject to both consideration and approval by a competent senior officer, and the judiciary.
Risk assessment	The policy will seek to ensure that the council, when undertaking enforcement, which includes surveillance, is compliant with Human Rights Act.

Crime and disorder	The policy will support the execution of enforcement activities undertaken by the council and enable evidence to be gathered to tackle crime and disorder.
Customer considerations	The policy will seek to ensure that the council, when undertaking enforcement, which includes surveillance, is compliant with Human Rights Act.
Carbon reduction	There are no specific carbon reduction implications arising directly from this report
Health and wellbeing	There are no specific health and wellbeing implications arising directly from this report
Wards	(All Wards);

8. Background papers

Not applicable

9. Links to other key reports already published

Not applicable

10. Author and Contact Details

Lisa Bishop, Principal Lawyer, Legal Services
Email: lisa.bishop@northumberland.gov.uk

Northumberland
County Council

Policy

Authorisation and conduct of surveillance.
(Regulation of Investigatory Powers Act 2000)

Summary

Northumberland County Council is charged with carrying out various enforcement duties which require officers to conduct appropriate investigations. On occasion, these investigations will require officers to gather information using covert surveillance techniques such as:

- *Directed surveillance.*
- The use of an informant or an officer working undercover (known as a '*Covert Human Intelligence Source*' or '*CHIS*').

Investigations that require such surveillance and the use of an informant are governed by the *Regulation of Investigatory Powers Act 2000 ('RIPA')* as it is necessary to strike a balance between the public interest and the rights of individuals.

To conduct any covert surveillance techniques, there is a strict application process known as an authorisation, specially trained officers within the Council can grant authorisations, provided certain legal tests are met and then judicial approval is also required.

This Policy sets out the Council's approach to covert investigation techniques and the purpose of this Policy is to ensure that the Council complies with RIPA and associated guidance or Codes of Practice in accordance with the principles of consistency, balance and fairness.

Adopted by the Council: XX 2024

Reviewed:

Contents

1 Introduction

1.1 Northumberland County Council (‘*the Council*’) is charged with carrying out various enforcement duties which require officers to conduct appropriate investigations.

1.2 Occasionally, investigations will require such officers to gather information in respect of individuals who may be unaware of what is taking place.

1.3 This may be by the use of covert surveillance or, more rarely, by using an informant or an officer working undercover (known as a ‘*Covert Human Intelligence Source*’ or ‘*CHIS*’).

1.4 In conducting these investigations, it is necessary to strike a balance between the public interest and the rights of individuals.

1.5 This Policy sets out the Council’s approach to covert investigation techniques within the framework of the *Regulation of Investigatory Powers Act 2000* (‘*RIPA*’).

1.6 The purpose of this Policy is to ensure that the Council complies with RIPA and associated guidance or codes of practice in accordance with the principles of consistency, balance and fairness.

1.7 Any queries concerning the content of the document should be addressed to the RIPA Monitoring Officer.

2 RIPA

2.1 The purpose of RIPA

2.1.1 RIPA provides a legal framework for the control and regulation of surveillance and information techniques which eligible public authorities under RIPA (‘*Public Authorities*’) undertake as part of their duties.

2.1.2 The need for such control arose as a result of Article 8 of the *European Convention on Human Rights* (as set out in Schedule 1 to the *Human Rights Act 1998*), which states as follows:

Article 8

Right to respect for private and family life

1 *Everyone has the right to respect for his private and family life, his home and his correspondence.*

2 *There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others.*

2.1.3 The right under paragraph 1 of Article 8 is a qualified right and Public Authorities may interfere with this right for the reasons given in paragraph 2, and RIPA provides the legal framework for lawful interference.

2.2 **The scope of this Policy**

2.2.1 This Policy is intended to cover the surveillance and information gathering techniques which are most likely to be carried out by the Council.

2.2.2 Neither RIPA itself nor this Policy covers the use of any overt surveillance, or circumstances where members of the public volunteer information to the Council.

2.2.3 RIPA does not normally cover the use of overt CCTV surveillance systems but if any officer envisages using any such system for surveillance, they should first contact the RIPA Monitoring Officer for advice in that respect.

2.2.4 RIPA (and subsequent legislation within the Investigatory Powers Act 2016 which replaced its provisions in relation to interception and acquisition of communications data) deals with a wide variety of surveillance techniques. Examples of those which **cannot** or **will not** be used by local authorities include:

(a) The interception of any communication, such as postal, telephone or electronic communications without both the sender and receiver's permission;

(b) The acquisition and disclosure of information to who has sent or received any postal, telephone or electronic communication; and

(c) The covert use of surveillance equipment within any premises or vehicle (including business premises and vehicles) with the intention of covertly gathering information about the occupant(s) of such premises or vehicles ('Intrusive Surveillance').

2.3 **The consequences of not following RIPA**

2.3.1 *Section 27* of RIPA provides that surveillance shall be lawful for all purposes **if** authorised and conducted in accordance with an authorisation granted under RIPA.

2.3.2 Lawful surveillance is exempted from civil liability – if officers follow this Policy, then they should be protected by this '*RIPA Shield*'.

2.3.3 Not obtaining valid authorisation may have the following consequences:

(a) The evidence that is gathered may be inadmissible in Court;

(b) The subjects of surveillance can bring their own proceedings against the Council, or defeat proceedings brought by the Council against them on human rights grounds, i.e., that we have infringed their rights under Article 8 but have failed to ensure that we are protected by the RIPA Shield;

(c) Where a challenge under Article 8 is successful the Council may be liable to pay financial compensation;

(d) A complaint may be made to *The Investigatory Powers Commissioner's Office* ('*IPCO*') and

(e) Any person who believes that their rights have been breached can have their complaint dealt with by *the Investigatory Powers Tribunal* (https://www.ipt-uk.com/).

2.4 The Investigatory Powers Commissioner's Office

2.4.1 IPCO provides independent oversight of the use of investigatory powers by intelligence agencies, the police and other Public Authorities.

2.4.2 It has unfettered access to all locations, documentation and information systems as necessary to carry out full functions and duties and will review the way in which Public Authorities implement the requirements of RIPA.

2.4.3 The Council will receive periodic inspections from IPCO, during which it will check to see whether the Council is complying with RIPA.

2.4.4 It is important that the Council is able to demonstrate that it complies with both the provisions of RIPA and of this Policy.

3 Covert surveillance

3.1 Categories of covert surveillance

3.1.1 Surveillance includes:

(a) Monitoring, observing or listening to persons and their movements, conversations and other activities;

(b) Recording anything monitored, observed or listened to in the course of surveillance; and

(c) The use of a surveillance or recording device such as a camera, camcorder, binoculars, CCTV, mobile phone, etc.

3.1.2 Surveillance is covert if the persons who are the subject of the surveillance are unaware that it is taking place.

3.1.3 There are three categories of covert surveillance under RIPA:

(a) ***Directed surveillance*** (*section 28* of RIPA);

(b) The use of a ***Covert Human Intelligence Source*** ('*CHIS*') (*section 29* of RIPA); and

(c) ***Intrusive surveillance*** (*section 32* of RIPA).

PLEASE NOTE – the Council **cannot** and **will not** issue authorisations for intrusive surveillance.

3.2 Directed Surveillance ('*DS*')

3.2.1 Surveillance is Directed Surveillance within the meaning of RIPA if it is covert but not intrusive and is undertaken:

(a) for the purposes of a specific investigation or operation;

(b) in such a manner as is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation); and

(c) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation to be sought for the carrying out of the surveillance.

3.3 **Covert Human Intelligence Source** (‘*CHIS*’)

3.3.1 A CHIS includes:

(a) an officer who establishes or maintains a personal or other relationship with a person for the covert purpose of using the relationship to obtain information (e.g., an officer who is working undercover); and

(b) any other person who establishes such a relationship for the covert purpose of disclosing information obtained by the use of the relationship (e.g., an informant).

3.3.2 A purpose is covert if and only if the relationship is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.

3.3.3 In either case set out in paragraph 3.3.1 above there is a need to consider the safety and welfare of the CHIS, and the identity of the CHIS must always be kept private and protected.

3.4 **Intrusive Surveillance**

3.4.1 In broad terms, Intrusive Surveillance means surveillance carried out on residential premises or in a private vehicle, either by means of an individual present on the premises or in the vehicle, or by means of a surveillance device.

3.4.2 Local authorities are **not** permitted to carry out intrusive surveillance.

4 Procedure for Obtaining Authorisations

4.1 **The Senior Responsible Officer** (‘*SRO*’)

4.1.1 The Council’s SRO (in conjunction with the RIPA Monitoring Officer as set out below) is responsible for:-

(a) ensuring the integrity of the Council’s RIPA processes;

(b) ensuring compliance with RIPA legislation and the associated Home Office Codes of Practice;

(c) oversight of reporting errors to the IPCO and implementing processes to minimise repetition of errors;

(d) engaging with IPCO for inspections;

(e) overseeing the implementation of any post-inspection plans; and

(f) ensuring that all Authorising Officers receive appropriate training.

4.2 **The RIPA Monitoring Officer (Monitoring Officer)**

4.2.1 In accordance with the constitution of the Council, the Monitoring Officer is also responsible for:-

(a) ensuring the integrity of the operation of RIPA

(b) ensuring compliance with RIPA legislation and the associated Home Office Codes of Practice;

(c) oversight of reporting errors to the IPCO and implementing processes to minimise repetition of errors;

(d) engaging with IPCO for inspections and overseeing the implementation of any post-inspection plans;

(e) Monitoring authorisations and conducting reviews of applications, authorisations and refusals and reviewing renewals and cancellations.

4.3 **Authorising Officers**

4.3.1 Authorising Officers may authorise, review or cancel DS, and may authorise, review or cancel the use of a CHIS.

4.3.2 A designated Authorising Officer must qualify **both** by seniority and by competence. Officers who wish to be designated must have been trained to an appropriate level so as to have an understanding of the Act and the requirements that must be satisfied before an authorisation can be granted.

Appendix A sets out the officers within the Council who may grant authorisations.

Authorisations must be given in writing by the Authorising Officer.

4.3.4 Authorising Officers are also responsible for carrying out regular reviews of applications which they have authorised and also for the cancellation of authorisations.

4.4 **Investigating Officers** - *What they must do before applying for authorisation*

4.4.1 Investigating Officers should think about the need to undertake DS or using a CHIS before they seek authorisation.

Investigating Officers need to consider whether they can obtain the information by using techniques other than covert surveillance.

There is nothing that prevents an Investigating Officer discussing the issue of surveillance beforehand. Any comments by a supervisor should be entered into the application for authorisation.

4.4.2 The Codes of Practice advise that Authorising Officers should not be directly responsible for authorising investigations or operations in which they are directly involved, although it is recognised that this may sometimes be unavoidable.

4.4.3 If an Investigating Officer intends to carry out DS or use CHIS, they should complete and submit an ***Application for Directed Surveillance*** form, or an ***Application for CHIS*** (as the case might be) to an Authorising Officer.

4.4.4 An electronic version of the most up-to-date forms and Codes of Practice are available online, downloaded from the Home Office in **Appendix B**.

4.4.5 The Investigating Officer should also include an assessment of the risk of collateral intrusion to the privacy of third parties and detail any measures taken to limit this.

4.4.6 **Appendix C** shows the steps which are required as part of the authorisation process, and the *Covert Surveillance and Property Interference Revised Code of Practice* (August 2018) contains best practice guidelines with regard to applications for DS, including the need for information to be presented in a fair and balanced way.

4.4.7 The person seeking the authorisation should obtain a *Unique Reference Number* from the RIPA Monitoring Officer and complete parts 1 and 2 of the form, having regard to the guidance given in this Policy and the statutory Codes of Practice.

4.4.8 The form should then be submitted to the Authorising Officer for authorisation.

4.5 **Authorising Officers** - *What they must do before authorising surveillance*

4.5.1 Before giving authorisation, an Authorising Officer **must** be satisfied that the reason for the request is the permitted reason under the Act and permitted under, i.e., in the case of DS, for the purpose of the prevention and detection of conduct which constitutes one or more criminal offences that are:

(a) punishable by a maximum term of at least 6 months imprisonment; **or**

(b) are offences under:

(i) *section 146* of the *Licensing Act 2003* (sale of alcohol to children);

(ii) *section 147* of the *Licensing Act 2003* (allowing the sale of alcohol to children);

(iii) *section 147A* of the *Licensing Act 2003* (persistently selling alcohol to children); or

(iv) *section 7* of the *Children and Young Persons Act 1993* (sale of tobacco etc. to persons under eighteen);

(v) *section 91 of the Children and Families Act 2014* (purchase of tobacco, nicotine products on behalf of persons under 18etc)

(vi) *section 92 of the Children and Families Act 2014 (prohibition of the sale of nicotine products to persons under 18)*

AND

(c) that the desired result of the covert surveillance cannot reasonably be achieved by other means; and

(d) that the risks of collateral intrusion (meaning the risk of obtaining private information about persons who are not the subject of investigation) have been properly considered, and the reason for the surveillance is balanced proportionately against the risk of collateral intrusion with particular consideration given to cases where religious, medical, journalistic or legally privileged material may be inferred, or where communications between a Member of Parliament and another person on constituent business may be involved; and

(e) that there must also be consideration given to the possibility of collecting confidential personal information, in which case the matter should be passed to the SRO for consideration.

4.4.2 An Authorising Officer **must** also be satisfied that the surveillance in each case is **necessary** and **proportionate**. (The Protection of Freedoms Act 2012)

4.4.3 In determining whether the surveillance is necessary and proportionate, the considerations detailed below should be taken into account.

4.4.4 **Necessity**

(a) Obtaining an authorisation under RIPA will only ensure that there is a justifiable interference with an individual's Article 8 rights if it is necessary and proportionate for these activities to take place.

(b) RIPA first requires that the person granting an authorisation for DS believes that the authorisation is necessary in the circumstances of the particular case for the statutory ground in *section 28(3)(b)* of RIPA being *"for the purpose of preventing or detecting crime or of preventing disorder"*.

4.4.5 **Proportionality**

(a) The following elements of proportionality should be considered:

(i) balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or harm;

(ii) explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others;

(iii) considering whether the activity is an appropriate use of the legislation and a reasonable way (having considered all reasonable alternatives) of obtaining the information sought; and

(iv) evidencing as far as reasonably practicable, what other methods have been considered and why they were not implemented, or have been implemented unsuccessfully.

(b) When the Authorising Officer has considered whether the surveillance is necessary and proportionate, they must complete the relevant section of the form explaining why in their opinion the surveillance is necessary and proportionate.

4.5 **Judicial approval (Magistrates' Court)**

4.5.1 **Any DS or CHIS authorisation granted by an Authorising Officer does not take effect until an Order has been made by the Magistrates' Court approving the grant of the authorisation**.

4.5.2 When an authorisation has been granted by an Authorising Officer, a duly authorised officer of the Council (i.e., someone with valid written authorisation from the Council to appear on its behalf in Magistrates' Court proceedings) ('*the Applicant*') must make an application to the Court for judicial approval of the authorisation before the authorisation can take effect (i.e. before lawful surveillance may begin).

Before making an application, it is sensible to seek advice from Legal Services (Regulation Team) as to the content of an application and arranging the listing of the application as listing is now dealt with at a central location in the North Northumbria Region. Please use the email address below to contact the Regulation Team.

regulation-prosecution@northumberland.gov.uk

4.5.3 In accordance with the *Criminal Procedure Rules 2020*, (Rule 47) the Applicant must:

(a) apply in writing and serve the application on the court officer;

(b) attach the authorisation which the Applicant wants the court to approve (NB: the original authorisation should be shown, and a copy of it provided, to the Court, with the original being retained by the Investigating Officer);

(c) attach such other material (if any) on which the Applicant is relying to satisfy the court that the authorisation was necessary for the purposes of the prevention and detection of crime and was proportionate (as set out above) and that the authorisation was granted by a person properly designated for the purposes of exercising the powers under RIPA; and

(d) the Applicant should also provide the Court with two copies of a partially completed judicial application/Order to assist the process.

(e) The Court may approve the granting of a DS authorisation if, and only if, it is satisfied that:

(i) at the time that approval was given by the Authorising Officer):

- there were reasonable grounds for believing that the authorisation was necessary for the purposes of the prevention and detection of crime and was proportionate; and

- that the authorisation was granted by a person designated for the purposes of authorising DS; and

(ii) at the time when the Court is considering the matter, there remains reasonable grounds for believing that the authorisation is necessary and proportionate.

4.5.4 The Court may approve the granting of a CHIS authorisation if, and only if, it is satisfied that:

(a) at the time that approval was given by the Council's Head of Paid Service):

(i) there were reasonable grounds for believing that the authorisation was necessary for the purposes of the prevention and detection of crime or disorder and was proportionate, and that the arrangements set out in this Policy, together with any other prescribed requirements, were in place; and

(ii) that the authorisation was granted by a person designated for the purposes of authorising CHIS, and

(b) at the time when the Court is considering the matter, there remains reasonable grounds for believing that the authorisation is necessary and proportionate.

4.5.5 Where an application is approved by the Court, the Investigating Officer should:

(a) retain a copy of the judicial application/Order that has been signed on behalf of the Court;

(b) retain the original authorisation; and

(c) notify the RIPA Monitoring Officer of the judicial approval for the authorisation and provide a copy of the authorisation, application and Order for the RIPA records.

4.5.6 Where an application is not approved by the Court, the authorisation does not take effect and the surveillance proposed in the authorisation cannot be carried out.

4.5.7 Where an application is refused by the Court it may make an Order quashing the authorisation.

5 Record keeping, duration, review, renewal & cancellation of authorisations, and errors

5.1 Record Keeping

5.1.1 A record of all authorisations will be centrally retrievable within the Council for a period of at least 3 years and will be regularly updated and made available IPCO and its inspectors upon request.

5.1.2 This record should contain the information outlined within the *Covert Surveillance and Property Interference Revised Code of Practice*.

5.2 **Duration**

5.2.1 DS authorisations will cease to have effect after 3 months from the date of judicial approval unless renewed (also subject to judicial approval) or cancelled.

5.2.2 Authorisations should be given for the maximum duration (i.e., 3 months) but reviewed on a regular basis and formally cancelled when no longer needed.

5.2.3 CHIS authorisations will cease to have effect after 12 months from the date of approval.

5.2.4 Investigating Officers should indicate within the application the period of time that they estimate is required to carry out the surveillance, and this will be proportionate to the objectives of the investigation and give due consideration to the risks and extent of collateral intrusion.

5.2.5 Urgent verbal authorisations are no longer permitted.

5.2.6 For CHIS authorisations, legal advice must be sought, particularly for those that involve the use of juveniles (for which the duration of such an authorisation is 4 months

5.2.7 It is the responsibility of the Investigating Officer to make sure that the authorisation is still valid each time that they undertake surveillance.

5.3 **Review**

5.3.1 An Investigating Officer must carry out a regular review of authorisations, as frequently as is necessary and practicable, and if an authorisation is no longer required, it **must** be cancelled.

5.3.2 The results of any review must be included on the review form (see forms '*Review of Directed Surveillance*' and '*Review of CHIS*', available from the RIPA Monitoring Officer or the Home Office website address given in **Appendix B**).

5.3.3 The Authorising Officer also has a duty to review authorisations that have been granted when it is necessary or practicable to do so, and particular attention should be given to authorisations involving collateral intrusion or confidential material.

5.3.4 The Authorising Officer should keep a copy of the review form for at least 3 years, and a copy should be given to the Investigating Officer and the RIPA Monitoring Officer.

5.4 **Renewals**

5.4.1 An Investigating Officer may ask for and an Authorising Officer can grant, subject to judicial approval, a renewal of an authorisation before it would cease to have effect.

An application for a renewal must not be made more than 7 days before the authorisation is due to expire.

5.4.2 A renewal may last for up to 3 months, effective from the date that the previous authorisation would cease to have effect.

5.4.3 An Authorising Officer may grant more than one renewal, subject to judicial approval, as long as the request for authorisation still meets the requirements for authorisation.

An Authorising Officer must still consider all of the issues that are required for a first application before a renewal can be granted.

5.4.4 If the reason for requiring authorisation has changed from its original purpose, it will not be appropriate to treat the application as a renewal.

The original authorisation should be cancelled, and a new authorisation sought, granted by an Authorising Officer and approved by the Court.

5.4.5 An application for a renewal must be completed on the appropriate form (see forms '*Renewal of Directed Surveillance*' and '*Renewal of CHIS*' available from the RIPA 'Monitoring Officer, or the Home Office website address given in **Appendix B**).

5.4.6 The Authorising Officer should keep a copy of the renewal, and a copy should be given to the Investigating Officer.

A copy of the renewal form, judicial application and order must also be sent to the RIPA Monitoring Officer.

5.5 **Cancellations**

5.5.1 If the reason for requiring the authorisation no longer exists, the authorisation must be cancelled and in any event it should be cancelled as soon as the operation for which an authorisation was sought ceases to be necessary or proportionate.

This applies to both original applications and renewals (see forms '*Cancellation of Directed Surveillance*' and '*Cancellation of CHIS*' available from the RIPA Monitoring Officer, or the Home Office website address given in **Appendix B**).

5.5.2 Authorisations must also be cancelled if the surveillance has been carried out and the original aim has been achieved.

Authorising Officers will ensure that authorisations are set to expire at the end of the appropriate statutory period.

5.5.3 It is the responsibility of the Investigating Officer to monitor their authorisations and seek cancellation of them where appropriate.

5.5.4 The Authorising Officer should keep a copy of the cancellation form and a copy should be given to the Investigating Officer.

A copy of the cancellation form must also be sent to the RIPA Monitoring Officer.

5.6 **Errors in applications**

5.6.1 An error must be reported if it is a '*relevant error*' to the Investigatory Powers Commissioner as soon as reasonably practicable.

A '*relevant error*' means an error made by the Council when carrying out activity overseen by IPCO, the full definition of which may be found in *section 231(9)* of the *Investigatory Powers Act 2016*.

5.6.2 If the error is of a serious nature then the Commissioner may require that the person concerned is informed of the error.

5.6.3 All relevant errors or queries in relation to potential errors must be brought to the attention of the RIPA Monitoring Officer at the first opportunity, who will report to IPCO where necessary.

5.7 **Review of Policy and Procedure**

5.7.1 The Audit Committee will receive annual reports on the use of RIPA.

5.7.2 The Audit Committee will approve and review the RIPA Policy, the use of RIPA, and RIPA powers on an annual basis and ensure compliance with the relevant Codes of Practice

5.7.3 This Policy is based on the requirements of RIPA and relevant Codes of Practice

5.7.4 The Council takes responsibility for ensuring that its RIPA procedures are continuously improved and asks that any Officers with suggestions contact the RIPA Monitoring Officer in the first instance.

6 The RIPA Monitoring Officer

6.1 The RIPA Monitoring Officer will:

6.1.1 provide a Unique Reference Number for each authorisation sought;

6.1.2 keep copies of the forms for a period of at least 3 years;

6.1.3 keep a register of all of the authorisations, reviews, renewals and cancellations, including authorisations granted by other Public Authorities relating to joint surveillance by the Council and that other Public Authority;

6.1.4 provide administrative support and guidance on the processes involved;

6.1.5 monitor the authorisations, reviews, renewals and cancellations so as to ensure consistency throughout the Council;

6.1.6 monitor each department's compliance and act on any cases of non-compliance;

6.1.7 provide training and further guidance on and awareness of RIPA and the provisions of this Policy; and

6.1.8 review the contents of the Policy, in consultation with Investigating Officers, Authorising Officers and the Senior Responsible Officer.

6.2 All original applications for authorisations and renewals including those that have been refused must be passed to the RIPA Monitoring Officer as soon as possible after their completion with copies retained by the Authorising Officer and the Investigating Officer.

6.3 All cancellations must be passed to the RIPA Monitoring Officer.

6.4 It is, however, the responsibility of the Investigating Officer, the Authorising Officers and the Senior Responsible Officer to ensure that:-

6.4.1 authorisations are only sought and given where appropriate;

6.4.2 authorisations are only sought and renewed where appropriate;

6.4.3 authorisations are reviewed regularly;

6.4.4 authorisations are cancelled where appropriate; and

6.4.5 they act in accordance with the provisions of RIPA.

7 Legal advice

Appropriately designated Officers within Legal Services (Regulation Team) will provide legal advice where necessary to Investigating Officers making, renewing or cancelling authorisations, including making applications for judicial approval. Please use the email address below to contact the Regulation Team.

regulation-prosecution@northumberland.gov.uk

8 Joint investigations/collaborative working

8.1 Where joint investigations are carried out with other agencies, such as the Department for Work and Pensions ('*DWP*') or the Police, the RIPA Monitoring Officer must be notified of the joint investigation and provided with a copy of any RIPA authorisation granted by another agency in respect of a joint investigation involving Council officers.

8.2 Any person granting or applying for an authorisation will need to take account of particular sensitivities in the local community where the surveillance is taking place.

8.3 Where possible, Public Authorities should seek to avoid duplication of authorisations as part of a single investigation or operation.

Where two agencies are conducting directive or intrusive surveillance as part of a joint operation, only one authorisation is required.

9 **National Anti-Fraud Network** (in relation to interception of Communications Data specifically)

9.1 Local Authorities can now only access communications data via the National Anti-Fraud Network ('*NAFN*').

9.2 NAFN is a not-for-profit, non-incorporated body, formed by its members to provide services which support their work in the protection of the public purse, and which was created as a centre of excellence to provide data and intelligence to its members, including assisting members in the provision of effective corporate and financial governance.

9.3 NAFN maintains all data in a secure and confidential environment conforming to Government legislation and national best practice.

10 Online Covert Activity

10.1 The Council is aware in an increasing digital world and the growth of the internet, there is a need to gather information that may only be available online. It is essential that that the Council, is able to access and obtain any relevant information so it can be used lawfully to fulfil statutory obligations. Investigating Officers should be aware that some information can be accessed without authorisation, however:

"*if the study of an individual's online presence becomes persistent, or where material obtained from any check is to be extracted and recorded and may engage privacy considerations, RIPA authorisations may need to be considered.*"[1]

10.2 Where an online investigation or any type of monitoring is to be conducted in a covert manner and is for a specific investigation and is likely to result in private information being obtained then an investigating officer should consider an authorisation.

10.3 Where an investigating officer is intending to engage with others online without disclosing their identity, then this may require a CHIS authorisation, before even considering this type of activity and authorisation, the officer should seek advice from an authorising officer.

10.4 It is accepted that some online platforms have a reduced or no expectation of privacy, such as the information which is in the public domain. This could include, for example information that is on an accessible database such as Companies House. There are also public social media sites and websites which publish information and communicate to a wide audience. However, investigating officers should always consider the nature of the site or platform, as it is possible that although the material is widely available, the intention of making that material available was not for it to be used in an investigation. If an investigating officer is concerned over the nature of site or platform and the question of privacy, they should seek advice from an authorising officer.

10.5 The current Code of Practice in relation to Covert Surveillance and Property inference covers online covert activity in detail, the following examples are taken from the Code and included here for ease of reference, although investigating officers should be familiar with the Code as whole.

Example 1:

A police officer undertakes a simple internet search on a name, address or telephone number to find out whether a subject of interest has an online presence. This is unlikely to need an authorisation. However, if having found an individual's social media profile or identity, it is decided to monitor it or extract information from it for retention in a record because it is relevant to an investigation or operation, authorisation should then be considered.

Example 2:

A customs officer makes an initial examination of an individual's online profile to establish whether they are of relevance to an investigation. This is unlikely to need an authorisation. However, if during that visit it is intended to extract and record information to establish a profile including information such as identity, pattern of life, habits, intentions or associations, it may be advisable to have in place an authorisation even for that single visit. (As set out in the following

[1] CHIS Code (publishing.service.gov.uk)

paragraph, the purpose of the visit may be relevant as to whether an authorisation should be sought.)

Example 3:

A public authority undertakes general monitoring of the internet in circumstances where it is not part of a specific, ongoing investigation or 20 operation to identify themes, trends, possible indicators of criminality or other factors that may influence operational strategies or deployments. This activity does not require RIPA authorisation. However, when this activity leads to the discovery of previously unknown subjects of interest, once it is decided to monitor those individuals as part of an ongoing operation or investigation, authorisation should be considered.[2]

11. Complaints

11.1 The Investigatory Powers Tribunal ('*IPT*') has jurisdiction to investigate and determine complaints against a Public Authority's use of investigatory powers, and is the only appropriate tribunal for human rights claims against the intelligence services.

11.2 All complaints for the use of powers should be directed to the IPT.

[2] CHIS Code (publishing.service.gov.uk)

Appointed Officers

The respective roles of Senior Responsible Officer, RIPA Monitoring Officer and Authorising Officers for the purposes of RIPA shall be assigned to the following posts within the Council.

This Appendix may be substituted from time to time should any job titles for any of the assigned posts change, or should the role be assigned to another qualifying post.

RIPA Officer role	**Assigned to the following posts:**
Senior Responsible Officer	Executive Director of Place and Regeneration
Authorising Officers (Directed Surveillance)	Chief Executive and Head of Paid Service Executive Director Adults, Ageing and Wellbeing Executive Director of Children, Young People and Education Head of Public Protection Public Health Protection Unit Manager Corporate Fraud Manager Chief Fire Officer
Authorising Officer (CHIS)	Chief Executive and Head of Paid Service Executive Director Adults, Ageing and Wellbeing Executive Director of Children, Young People and Education
RIPA Monitoring Officer	Director of Law & Corporate Governance / Monitoring Officer

This Appendix took effect January 2024

Authorisation forms

All of the forms necessary for RIPA are available from the Home Office website.

These forms are a mandatory part of the process and must be utilised in line with the Home Office guidance.

All decisions about using regulated investigatory powers must be recorded as they are taken on the required form.

This is the case for applicants seeking authority to undertake regulated conduct and for Authorising Officers and designated persons who consider and decide whether to grant authority or give notice for that conduct.

Select the form that you require from the hyperlinked lists below:-

https://www.gov.uk/government/collections/ripa-forms--2

Directed Surveillance

https://www.gov.uk/government/publications/application-for-use-of-directed-surveillance

https://www.gov.uk/government/publications/renewal-form-for-directed-surveillance

https://www.gov.uk/government/publications/review-of-use-of-directed-surveillance

Covert Human Intelligence Sources https://www.gov.uk/government/publications/application-for-the-use-of-covert-human- intelligence-sources-chis

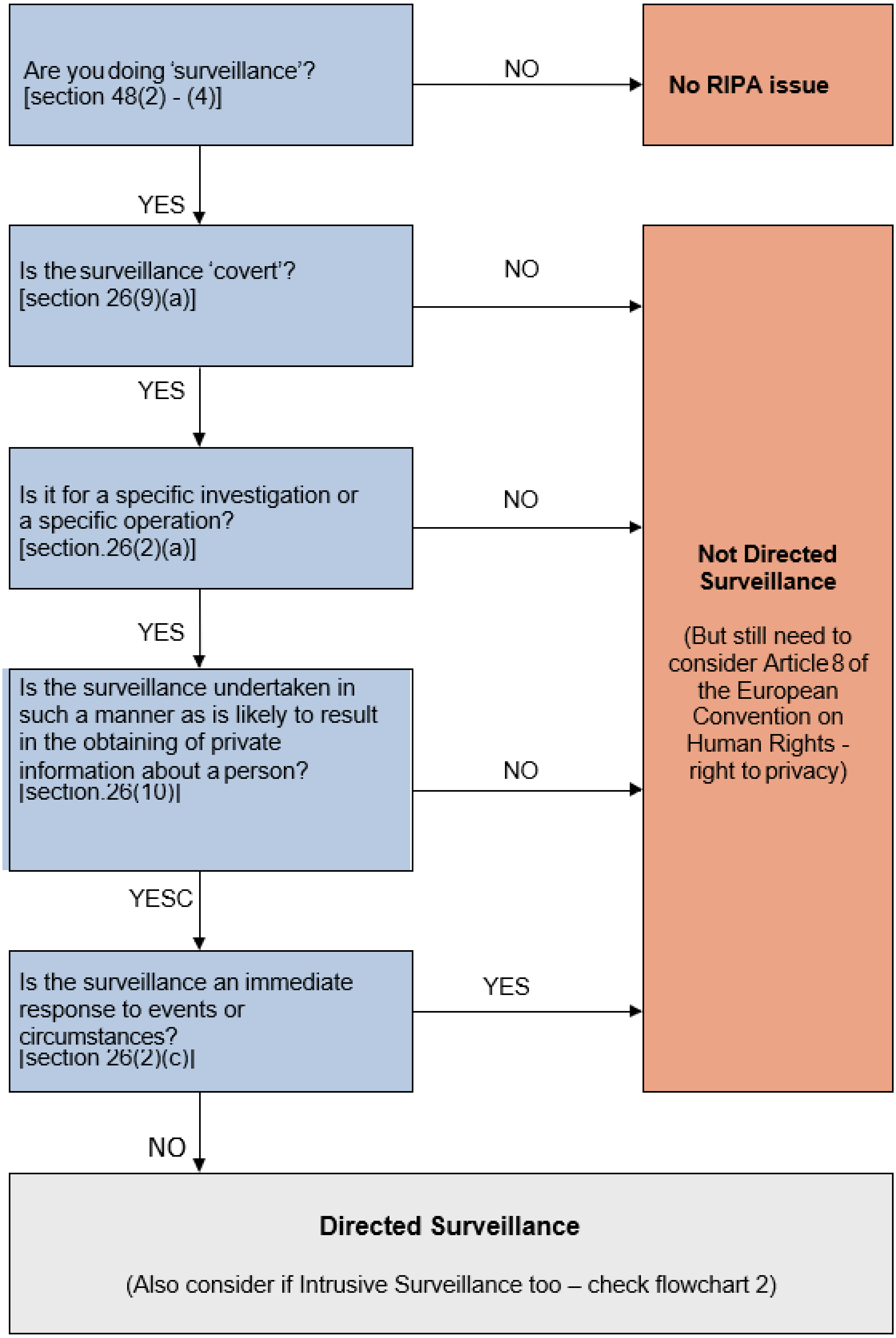
https://www.gov.uk/government/publications/reviewing-the-use-of-covert-human-intelligence-sources-chis

https://www.gov.uk/government/publications/cancellation-of-covert-human-intelligence- sources-chis

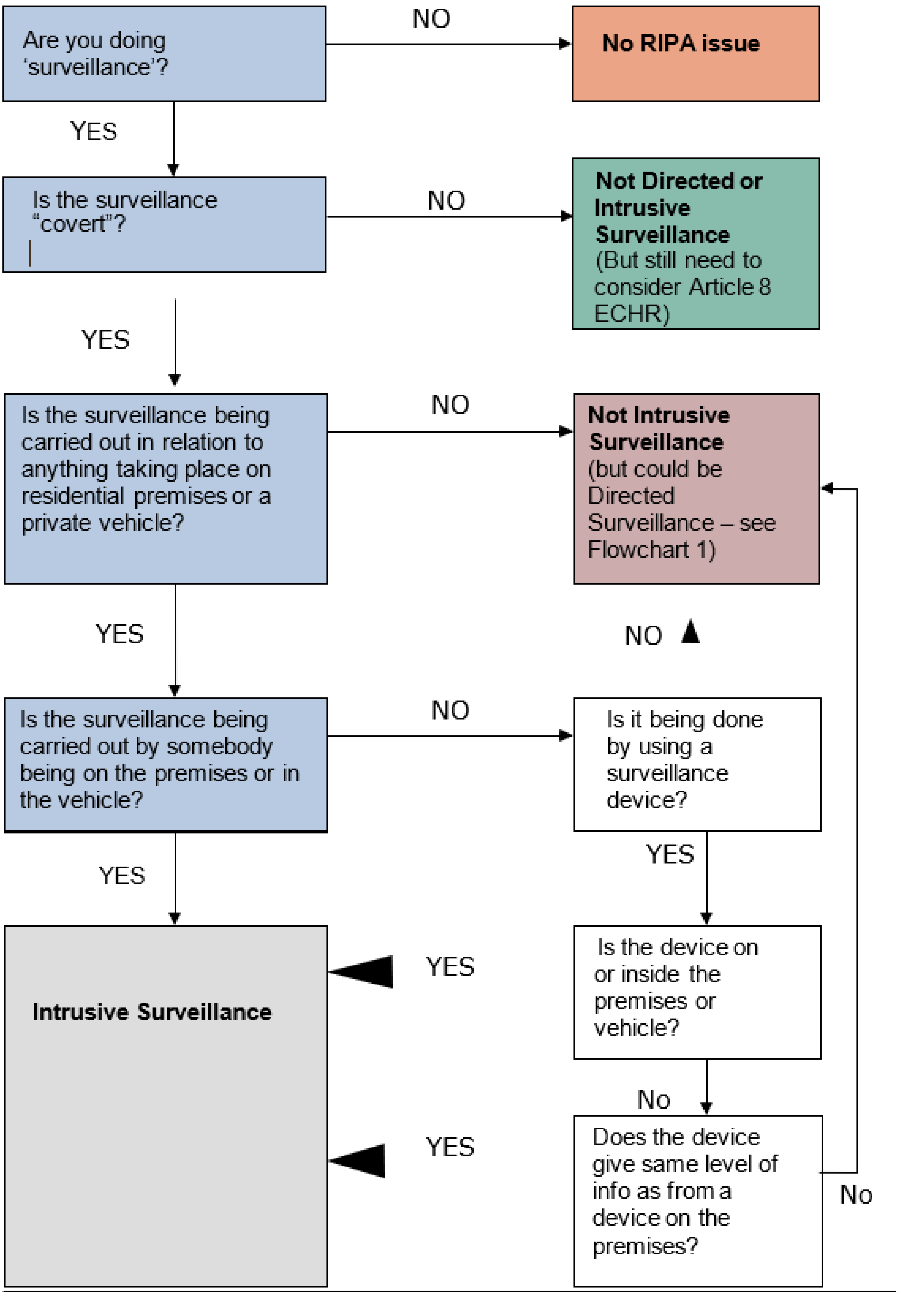
Flowcharts

Flowchart 1 – Are you carrying out Directed Surveillance?

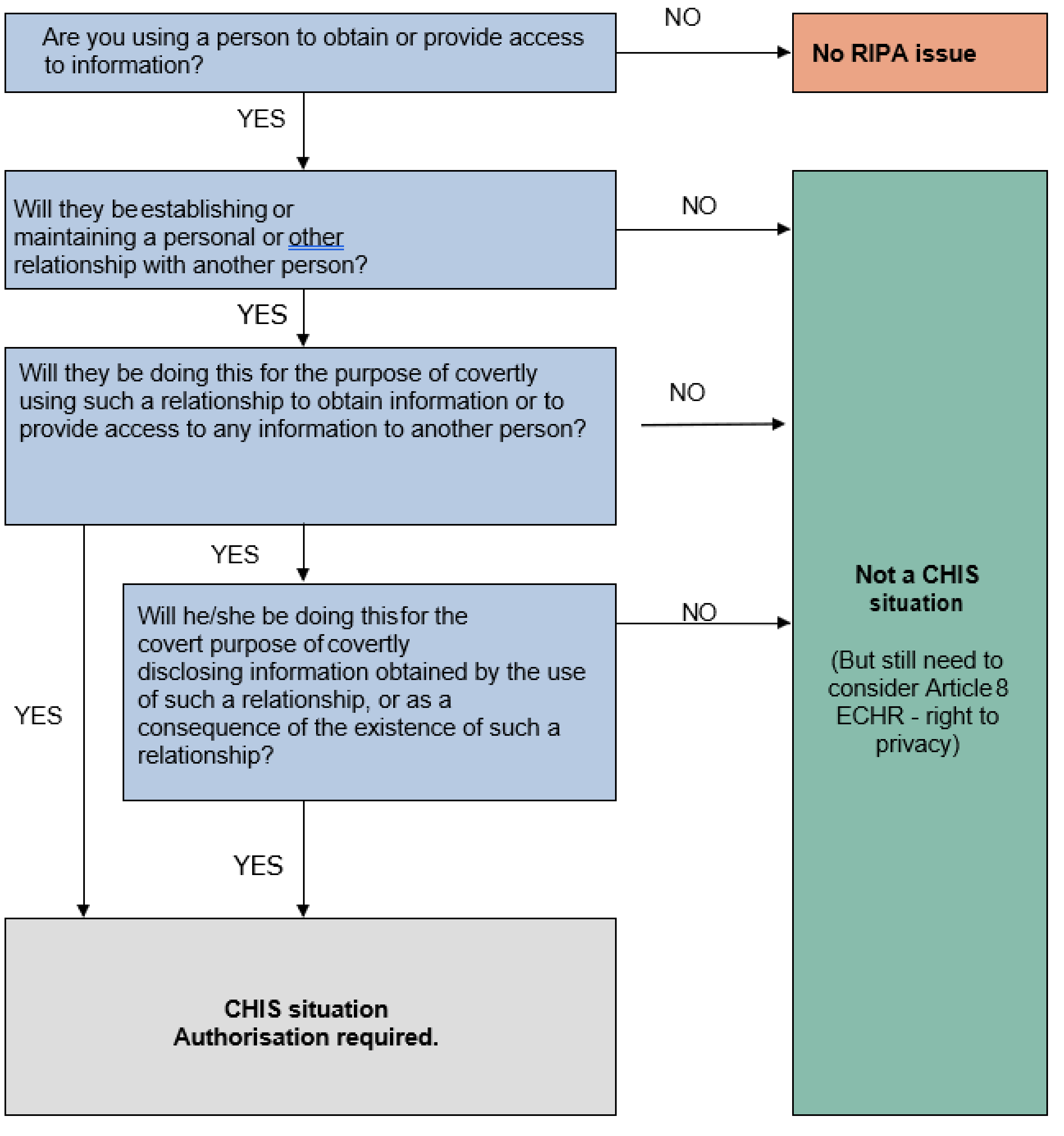
All references are to the relevant sections of RIPA.



Flowchart 2 – Are you carrying out Intrusive Surveillance?



Flowchart 3 - Are you using a CHIS? [section 26(8)]



Appendix D

Codes of Practice

https://www.gov.uk/government/publications/interception-of-communications- code-of-practice-2016

https://www.gov.uk/government/publications/equipment-interference-code-of-practice

https://www.gov.uk/government/publications/code-of-practice-for-the-acquisition- and-disclosure-of-communications-data

https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice

https://www.gov.uk/government/publications/code-of-practice-for-investigation-of-protected-electronic-information

Northumberland
County Council

Audit Committee

Wednesday, 31 January 2024

Changes to the Code of Practice for Local Authority Accounting in the UK for 2023-24

Report of Councillor(s) Councillor Richard Wearmouth, Deputy Leader and Cabinet Member for Corporate Resources

Responsible Officer(s): Jan Willis, Executive Director for Resources & Transformation (S151)

1. Link to Key Priorities of the Corporate Plan

The Council's budget is aligned to the three priorities outlined in the Corporate Plan 2023-26: Achieving Value for Money; Tackling Inequalities and Driving Economic Growth.

2. Purpose of report

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 which will apply to the 2023-24 Statement of Accounts.

3. Recommendations

It is recommended that the Members of the Audit Committee note the changes detailed in the report and in Appendix A which will be taken into account in the preparation of the 2023-24 statement of accounts.

4. Forward plan date and reason for urgency if applicable

Not applicable.

5. Background

5.1 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 on approved accounting standards.

5.2 The 2023-24 Statement of Accounts will be prepared in accordance with the Code 2023-24.

5.3 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.

5.4 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 2023. It supersedes the 2022-23 Code.

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

5.6 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.

5.7 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 2023.

6. Options open to the Council and reasons for the recommendations

6.1 It is recommended that the Members of the Audit Committee note the changes detailed in the report and in Appendix A which will be taken into account in the preparation of the 2023-24 statement of accounts.

7. Implications

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 2023-24.
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
Human resources	None

Property	None
The Equalities Act: is a full impact assessment required and attached?	No - no equalities issues identified N/A
Risk assessment	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime and disorder	None
Customer considerations	None
Carbon reduction	None
Health and wellbeing	The Council's budget is founded on the principle of promoting inclusivity.
Wards	(All Wards);

8. Appendices

8.1 Appendix A – Summary of the key accounting changes in the 2023-24 Code

9. Background papers

Not applicable

10. Links to other key reports already published

Northumberland County Council Draft Statement of Accounts 2022-23

11. Author and Contact Details

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Changes to the Code of Practice for Local Authority Accounting in the UK for 2023-24

The table below provides a summary of the key accounting changes in the 2023-24 CIPFA Code and their applicability to Northumberland County Council.

	Change	**Relevant to Northumberland County Council?**
1	Amendments to Section 3.3 of the Code reflecting amendments to IAS 8, which clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.	Yes
2	Amendments to Section 3.4 of the Code reflecting changes to IAS 1, which help preparers to provide more focused and proportionate information on accounting policies.	Yes
3	Amendments to Section 4.1 of the Code, which provide a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. Where a local authority chooses to apply this temporary relief, the Code requires that additional information is provided to explain an authority's rationale for this decision.	Yes
4	A new Annex to Section 4.1 of the Code that sets out the prescriptions of the Code for infrastructure assets in predecessor Codes.	Yes
5	Confirmation in Appendix C of the Code (Changes in Accounting Policies: Disclosures in the 2022-23 and 2023-24 Financial Statements) of the transitional reporting requirements of the new standards introduced in the 2023-24 Code, while also having regard to requirements in relation to the voluntary adoption of IFRS 16.	Yes
6	Confirmation in Appendix D of the Code of the new standards introduced in the 2023-24 Code: • Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021. • Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021. • Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issues in May 2021.	Yes

	Change	**Relevant to Northumberland County Council?**
	• Updating a Reference to Conceptual Framework (Amendments to IFRS 3) issued in May 2020.	

Northumberland County Council

Audit Committee

Wednesday, 31 January 2024

Northumberland County Council - Statement of Accounts 2023-24

Report of Councillor(s) Councillor Richard Wearmouth, Deputy Leader and Cabinet Member for Corporate Resources

Responsible Officer(s): Jan Willis, Executive Director for Resources & Transformation (S151)

1. Link to Key Priorities of the Corporate Plan

The Council's budget is aligned to the three priorities outlined in the Corporate Plan 2023-26: Achieving Value for Money; Tackling Inequalities and Driving Economic Growth.

2. Purpose of report

The purpose of this report is to provide the Audit Committee with:

a. an overview of the timetable for publishing the 2023-24 Statement of Accounts

b. an update on the Accounting Policies to be applied in the preparation of the 2023-24 Statement of Accounts.

3. Recommendations

3.1 It is recommended that the Members of the Audit Committee:

a. note the key dates in the final accounts process for 2023-24.

b. approve the Accounting Policies to be used for the preparation of the 2023-24 Statement of Accounts.

c. authorise the Executive Director for Resources and Transformation to review the accounting policies as necessary and report any changes to the Audit Committee.

4. Forward plan date and reason for urgency if applicable

Not applicable.

5. Key Issues

5.1 Year End Timetable

It is the responsibility of the Executive Director for Transformation and Resources to sign and certify the unaudited Statement of Accounts 2023-24 by no later than 31 May 2024.

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).

5.2 Accounting Policies

The Accounting Policies applied in the preparation of the 2022-23 Statement of Accounts remain appropriate for the preparation of the 2023-24 Statement of Accounts. The CIPFA Code changes for 2023-24 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 2023-24 Code as it stands. It is anticipated that the longer-term solution for the reporting of infrastructure assets will be implemented from 1 April 2025, and in the intervening period NCC continues to 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 2023-24 Statement of Accounts are detailed in Appendix A.

6. Background

6.1 Year End Timetable

6.2 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.

6.3 The statutory deadline for the 2023-24 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, or as soon as reasonably practicable after the receipt of the external auditor's final findings (if later), 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.

6.4 Accounting Policies

6.5 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.

6.6 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.

6.7 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 2023. It supersedes the 2022-23 Code.

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

6.9 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.

6.10 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 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.

6.11 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.

6.12 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".

6.13 The proposed accounting policies are in line with those used in the preparation of the 2022-23 accounts.

6.14 The CIPFA code changes for 2023-24 are minor, and there are no accounting policies which require amendment as a result of these changes.

6.15 Members of the Audit Committee are requested to approve the Accounting Policies as shown within Appendix A.

7. Options open to the Council and reasons for the recommendations

7.1 It is recommended that the Members of the Audit Committee:

a. note the key dates in the final accounts process for 2023-24.
b. approve the Accounting Policies to be used for the preparation of the 2023-24 Statement of Accounts.
c. authorise the Executive Director for Resources and Transformation to review the accounting policies as necessary and report any changes to the Audit Committee

8. Implications

Policy	None
Finance and value for money	The report considers the accounting policies for the County Council's Statement of Accounts 2023-24.
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
Human resources	None
Property	None
The Equalities Act: is a full impact assessment required and attached?	No - no equalities issues identified N/A
Risk assessment	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime and disorder	None

Customer considerations	None
Carbon reduction	None
Health and wellbeing	The Council's budget is founded on the principle of promoting inclusivity.
Wards	(All Wards);

9. Appendices

9.1 Appendix A – Accounting Policies 2023-24

10. Background papers

Not applicable

11. Links to other key reports already published

Northumberland County Council Draft Statement of Accounts 2022-23

12. Author and Contact Details

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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			✓	✓

Accounting Policy		New policy	Amended policy	No change	In line with Code
21.	Property, Plant and Equipment			✓	✓
22.	Highways Infrastructure Assets			✓	✓
23.	Recognition			✓	✓
24.	Measurement			✓	✓
25.	Impairment			✓	✓
26.	Disposals and Derecognition			✓	✓
27.	Depreciation			✓	✓
28.	Private Finance Initiative (PFI) and Similar Contracts			✓	✓
29.	Provisions, Contingent Liabilities and Contingent Assets			✓	✓
30.	Reserves			✓	✓
31.	Revenue Expenditure Funded from Capital Under Statute (REFCUS)			✓	✓
32.	Value Added Tax (VAT)			✓	✓
33.	Tax Income – Council Tax and National Non Domestic Rates			✓	✓
34.	Accounting for Schools			✓	✓
35.	Fair Value			✓	✓

Accounting Policies to be adopted for the Statement of Accounts 2023-24

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2023-24 financial year and its position at the year end of 31 March 2024. 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 2023-24, 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 to a non-subsidiary body, 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.

When soft loans are made to subsidiary bodies of the Council, as with other soft loans the fair value is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating. However, the write-down to fair value is not taken to surplus or deficit on the provision of services as in substance this is an additional investment by the Council into its subsidiary. The difference between the loan amount and the fair value of the loan is accounted for as an investment in the Council's financial statements.

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 £0.010 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 any sale proceeds put to 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. Highways Infrastructure Assets

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g.bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

23. 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 £0.010 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.

24. 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:

- community assets and assets under construction – depreciated historical cost;
- infrastructure - measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April [1994 England and Scotland] [1996 Wales], which was deemed at that time to be historical cost. Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount;
- 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 five 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.

25. 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.

26. Disposals and Derecognition

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 £0.010 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 were previously required to be payable to the government, however in 2022-23 and 2023-24 a temporary amendment to regulations allows Local Authorities to retain the Treasury's share of capital receipts.

The authority has determined in accordance with Regulation [30M England or 24L Wales] of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

The written-off value of disposals and derecognitions 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.

27. 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:	
(assessed by Highways Engineers using industry standard where applicable)	
Carriageway	25 years
Footpaths & Cycleways	25 years
Street Furniture	25 years
Street Lighting	40 years
Structures	100 years
Traffic Management	15 years
Coast Protection	40 years
Vehicles, Plant and Equipment:	
Fire engines	10 to 15 years
Furniture and Fittings, ICT, other equipment	3 to 15 years
Grounds maintenance / car parking equipment	10 to 11 years
Other vehicles	3 to 15 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	5 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.

28. 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.

29. 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.

30. 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.

31. 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.

32. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue and Customs. VAT receivable is excluded from income.

33. 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.

34. 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 school's 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.

35. 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.

Audit Progress Report

Northumberland County Council

January 2024

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Contents

01

Section 01:

Audit progress

1. Audit progress

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors. It updates members on the current position with the 2019/20 audit and the national delays in completing the 2020/21 and 2021/22 audits, how they impact the Council and the timing of the 2022/23 audit. It also includes, at Section 2, a summary of recent national reports and publications for your information.

2019/20 Audit

Our conclusions in respect of the Council's value for money (VFM) arrangements remains 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

We are working with officers to bring this issue to a conclusion and in the near future we expect to 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 as referenced above.

2021/22 Audit

We have substantially completed our work on the 2021/22 audit. At the date of this report there remain audit procedures that are in progress and areas where we are continuing to work with officers to resolve audit queries and agree amendments to the financial statements. We will provide an update to you in relation to the matters outstanding, as outlined on page 5, in a follow-up letter.

It is worth noting that the timing of the audit has been adversely impacted by several factors, including issues with valuations of the Council and Group's property assets, delays in completing the Advance Northumberland Limited audit, the national infrastructure issue and the national issue in relations to pensions. We are also currently discussing our VFM considerations with management.

Our work in relation to the Council's VFM arrangements is ongoing and will inform the outcomes of prior year assessments as outlined above. We are awaiting decisions from Management in relation to ongoing legality and governance issues and how they will be disclosed in the Council's Annual Governance Statement which will then be subject to audit.

1. Audit progress (continued)

Our work is on-going. At present, there are currently no matters of which we are aware that would require modification of our audit opinion. However, this is subject to completion of work in the areas detailed below.

Audit area	Status	Description of the outstanding matters
Net defined benefit liability (pensions)		Work is ongoing in this area
Property, Plant and Equipment		We are awaiting responses to a small number of queries.
Value for Money		Work ongoing in relation to 2019/20, 2020/21 and 2021/22 issues
Group accounts		We have not yet fully completed our testing in relation to the group accounts.
Other		Resolution of a small number of queries in relation to other areas of the accounts and Annual Governance Statement, including disclosures in relation to exit packages.
Review procedures		Review procedures are on-going, namely: - engagement Quality Control Review: required due to the size of the Council; - review of the final revised accounts by our central technical team.
Closing procedures		Review of the revised financial statements and consideration of any post balance sheet events.

Likely to result in material adjustment or significant change to disclosures within the financial statements.

Potential to result in material adjustment or significant change to disclosures within the financial statements.

Not considered likely to result in material adjustment or change to disclosures within the financial statements.

1. Audit progress (continued)

It is important to note that in relation to the 2021/22 audit of the financial statements:

- We still anticipate issuing an unqualified audit opinion;
- The recent delays in relation to infrastructure assets and pensions are nothing to do with management or the Audit Committee, and are national issues beyond the Council's control; and
- The issues causing the delays are all in relation to technical accounting issues, none of which will have an impact on the resources available to the Council or its underlying financial position.

Whole of government accounts

When we have issued the 2021/22 audit opinion, we will also be able to report to the NAO on the WGA. However, once again we anticipate a delay before we can issue the audit certificate, as we wait for NAO clearance that they will not be selecting the Council as a sampled component for additional work in relation to WGA.

2022/23 Audit

Our Audit Strategy Memorandum for the 2022/23 audit was presented to the Audit Committee on 27 September 2023. This indicated that the timing of our fieldwork and completion was January 2024 subject to the need to prioritise completion of the 2021/22 audit referred to above.

Audit fieldwork on the 2022/23 financial statements is now well underway and we are making good progress with the assistance of council officers. We will provide a verbal update to the Audit Committee on 31 January 2024.

We understand that nationally just one per cent of local authority accounts were signed off by 30 September 2023 and the Government, the NAO, audit suppliers and regulators are working together to find a way to clear the backlog in 2023/24, which is the first year of a new external audit contract let by Public Sector Audit Appointments Limited. We will update the Audit Committee as soon as a way forward is agreed with all stakeholders as all parties recognise that the current situation in the public sector external audit market is unsustainable.

02

Section 02:

National publications

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National publications

	Publication / Update	Key points
National Audit Office (NAO)		
1.	Condition of school buildings, June 2023	Report which examines whether the Department for Education (DfE) is achieving its objective to ensure the school estate in England contains the safe and well-maintained school buildings that it regards as essential for a high-quality education.
2.	Whole of Government Accounts 2020/21, 20 July 2023	Publication of the Whole of Government Accounts for 2020/21, along with a qualified audit certificate and report by the Comptroller and Auditor General.
3.	Financial management in government: strategic planning and budgeting, September 2023	This guide is for senior finance leaders in government departments and other public bodies. It sets out the first stage in the financial management lifecycle: strategic planning and budgeting.
4.	Investigation into the Homes for Ukraine scheme, October 2023	This report aims to increase transparency by taking stock of what has been achieved to date, for what cost, and what can be learned.
5.	Reducing the harm from illegal drugs, October 2023	This report examines whether the government is well positioned to achieve the strategy's 10-year ambitions.
6.	Reforming adult social care in England, 10 November 2023	This report looks at how DHSC is responding to the challenges facing adult social care in England, and its progress with delivering the reforms set out in the 2021 white paper.
7.	Resilience to flooding, 15 November 2023	NAO last reported on government's management of flood risk in November 2020. In this report, we look at the government's long-term ambition "to create a nation more resilient to future flood and coastal erosion risk" and, in the more immediate term, whether Defra and EA are delivering value for money after two years of the capital programme. To do this, we have assessed Defra's progress against the backdrop of its 2020 policy statement and EA's 2020 strategy. We also assess EA's performance in maintaining existing flood defence assets.
Public Sector Audit Appointments (PSAA)		
8.	PSAA announces the number of audit opinions completed for the 2022/23 audits (10 October 2023)	At the publishing date of 30 September 2023, only 5 out of 467 local government bodies' 2022/23 audit opinions have been given. This adds to the 456 that are outstanding from previous years.
9.	PSAA October 2023 Update, 17 October 2023	This edition of our quarterly e-bulletin includes an update on the 2022/23 audit opinion delivery, news on our consultation on 2023/24 audit scale fees and a summary of local audit news from elsewhere.

National publications

	Publication / Update	Key points
Chartered Institute of Finance and Accountancy (CIPFA)		
10.	Section 114s: where are we headed next? 16 August 2023	Rob Whiteman, CIPFA CEO assesses the latest position on s114 notices (where formal action needs to be taken to balance a Council's finances), what has been done to prevent further s114 notices, whether more will occur and what the sector should do. This originally appeared as an article in the Municipal Journal on 31 July 2023.
Department for Levelling Up, Housing and Communities (DLUHC)		
11.	Letter from the Parliamentary Under-Secretary of State for Local Government and Building Safety to the Chair of the Levelling Up, Housing and Communities Committee, UK Parliament, 14 July 2023	Lee Rowley MP's letter to the Chair of the Levelling Up, Housing and Communities Committee, UK Parliament on Local Audit Delays – Cross-System Statement on Proposals to Clear the Backlog and Embed Timely Audits.
12.	Municipal Journal Article by a Local Government Minister on Rebuilding Audit, 30 October 2023	An article by Lee Rowley MP in Municipal Journal and the most up-to-date statement at the current time of proposals to address the backlog of local government audits.

National Audit Office

1. Condition of school buildings – June 2023

The NAO has published its report Condition of school buildings which examines whether the Department for Education (DfE) is achieving its objective to ensure the school estate in England contains the safe and well-maintained school buildings that it regards as essential for a high-quality education. The evaluative criteria for assessing value for money include whether DfE has:

• a good understanding of the condition of school buildings

• appropriate arrangements to allocate funding for school buildings in line with need

• effective ways to support the sector.

The report covers:

• the school system and DfE's overarching school building maintenance approach (Part One)

• DfE's understanding of the condition of school buildings (Part Two)

• how DfE matches funding to need (Part Three).

Conclusions:

DfE is accountable for providing those bodies responsible for school buildings with the funding and support to enable them to meet their responsibility to ensure school buildings are safe and well maintained.

Following years of underinvestment, the estate's overall condition is declining and around 700,000 pupils are learning in a school that the responsible body or DfE believes needs major rebuilding or refurbishment.

Most seriously, DfE recognises significant safety concerns across the estate, and has escalated these concerns to the government risk register.

https://www.nao.org.uk/reports/condition-of-school-buildings/

Since NAO published their report, safety concerns about the use of re-enforced autoclaved aerated concrete (RAAC) in public buildings, especially schools, has prompted extensive school closures and expenditure on surveys and remedial work. Although we understand that the impact on the Council's schools has been limited, the issue illustrates the impact of under-investment in maintaining school buildings highlighted in the NAO report.

NATIONAL PUBLICATIONS
National Audit Office

2. Whole of Government Accounts 2020/21, 20 July 2023

Publication of the Whole of Government Accounts for 2020/21, along with a qualified audit certificate and report by the Comptroller and Auditor General.

The Whole of Government Accounts consolidates the accounts of central and local government and public corporations such as the Bank of England, to provide the most complete and accurate picture of the UK's public finances.

Whole of Government Accounts (WGA) consolidates the audited accounts of over 10,000 organisations across the UK public sector. WGA is based on International Financial Reporting Standards, the system of accounts used internationally by the private sector.

This is the twelfth year of publication of the WGA. The UK is among the most advanced countries in this regard and the WGA is a uniquely comprehensive product; as it is the only set of consolidated public sector accounts that includes both central government, local government and government owned corporations.

The WGA is independently audited by the National Audit Office providing greater confidence in the figures, and supports effective scrutiny by Parliament. This scrutiny is exercised by the Public Accounts Committee who examine the accounts each year.

In this event the Comptroller and Auditor General qualified the audit certificate and report on a number of points.

Link to further information:

https://www.nao.org.uk/reports/whole-of-government-accounts-2020-21/

NATIONAL PUBLICATIONS

National Audit Office

3. Financial management in government: strategic planning and budgeting – September 2023

The guide outlines how finance leaders can plan strategically and realistically to:

- Align strategy and planning;
- Make planning inclusive;
- Plan dynamically;
- Address optimism bias; and
- Deal with risk and uncertainty.

The insights have been drawn from NAO reports, the experiences of NAO audit teams, and the thoughts of a range of senior finance decision-makers.

Financial management in government: strategic planning and budgeting - NAO insight

This guide is part of a series supporting financial management in the public sector. NAO also published the following guide in July 2023:

- Enablers to success

NATIONAL PUBLICATIONS

National Audit Office

4. Investigation into the Homes for Ukraine scheme – October 2023

The UK government launched the Homes for Ukraine scheme (the scheme) on 14 March 2022, following the Russian invasion of Ukraine in February 2022. The scheme enables people in the UK to act as sponsors for Ukrainian nationals and their families seeking refuge from the war, with individuals being granted three-year visas to stay in the UK, with full access to public services, benefits, and other support.

Any adult is able to act as a sponsor, providing they pass eligibility checks conducted by the Home Office and local authorities. Sponsors must commit to hosting for a minimum of six months and can claim thank you payments from government for providing suitable accommodation for Ukrainians to live in of £350 per month for the first 12 months, and then £500 for the next 12 months. In addition, the local authority where the sponsor is based receives a one-off payment of £10,500 per arrival (reduced to £5,900 for all arrivals after 31 December 2022) to help with support and integration needs.

The scheme is jointly run by the Department for Levelling Up, Housing & Communities (DLUHC) and the Home Office, who established a joint taskforce in March 2022. The Home Office primarily leads on operational matters relating to the processing of visas and checks on the suitability of the sponsor. DLUHC leads on all aspects of the scheme from the point of arrival of Ukrainians into the UK, working closely with local authorities and devolved governments.

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Scope of the report

The first people to arrive in the UK under the scheme are now halfway through their permitted stay, and the emergency phase of the UK government's response to the Ukraine refugee crisis has come to a close. This report aims to increase transparency by taking stock of what has been achieved to date, for what cost, and what can be learned. The report sets out:

• how the scheme was set up at speed and the scheme objectives

• arrival numbers and the checks conducted on applicants and sponsors

• the funding provided

• challenges and future risks with the scheme

This investigation does not seek to examine and report on the value for money of the scheme.

https://www.nao.org.uk/reports/investigation-into-the-homes-for-ukraine-scheme/

National Audit Office

5. Reducing the harm from illegal drugs – October 2023

Scope of the report

It is almost two years since the government introduced its latest drugs strategy and less than 18 months remain in the current funding period to March 2025. This report examines whether the government is well positioned to achieve the strategy's 10-year ambitions. It covers:

• the development of the 2021 drugs strategy, its objectives and funding

• progress in implementing the strategy

• the approach to achieving the strategy's long-term outcomes

It is too early to conclude whether the 2021 strategy will reduce the harm from illegal drugs. It will take time for new funding and interventions to address a complex set of issues, and many of the indicators used to measure progress lag behind activity. This report therefore assesses whether departments are making the planned progress in implementing the strategy, and whether the JCDU has an effective approach to understanding the impact it is having and managing the risks to achieving the strategy's aims. It does not examine the effectiveness of interventions at the local level.

Conclusions

In 2021 the government estimated that the harm caused by illegal drugs costs society £20 billion each year. Its 2021 drugs strategy, led by the cross-government Joint Combating Drugs Unit, has provided new impetus to efforts to address these harms, and committed £900 million to 2024-25.

The strategy has established new partnerships across central and local government, and local authorities are taking steps to rebuild the workforce that was lost over the past decade. But these measures alone will not address all of the barriers to achieving a long-term reduction in drug use, deaths and related crime. The issues are complex and will require a sustained long-term response.

To inform government's response, the JCDU and relevant departments need to develop a deeper understanding of the impacts of government spending, working closely with local service providers to understand and help address the practical challenges they face. The JCDU and departments need to be realistic about what is achievable in the first three years and assess how to adapt their approach to achieve the strategy's 10-year outcomes.

In doing so, the JCDU should seek to provide confidence to local government that this is a long-term commitment. It must also urgently develop a plan to reduce the demand for illegal drugs. The current lack of emphasis on preventing illegal drug use means that departments risk only addressing the consequences, rather than the causes, of harm. The government will only achieve value for money if it builds on the initial momentum of the new strategy and develops a longer-term, funded plan that delivers a joined-up, holistic response.

https://www.nao.org.uk/reports/reducing-the-harm-from-illegal-drugs/

National Audit Office

6. Reforming adult social care in England, 10 November 2023

This report looks at how DHSC is responding to the challenges facing adult social care in England, and its progress with delivering the reforms set out in the 2021 white paper.

This report examined:

- key pressures and challenges in adult social care in England
- DHSC's response to increasing pressures in adult social care during 2022
- how DHSC is delivering reform and progress against its commitments

DHSC's 10-year vision for adult social care reform was broadly welcomed by the sector as a step forward. But rising inflation compounded long-standing pressures and led DHSC to reprioritise money and activity to provide local authorities and care providers with some much-needed financial stability.

The sector remains challenged by chronic workforce shortages, long waiting lists for care and fragile provider and local authority finances. Although there are some early signs of improvement in some of these, it remains to be seen whether these trends will continue and at what cost.

Two years into its 10-year plan, DHSC has delayed its charging reforms, scaled back system reform, and is behind on some aspects of its revised plan. It has a long way to go if it is to deliver its ambitions. If DHSC is to successfully reform adult social care, it will need to manage some significant risks, including its own capacity and that of local government to resume charging reform activity alongside system reform.

To maximise its chances of succeeding, DHSC will need to make sure it understands how the different strands of its reforms relate to each other, and the cumulative impact on local authorities and other stakeholders. It must be clear what the critical steps are, manage delivery against those closely and put in place governance needed to manage delivery risks effectively.

Adult social care reform has been an intractable political challenge for decades, and in 2019 DHSC raised expectations that it would be addressed. Working with the sector, DHSC now needs to demonstrate how it is delivering on these plans.

Link to further information:

https://www.nao.org.uk/reports/reforming-adult-social-care-in-england/

NATIONAL PUBLICATIONS
National Audit Office

7. Resilience to flooding, 15 November 2023

NAO last reported on government’s management of flood risk in November 2020. In this report, we look at the government’s long-term ambition “to create a nation more resilient to future flood and coastal erosion risk” and, in the more immediate term, whether Defra and EA are delivering value for money after two years of the capital programme. To do this, we have assessed Defra’s progress against the backdrop of its 2020 policy statement and EA’s 2020 strategy. We also assess EA’s performance in maintaining existing flood defence assets.

The report covers:

- the government’s long-term ambition and objectives and Defra’s governance, understanding and management of flood risk
- progress on the capital programme to build new flood defences and risks to future delivery
- EA’s performance in maintaining flood defence assets

To combat the growing dangers from flooding, the government has doubled its capital funding in England for the six years to 2027. To manage the larger capital programme and record levels of investment, Defra has intensified its scrutiny and is taking steps with EA to develop a more granular understanding of flood risk.

However, the capital funding is forecast to deliver protection to far fewer properties by 2027 than was promised when the capital programme was launched. Due to underspending in the first two years of the programme, EA will need to achieve record levels of investment in the remaining four years of the programme to spend the full £5.2 billion allocated to the programme. There is a risk that value for money will be further eroded if projects are accelerated or new projects are introduced too quickly to meet this level of investment.

On top of this, EA’s maintenance of its assets is not optimising value for money. For the lack of £34 million in annual maintenance funding for 2022-23, more than 200,000 properties are at increased risk of flooding. At the same time, EA underspent by £310 million in the first two years of the capital programme. Neither Defra nor EA assessed whether using some of this underspend to meet the shortfall in its maintenance budget in 2022-23 would have provided better value for money than deferring it to later in the capital programme.

The government acknowledges that building new flood defences and maintaining existing ones is no longer enough and that a wider range of interventions is now needed to build resilience against increasing flood risk. Although the government’s vision for flood resilience stretches to the year 2100 and EA has a number of strategic objectives for 2050, it has not set a target for the level of flood resilience it expects to achieve and has not mapped out any solid plans beyond 2026 to bridge the gap between its shorter-term actions and long-term objectives. This will make it difficult for the government to make rational and informed decisions about its priorities, measure its progress or plan effective investment for the long term.

Link to further information:

https://www.nao.org.uk/reports/resilience-to-flooding/

Public Sector Audit Appointments (PSAA)

8. PSAA announces the number of audit opinions completed for the 2022/23 audits (10 October 2023)

At the publishing date of 30 September 2023, only 5 out of 467 local government bodies' 2022/23 audit opinions have been given. This adds to the 456 that are outstanding from previous years.

Local government bodies are required to publish accounts with an auditor's certificate or opinion by 30 September or to explain the reasons for non-publication. At the publishing date of 30 September 2023, only 5 out of 467 local government bodies' 2022/23 audit opinions have been given. This adds to the 456 that are outstanding from previous years.

The cumulative position of 918 delayed audit opinions emphasises how important it is that there is a successful conclusion to the intensive ongoing work to find a solution to the backlog, and to ensure that it does not recur. PSAA is making every effort to support this work in collaboration with fellow members of the Local Audit Liaison Committee.

Steve Freer, PSAA's Chair said,

'The scale of the backlog of local audit opinions is becoming more and more serious. It is now very clear that an extraordinary intervention of some sort is urgently required to put the system back on track. Hopefully, current work to develop a solution can be concluded quickly, enabling details of the planned solution to be announced and implemented as soon as possible.

An important strand of any solution must be to address the root causes of so many delayed opinions so that following its implementation the delivery of timely opinions is firmly and permanently re-established.'

Link to further information:

https://www.psaa.co.uk/2023/10/psaa-announces-the-number-of-audit-opinions-completed-for-the-2022-23-audits/

NATIONAL PUBLICATIONS

Public Sector Audit Appointments (PSAA)

9. PSAA October 2023 Update, 17 October 2023

This edition of our quarterly e-bulletin includes an update on the 2022/23 audit opinion delivery, news on our consultation on 2023/24 audit scale fees and a summary of local audit news from elsewhere.

Content:

- 2022/23 audit opinion delivery
- Update on our consultation on the fee scale for 2023/24 audits
- Additional information for 2022/23 audits
- Contract Monitoring Data Pack: Quarter 1 for 2023/24
- Latest Annual Report and Accounts published
- Local audit news from elsewhere

Link to further information:

https://www.psaa.co.uk/2023/10/october-2023-update/

NATIONAL PUBLICATIONS

Chartered Institute of Finance and Accountancy (CIPFA)

10. Section 114s: where are we headed next?   16 August 2023

Rob Whiteman, CIPFA CEO assesses the latest position on s114 notices (where formal action needs to be taken to balance a Council’s finances), what has been done to prevent further s114 notices, whether more will occur and what the sector should do. This originally appeared as an article in the Municipal Journal on 31 July 2023.

This is an assessment of a very topical subject given the increasing number of s114 notices in recent times.

The term ‘Section 114’ refers to this section of the Local Government Finance Act 1988, part (3) of which sets out the duty of the chief finance officer (CFO) to “make a report under this section if it appears to him that the expenditure of the authority incurred (including expenses it proposes to occur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.

Issuing the notice under Section 114(3) immediately suspends all financial activity apart from that which is necessary to maintain statutory duties; it also initiates a 21-day period for full council to consider the report and agree urgent action to start to remedy the situation.

CIPFA’s guidance states that the authority’s external auditors and the Department for Levelling Up, Housing and Communities (DLUHC) should also be notified and ‘can step in to provide advice and support’.

These cases tend to reflect situations of financial failure and / or financial collapse. All Members of authorities need to be alert to how their organisation is managing its financial risks and taking steps to avoid any form of financial distress.

The insights in this article may be of particular interest to Members.

Link to further information:

https://www.cipfa.org/cipfa-thinks/articles/section-114s-where-are-we-headed-next

Department for Levelling Up, Housing and Communities (DLUHC)

11. Letter from the Parliamentary Under-Secretary of State for Local Government and Building Safety to the Chair of the Levelling Up, Housing and Communities Committee, UK Parliament, 14 July 2023

Lee Rowley MP's letter to the Chair of the Levelling Up, Housing and Communities Committee, UK Parliament on Local Audit Delays – Cross-System Statement on Proposals to Clear the Backlog and Embed Timely Audits.

This paper sets out the detail of proposals to address to address audit delays and clear the backlog. It was provided by the Minister to the Chair of the Levelling Up, Housing and Communities Committee, after the Minister provided evidence to the Committee in Parliament at a meeting in June.

The paper sets out the issues in some detail. The item on the next page (page 21) provides a summary of the main issues from a recent Municipal Journal article on the subject.

This is a link to the detailed paper:

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

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities (DLUHC)

12. Municipal Journal Article by a Local Government Minister on Rebuilding Audit, 30 October 2023

An article by Lee Rowley MP in Municipal Journal and the most up-to-date statement at the current time of proposals to address the backlog of local government audits.

Quotes from this article include:

“The number of outstanding local audits dating back to 2015-16 is now too high, and is likely to increase further without action.

To do that, we recognise there will be hard decisions. Our proposals include setting a series of statutory deadlines for account preparers and auditors to clear the backlog. I know the setting of ‘backstop’ dates may result in some qualifications and disclaimers of opinion in the short term.

As others have noted too, clearing the backlog can’t be our sole focus. The return to timely audits must be sustained as part of an effective system underpinned by proportionate financial reporting, auditing and regulatory requirements; we cannot resolve a backlog one day only to see it starting to build again the next.

So the second big endeavour is to ensure future local authority accounting and audit activity strikes a balance between maintaining the highest standards of financial reporting and the fundamental, day to day purpose of audit – to provide financial information and general assurance which is useful for taxpayers and others. That is why when it comes to debates on issues such as the accounting requirements for infrastructure assets, we need to consider our approach carefully. In the meantime, the Department for Levelling Up, Housing and Communities will seek to extend the legislative changes made in this area last year while the Chartered Institute of Public Finance and Accountancy (CIPFA) explores longer-term changes to reporting requirements for non-investment assets and pension valuations.”

Link to the full article:

https://www.themj.co.uk/Rebuilding-audit/233116#

03

Section 03:

Mazars public sector insights

Public Sector Insights

Click here to find and subscribe to our public and social sector articles. Or copy and paste this link: https://www.mazars.co.uk/Home/Industries/Public-Social-Sector/Public-and-Social-Sector-insights

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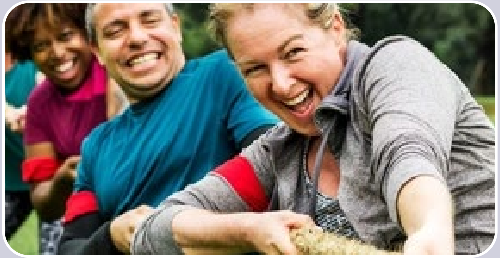

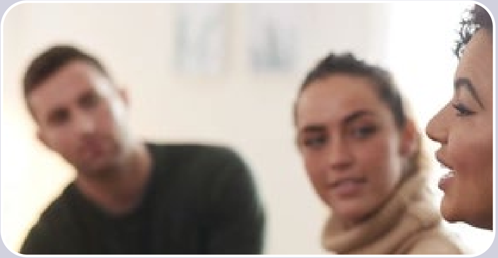

Recruitment crisis in the public sector

Insights from over 170 individuals across the UK public and social sector highlighted that the UK is on the cusp of a recruitment and retention crisis. Amid ongoing social and economic instability, how can we improve efforts to support our public sector workforce and effectively attract new talent?

Fiscal Pressure and inflation challenges

Over 300 individuals from across the UK public and social sector told us that the UK is at a critical juncture. Amid ongoing social and economic turmoil, decisive action is needed now to support those most in need.

Supporting vulnerable communities

Against a backdrop of political uncertainty, unprecedented strike action and the prevailing cost of living crisis – itself a consequence of the conflict in Ukraine among other factors – many of the UK's most vulnerable communities are at risk of becoming more marginalised and face more hardship.

A global public and social sector study (2023)

The public and social sector is in a time of transformation. Expectations of organisations in the sector are higher than ever while financial constraints and regulatory burdens are increasing.

To understand some of the challenges leaders in this sector face and the steps they are taking to tackle them, we surveyed more than 100 public sector executives in five countries.

Contact

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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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Northumberland County Council

Audit Committee

Wednesday, 31 January 2024

Treasury Management Strategy Statement 2024-25

Report of Councillor(s) Richard Wearmouth, Deputy Leader and Cabinet Member for Corporate Resources

Responsible Officer(s): Jan Willis, Executive Director for Resources & Transformation (S151)

1. Link to Key Priorities of the Corporate Plan

This report is aligned to the priorities outlined in the Corporate Plan 2023-26 being 'Achieving Value for Money', 'Tackling Inequalities' and 'Driving Economic Growth'.

2. 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 2024-25, Prudential Indicators 2024-25 to 2027-28 and the Minimum Revenue Provision Policy 2024-25.

3. Recommendations

3.1 Members consider the report and recommend that County Council approves the Treasury Management Strategy Statement, including the Treasury Management Policy Statement, the Annual Investment Strategy, and the Borrowing Strategy for the Financial Year 2024-25.

3.2 Members recommend that County Council approves the Prudential Indicators (Appendix 4) for four years 2024-25 to 2027-28 to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.3 Members recommend that County Council approves the Minimum Revenue Provision Policy (Appendix 5) 2024-25.

4. Forward plan date and reason for urgency if applicable

This report was added to the forward plan on 12 January 2024.

5. Key issues

5.1 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.

5.2 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).

5.3 The Treasury Management Strategy Statement details the proposed activities of the Treasury Management function for the financial year 2024-25 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.

Introduction

6. Background

6.1 This Treasury Management Strategy Statement details the expected activities of the Treasury Management function for the financial year 2024-25. Its production and submission to full Council is a requirement of the CIPFA Code of Practice on Treasury Management.

6.2 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.

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

6.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue 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.

6.5 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.

6.6 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.”

7. Statutory and Regulatory Requirements

7.1 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.

7.2 The code defines 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.

7.3 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.

7.4 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.

7.5 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.

7.6 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, section 5.8 does provide a summary of the Council's "service delivery investments" or non- treasury managements investments.

8. Basis and Content of Treasury Management Strategy for 2024-25

8.1 The proposed strategy for 2024-25 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:

a) Current portfolio position;

b) Economic outlook and prospects for interest rates;

c) Borrowing Strategy for 2024-25;

d) Annual Investment Strategy for 2024-25;

e) Housing Revenue Account (HRA) treasury costs;

f) Treasury management limits and Prudential Indicators;

g) Minimum Revenue Provision Policy Statement;

h) Policy on use of external service providers; and,

i) Implementation of the Treasury Management Strategy, scheme of delegation, reporting and training requirements.

9. Balanced Budget Requirement

9.1 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.

9.2 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.

9.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the 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.

The Portfolio Position at 30 November 2023

10. Current borrowing

10.1 The Council's borrowing at 30 November 2023 is shown below:

	General Fund £m	HRA £m	Total Principal 30 Nov 2023 £m	Weighted Average Rate %
Public Works Loan Board Loans	408.522	39.704	448.226	2.65
LOBOs	131.500	21.000	152.500	3.89
Market / Local Authority (>1 year)*	71.000	8.100	79.100	3.79
Salix	0.025	-	0.025	-
Short Term loans* (<1 year)	40.000	-	40.000	4.00
TOTAL EXTERNAL BORROWING	**651.047**	**68.804**	**719.851**	**3.10**

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

10.2 Total external borrowing has decreased by £25.527 million from £745.378 million at the start of year to £719.851 million at 30 November 2023. Following further repayments of £90.025 million and £182.000 million new borrowing scheduled to take place between December 2023 and March 2024, the year-end figure is expected to be around £811.826 million.

11. Current Investments

11.1 The table below summarises the investment position at 30 November 2023:

	Total Principal 30 Nov 2023 £m	Weighted Average Rate %
Money Market Funds and Call Accounts	88.550	5.34
Fixed Term Investments – Short Term (<1 year)*	16.000	5.54
Fixed Term Investments – Long Term (>1 year)*	-	-
TOTAL EXTERNAL INVESTMENTS	**104.550**	**5.37**

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

Forecast for Interest Rates and Economic Outlook

11.2 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 2024-25 (at 7 November 2023). A longer view and more detailed forecast are included at Appendix 1.

	Quarter 1 (Q/E Jun 2024)	Quarter 2 (Q/E Sep 2024)	Quarter 3 (Q/E Dec 2024)	Quarter 4 (Q/E Mar 2025)
Bank Rate	5.25	5.00	4.50	4.00
5-year PWLB	4.80	4.70	4.40	4.20
10-year PWLB	4.80	4.70	4.40	4.20
25-year PWLB	5.10	4.90	4.70	4.50
50-year PWLB	4.90	4.70	4.50	4.30

12. Economic Outlook (early December 2023)

12.1 During the first half of 2023-24 the Bank Rate rose from 4.25% to 5.25% due to persistent inflation. CPI inflation fell from 8.70% in April to 6.70% in September, however the bank rate remained at 5.25%. The Bank of England is concerned about inflation and needs to see further evidence that inflation is coming down. According to Link’s central forecast the bank rate will fall 0.25 basis points in September 2024 to 5.00% and will subsequently continue to fall until December 2025 where it will remain constant at 3.00%. A rebound in services inflation, another surge in wage growth or a further leap in oil prices could result in a further increase in the bank rate.

12.2 The Bank of England is forecasting that inflation will continue to fall quite sharply over the next year. CPI inflation has already dropped from an average of 6.70% in September 2023 to 4.60% in October 2023. According to the Bank of England’s Monetary Policy (published in November 2023) CPI inflation will decrease to 3.75% by June 2024.

12.3 One of the biggest concerns for the Bank of England with regard to inflation is wage growth. The UK wage growth remains much faster than in the US and in the Euro-zone. The regular annual average total pay growth in June to August 2023 for the private sector was 7.10% and for the public sector was 12.50%. The public sector pay growth is affected by the NHS and Civil Service one-off non-consolidated payments made in June, July and August 2023.

12.4 However, the tightness of the labour market continued to ease, with a decline in the number of job vacancies from 1.017 million in July 2023 to 0.989 million in August. That is the first time it has fallen below 1 million since July 2021. The job vacancy rate was at 3.00% in July 2023 and is likely to have fallen to 2.90% in August. The job vacancy rate is getting closer to 2.50%, which would be consistent with slower wage growth. The cooling in the labour market conditions has not fed through to an easing in wage growth yet but the Bank of England’s prediction was for private sector wage growth to fall from 7.10% in August 2023 to 6.90% in September 2023.

12.5 Link have predicted that as the drag from higher interest rates intensifies over the next six months, the economy will continue to lose momentum and fall into a mild recession. 0% real GDP growth was registered in Q3 September 2023 and Link anticipate a contraction to follow in the next couple of quarters.

12.6 The Bank of England anticipate GDP growth to remain broadly flat with calendar-year GDP growth expected to be marginally positive in 2024. The calendar-year GDP growth is expected to increase by 0.25% in 2025 and 0.75% in 2026.

13. Forecast for Treasury / Guilt Yields and PWLB Rates

13.1 Public Works Loans Board (PWLB) 5 to 50 years Certainty Rates are, generally, in the range of 4.27% to 5.45%. 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).

13.2 In September 2023 the medium to longer term PWLB rates peaked. This was due to continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

14. Significant Risks to the Forecasts

14.1 Downside risks:

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

b) The Bank of England has increased the Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession.

c) 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.

d) 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.

14.2 Upside risks:

a) Despite the recent tightening to 5.25% the Bank of England proves too timid in its pace and strength of increases in Bank Rate, and therefore allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates the Bank Rate staying higher for longer than currently projected.

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

c) Longer-term UK treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher.

d) Projected gilt issuance, inclusive of natural maturities and quantitative tightening, could be too much for the market to comfortably digest without higher yields compensating.

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

The Borrowing Strategy 2024-25

15. Introduction

15.1 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.

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

16. Borrowing Need – Capital Financing Requirement

16.1 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.

16.2 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 'counterparty' credit risk in terms of investments; because it reduces the need to place investments with external institutions.

16.3 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 of internal borrowing as proposed below:

CFR Forecast (exc. PFI)	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**
Opening CFR (exc. PFI)	1,081.950	1,172.616	1,229.559	1,249.187
Increase / (Decrease) in CFR (exc. PFI)	90.666	56.943	19.628	(17.456)
Closing CFR (exc. PFI) [Need to Borrow]	**1,172.616**	**1,229.559**	**1,249.187**	**1,231.731**
External Borrowing Forecast (exc. PFI)				
Opening External Borrowing (exc. PFI)	811.826	969.524	1,053.468	1,092.407
Increase / (Decrease) in External Borrowing (exc. PFI)	157.698	83.944	38.939	(20.058)
Closing External Borrowing (exc. PFI)	**969.524**	**1,053.468**	**1,092.407**	**1,072.349**
Under / (Over) Borrowing	203.092	176,091	156.780	159.382

17. Proposed Borrowing Strategy

17.1 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) and keep any external borrowing to a minimum.

17.2 As identified in the table at 4.2, by the end of 2024-25, 17.32% (£203.092 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 2024-25 this is estimated at 4.70% or around £11.121 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 2024-25 of 4.72%, this equates to a notional saving of 0.02% or around £0.04 7 million (or alternatively the notional cost of externalisation).

17.3 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.

17.4 Despite utilising investments balances to support the borrowing need, as identified above a significant amount of external borrowing will still be required during 2024-25 (estimated at around £300.000 million, after taking into consideration maturing loans of £142.302 million) and going forward to fund the proposed Capital Programme.

17.5 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 to 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.

17.6 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.

17.7 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.

18. Policy on Borrowing in Advance of Need

18.1 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.

19. Debt Rescheduling

19.1 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.

a) The reasons for any rescheduling to take place will include:

b) the generation of cash savings and / or discounted cash flow savings,

c) helping to fulfil the treasury strategy; and,

d) enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

19.2 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.

20. UK Municipal Bond Agency and European Investment Bank

20.1 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.

20.2 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.

21. Compliance with Prudential Code – Borrowing

21.1 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.

21.2 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.

Annual Investment Strategy 2024-25

22. Introduction – Investment Policy

22.1 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.

23. Investment Returns Expectations

23.1 As outlined in section 3 above and Appendix 1, investment returns are expected to decrease in 2024-25. Link Asset Services first forecast a decrease in Bank Rate in September 2024. However, stubborn inflation may result in the Bank Rate remaining higher for longer or potentially further increases which will keep investment returns high.

23.2 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:

	2024-25	2025-26	2026-27	2027-28	2028-29
Budgeted Rate	4.70%	3.20%	3.00%	3.25%	3.25%

24. Investment Strategy

24.1 As proposed in section 4 above, it is expected that during 2024-25 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.

24.2 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").

24.3 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 reducing by September 2024 so an agile investment strategy would be appropriate to optimise returns.

24.4 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.

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

24.6 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).

25. Investment objectives

25.1 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:

a) the security of capital,

b) the liquidity of its investments; and,

c) the achievement of optimum yield.

25.2 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.

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

a) explicitly balance risk and reward,

b) review and scrutinise policies and procedures regularly,

c) have well trained staff and engaged elected members; and,

d) use a wide variety of information.

25.4 The Credit and Counterparty Criteria List (Appendix 2), which now includes the North East Mayoral Combined Authority, offers diverse counterparties and takes into account country, sector and group limits.

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

25.6 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).

25.7 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.

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

26.1 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.

26.2 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.

26.3 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:

a) credit watches and credit outlooks from credit rating agencies,

b) CDS* spreads to give early warning of likely changes in credit ratings; and,

c) sovereign ratings to select counterparties from only the most creditworthy countries.

26.4 *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.

26.5 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.

26.6 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.

26.7 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.

27. Types of investments the Council may use

27.1 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).

27.2 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.

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

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

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

a) in pounds sterling,

b) due to be repaid within 12 months or which may be required to be repaid within 12 months,

c) not capital expenditure,

d) 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,

e) made with the United Kingdom Government or local authority (including the North East Combined Authority, North of Tyne Combined Authority, and North East Mayoral Combined Authority once incorporated in May 2024), parish council or community council.

27.6 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.

27.7 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.

27.8 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.

27.9 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.

27.10 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.

28. Forecast Investment Balances and Liquidity

28.1 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 2024-25 the Council’s external investment balances will fluctuate throughout the year within a range between £34.733 million and £84.829 million.

28.2 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).

28.3 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.

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

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

29.1 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 2023], 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.

29.2 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.

29.3 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.

29.4 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.

29.5 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.

29.6 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.

29.7 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 2024 £m	Weighted Average Interest Rate	Forecast Interest Income 2024-25* £m
Active Northumberland	0.087	3.25%	0.002
Advance Northumberland Group*	279.682	5.17%	14.340
Alexa's Animal Charity	0.108	2.40%	0.003
Alnwick Juniors	0.139	0.00%	-
Alnwick Youth Hostel	0.079	2.10%	0.002
Arts Groups (The Maltings, Alnwick Playhouse)	0.014	3.87%	0.001
Calvert Trust	0.079	2.10%	0.002
Cramlington Town Council	0.282	4.00%	0.011
Haltwhistle Pool	0.031	2.10%	0.001
Newcastle Airport	11.916	8.60%	1.027
Newcastle City Council	0.155	5.00%	0.008
North East Local Enterprise Partnership	10.507	2.29%	0.437
Northumberland Aged Miners	1.326	3.50%	0.046
Northumberland College	5.605	2.28%	0.250
Northumberland Community Bank	0.100	3.55%	0.004
Northumbria Healthcare NHS Foundation Trust	84.520	3.57%	3.685
Other Parish/Town Councils and Housing Associations	0.068	16.50%	0.008
Total	**394.698**	**4.13%**	**19.827**

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

29.8 The Medium-Term Capital Programme for 2024-25 to 2027-28 includes a provision of £52.000 million for further loans to Advance Northumberland and other third parties, plus an additional £1.335 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).

29.9 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.

30. Provision for credit related losses

30.1 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.

31. HOUSING REVENUE ACCOUNT (HRA) TREASURY MANAGEMENT COSTS

31.1 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.

31.2 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:

32. HRA Under-Borrowing

32.1 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.

33. HRA Over-Borrowing

33.1 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.

34. Other Treasury Management Charges to HRA

34.1 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.

34.2 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.

35. PRUDENTIAL INDICATORS and TREASURY LIMITS 2024-25 to 2027-28

35.1 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.

35.2 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 2024-25 to 2027-28 are set out in Appendix 4.

36. THE ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT

36.1 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.

36.2 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.

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

36.4 The 2024-25 policy has been updated from the policy in 2023-24. The changes surround the Long-Term Capital Debtors policy and include a new policy for equity investments. These changes have been implemented due to changes in the Minimum Revenue Provision Statutory Guidance. These changes are currently under consultation and are expected to be implemented from 1 April 2024. These changes will have a minimal impact on the MRP value that is calculated due to the Council already providing prudent MRP on maturity loans and the fact that all of the Long-Term Capital Debtors being for service reasons. Further details are provided below:

a) for commercial loans where loan repayments are received in year then the loan repayments will be used in lieu of MRP and applied to write down the CFR. In years where no Capital Receipt is received, even if a capital receipt is anticipated, the MRP will be provided over a prudent period.

b) for service loans where loan repayments are received in year then the loan repayments will be used in lieu of MRP and applied to write down the CFR. In years where no Capital Receipt is received, then MRP will not be provided until the loan repayment is received, at which point the repayment will be applied to write down the CFR. The Council can however choose to provide MRP if it considers this to be a more prudent approach.

c) for commercial and service loans – where an actual or expected credit loss has been recognised then the MRP amount in the year will be equal to the amount of the credit loss. This amount can be reduced by any historic MRP made with respect to that loan.

d) for equity investments in the Council's subsidiary companies the MRP policy will be on an asset life basis over a period of 20 years.

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

37. POLICY ON USE OF EXTERNAL SERVICE PROVIDERS

37.1 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.

37.2 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.

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

a) technical support on treasury matters, capital finance issues and templates of Member reports;

b) economic and interest rate analysis;

c) debt services which include advice on the timing of borrowing;

d) debt rescheduling advice surrounding the existing portfolio;

e) generic investment advice on interest rates, timing and investment instruments;

f) online up to date credit ratings; and,

g) Member and Officer training.

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

38. Implementation of the Treasury Management Strategy

38.1 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.

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

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

38.4 There are no proposed changes to this methodology.

39. Treasury Management Practices (TMPs)

39.1 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.

39.2 These practices are as follows:

a) TMP1 Risk Management

b) TMP2 Best value and performance measurement

c) TMP3 Decision-making and analysis

d) TMP4 Approved instruments, methods and techniques

e) TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

f) TMP6 Reporting requirements and management information

g) TMP7 Budgeting, accounting and audit arrangements

h) TMP8 Cash and cash flow management

i) TMP9 Money laundering

j) TMP10 Training and qualifications

k) TMP11 Use of external service providers; and,

l) TMP12 Corporate governance.

39.3 The following minor changes have been made to the 2024-25 practices:

a) Inflation and interest rate references (TMP1, para 1.5.1).

b) Updated the settlement transmission procedures to include the automated workflow (TMP5, para 5.11)

40. Responsible Officers

40.1 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.

40.2 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 .

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

41. Training

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

41.2 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.

42. Reports and Monitoring

42.1 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.

42.2 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.

42.3 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:

43. Treasury Management Strategy Statement

43.1 The first, and most important report covers:

a) the capital plans (including prudential indicators),

b) a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time),

c) the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and,

d) an investment strategy (the parameters on how investments are to be managed).

44. A Mid-Year Treasury Management Report

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

45. An Annual Treasury Report

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

46. Quarterly Reports

46.1 Quarterly reports on the performance of the Council's treasury management activity including forward looking Prudential Indicators are provided to Cabinet as part of the revenue and capital budget monitoring.

46.2 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	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

46.3 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.

46.4 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.

47. Implications

Policy	The report sets out the Treasury Management Policy Statement for 2024-25 and is consistent with all of the priorities within the Corporate Plan 2023-26.
Finance and value for money	The financial implications of the 2024-25 investment and borrowing transactions have been taken into account within the revenue budget for 2024-25 and Medium-Term Financial Plan 2024-28. 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. The Treasury Management Strategy Statement is approved by Council because it forms part of the Budget Framework.
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.
The Equalities Act: is a full impact assessment required and attached?	No - no equalities issues identified There are no equalities issues.
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 and disorder	There are no Crime and Disorder implications contained within this report.
Customer considerations	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 Wards);

48. 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)

49. Links to other key reports already published

Not applicable

50. Author and Contact Details

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ECONOMIC FORECAST - NOVEMBER 2023

APPENDIX 1

LINK ASSET SERVICES	End Q3 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	End Q1 2026	End Q2 2026	End Q3 2026	End Q4 2026
Bank Rate	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%	3.00%	3.00%	3.00%	3.00%	3.00%
3 ave earnings	5.30%	5.30%	5.30%	5.00%	4.50%	4.00%	3.50%	3.30%	3.00%	3.00%	3.00%	3.00%	3.00%
6 ave earnings	5.60%	5.50%	5.40%	5.10%	4.60%	4.10%	3.60%	3.40%	3.10%	3.10%	3.10%	3.10%	3.10%
12 ave earnings	5.80%	5.70%	5.50%	5.20%	4.70%	4.20%	3.70%	3.50%	3.30%	3.30%	3.30%	3.30%	3.30%
5 year PWLB	5.00%	4.90%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%	3.60%	3.50%	3.50%	3.50%
10 year PWLB	5.10%	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%	3.70%	3.60%	3.60%	3.60%
25 year PWLB	5.50%	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%	4.10%	4.10%	4.00%	4.00%	4.00%
50 year PWLB	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%	3.90%	3.80%	3.80%	3.80%

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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, North of Tyne Combined Authority and North East Mayoral 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, North of Tyne Combined Authority and North East Mayoral 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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APPENDIX 3

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 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, the Deputy Section 151 Officer, or the Head of Corporate Finance

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. Short-term borrowing and investment are authorised by the Section 151 Officer, Deputy Section 151 Officer, or, in their absence, a Finance Manager. Any money borrowed for periods in excess of one year must be approved by the Section 151 Officer, the Deputy Section 151 Officer, or the Head of Corporate Finance.

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 5.30% to 4.00% for most of 2024-25. Inflation is currently at around 6.70% and is expected to fall to around 2.00% by the end of 2025.

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 unless there are financial benefits to the Council of arranging debt where maturities will be higher than 25% in on year. For instance, the interest rates are currently at the highest peak and are forecast to fall within the next year, therefore all borrowing is recommended to be taken on a short-term basis.

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 monthly 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, 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 Link Asset Services benchmarking club. 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 service and prices reflects value for money.

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 and consider the quality of services prior to using them. The current approved brokers are listed in 11.1.2.

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 Fisglobal 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 Council 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 terms of appointment will be decided by the Section 151 Officer in accordance with Financial Regulations.

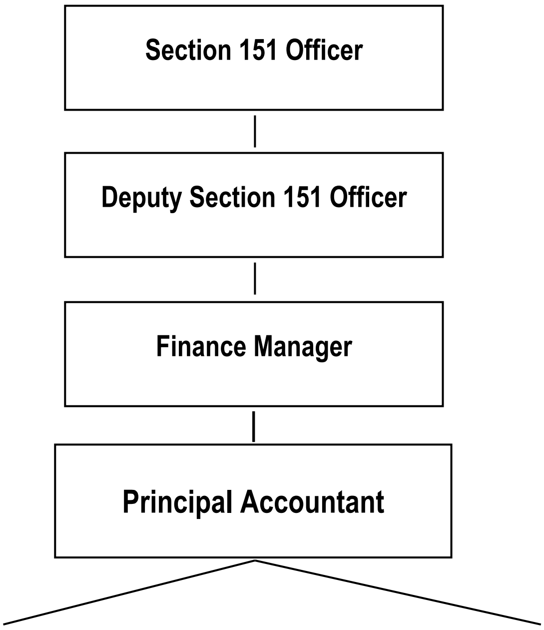
5.2. PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

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, Head of Corporate Finance, or, in their absence, a Finance Manager.

5.3. TREASURY MANAGEMENT ORGANISATION CHART



Senior Accountant(s) or higher	Technical Accountant

5.4. STATEMENT OF DUTIES/RESPONSIBILITIES FOR EACH TREASURY POST

5.4.1. Cabinet Member for Corporate Services

a) The Cabinet Member 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 Cabinet Member 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 Cabinet Member 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, Head of Corporate Finance, 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.

i) Authorise short term investments in the absence of the Section 151 officer, Deputy Section 151 officer or Head of Corporate Finance.

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 Daily cashflow Money Market Fund investment transactions, there is an automated workflow in place, whereby once the daily cashflow is approved by a Finance Manager, a CHAPS form is automatically generated for approval by that Finance Manager. Once approved the form is automatically updated with the approvers name and date stamped. The form is then automatically sent to Cashiers for processing through the Barclays on-line banking system. For all other transactions a CHAPs form is completed and approved by an agreed bank signatory. The transfer is then emailed to and processed by Cashiers, through the Barclays on-line banking system. Chaps are 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 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 Levelling 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 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 June 2022, and further training will be delivered when required. 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. The Council has the option to extend beyond this up to a maximum of two years.

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

Treasury Management Mid-Year Report

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CAPITAL PRUDENTIAL INDICATORS 2024-25 to 2027-28

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in 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. Consequently, 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 considered.

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	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**	**2027-28 Estimate £m**
Adults, Ageing and Wellbeing	3.429	5.431	2.000	2.000	-
Children, Young People and Education	25.679	61.461	39.811	42.287	19.569
Climate Change	5.791	1.161	2.639	-	-
Digital and IT	5.738	9.212	2.828	2.269	1.785
Economic Development and Growth	57.090	89.158	77.873	17.022	1.500
Finance and Procurement	14.097	32.004	20.000	6.000	6.000
Fire and Rescue	2.517	2.172	2.128	1.330	1.243
Highways and Transport	119.711	87.542	87.329	25.849	1.138
Housing – GF	-	0.720	-	-	-
Housing HRA	17.448	31.719	25.692	14.701	14.076
Leisure Services	2.239	3.755	1.905	-	-
Neighbourhood Services	6.508	6.330	7.907	8.488	1.000
Property Services	3.606	7.082	5.342	1.342	2.257
Total Capital Expenditure	**263.853**	**337.747**	**275.454**	**121.288**	**48.568**

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

Capital Funding	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**	**2027-28 Estimate £m**
Capital Receipts	5.589	6.246	5.456	2.655	2.655
External Grants	128.350	165.540	145.453	40.802	3.106
GF Borrowing	111.715	129.061	99.311	65.185	30.646
GF Contributions	6.007	13.171	6.591	-	-
HRA Borrowing	-	-	-	-	-
HRA Contributions	12.192	23.729	18.643	12.646	12.161
Total Capital Funding	**263.853**	**337.747**	**275.454**	**121.288**	**48.568**

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 £126.339 million over the next four years and is shown below.

The Council is asked to approve the following CFR projections:

Capital Financing Requirement (CFR)	**2022-23 Actual £m**	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**	**2027-28 Estimate £m**
General Fund CFR	962.728	1,039.967	1,125.673	1,177.228	1,190.993	1,167.285
HRA CFR	104.871	104.871	104.871	104.871	104.871	104.871
Overall CFR	**1,067.599**	**1,144.838**	**1,230.544**	**1,282.099**	**1,295.864**	**1,272.156**
Movement in Year		77.239	85.706	51.555	13.765	(23.708)

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	2022-23 Actual %	2023-24 Estimate %	2024-25 Estimate %	2025-26 Estimate %	2026-27 Estimate %	2027-28 Estimate %
General Fund	7.7	9.0	10.4	11.5	12.2	12.4
HRA	10.8	7.4	7.1	8.3	8.1	8.0

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	2022-23 Actual %	2023-24 Estimate %	2024-25 Estimate %	2025-26 Estimate %	2026-27 Estimate %	2027-28 Estimate %
Overall	4.0	3.9	3.8	4.0	4.1	4.2

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	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**	**2027-28 Estimate £m**
Borrowing	1,412.353	1,561.064	1,426.401	1,377.821
Other long-term liabilities	75.465	69.514	63.048	56.012
Total	**1,487.818**	**1,630.578**	**1,489.449**	**1,433.833**

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	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**	**2027-28 Estimate £m**
Borrowing	1,176.961	1,300.887	1,188.668	1,148.184
Other long-term liabilities	62.887	57.928	52.540	46.677
Total	**1,239.848**	**1,358.815**	**1,241.208**	**1,194.861**

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 2024-25	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 2024-25	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

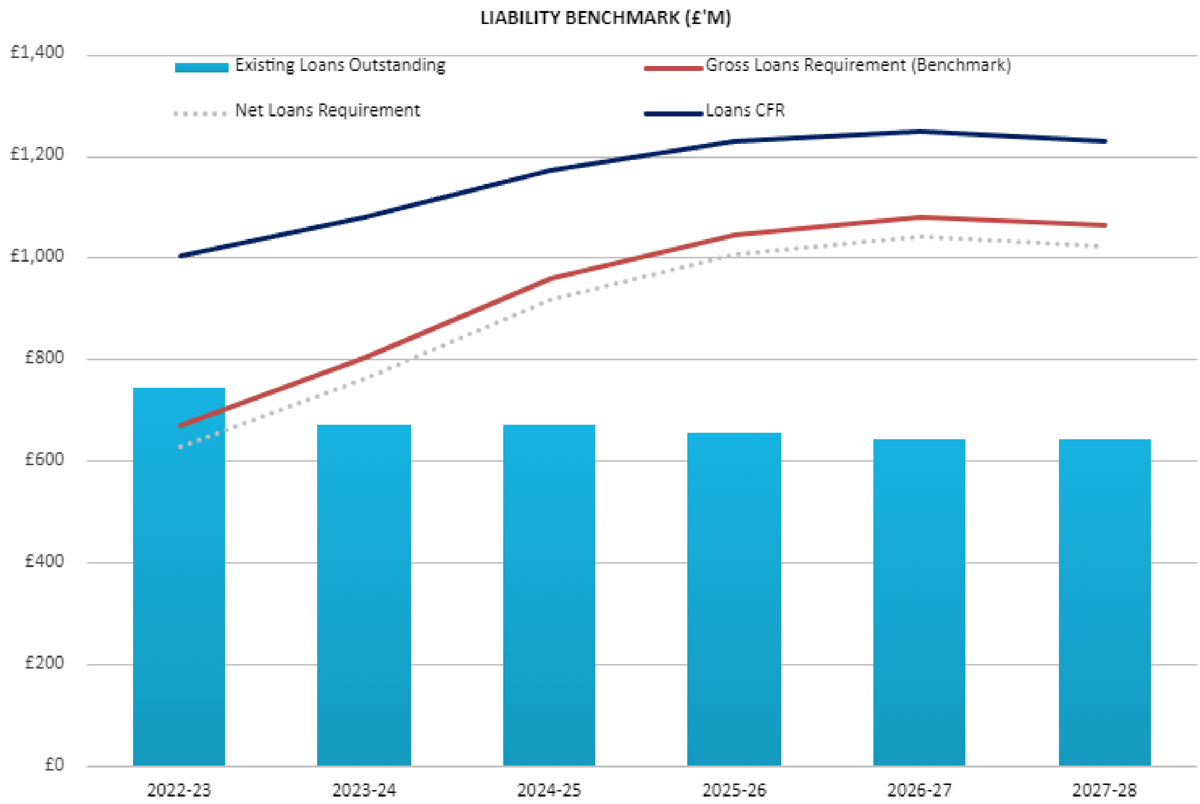
These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator:

Maximum principal sums invested which can be held for over 365 days	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £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	2024-25 %	2025-26 %	2026-27 %	2028-27 %
Estimated % of CFR (exc. PFI) funded from internal borrowing – Average for Year	21.0	15.78	13.43	12.74

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	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**
Notional cost of externalising internal borrowing	0.047	1.195	1.090	0.658

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.

Northumberland County Council

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT 2024-25

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, which ensured consistency with previous Capital Regulations. For most authorities this method would probably result in a higher level of provision than option one. This method should only be adopted for capital expenditure incurred before 1 April 2008.
- 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 Policy

A continuation of the existing practise is proposed for 2024-25 with a modification to the existing third-party loans policy and the addition of a policy for equity investments.

The Council is therefore recommended to approve the following arrangements which are unchanged from the previous year:

- 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.
- 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.

Additionally, the Council is recommended to approve the following arrangements which are modified from the previous year:

- For equity investments in the Council's subsidiary companies the MRP policy will be on an asset life basis over a period of 20 years.
- 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), the MRP is as follows:
    - for commercial loans – where loan repayments are received in year then the loan repayments will be used in lieu of MRP and applied to write down the

CFR. In years where no capital receipt is received, even if a capital receipt is anticipated, then MRP will be provided over a prudent period;

- for service loans – where loan repayments are received in year then the loan repayments will be used in lieu of MRP and applied to write down the CFR. In years where no capital receipt is received, then MRP will not be provided until the loan repayment is received, at which point the repayment will be applied to write down the CFR. The Council can however choose to provide MRP if it considers this to be a more prudent approach; and
- for commercial and service loans – where an actual or expected credit loss has been recognised then the MRP amount in the year will be equal to the amount of the credit loss. This amount can be reduced by any historic MRP made with respect to that loan.

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Northumberland County Council

AUDIT COMMITTEE

31 January 2024

International Lessons Learned Review - Update

Report of Jan Willis, Executive Director of Transformation and Resources and S151 Officer

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1. Purpose of the Report

1.1. To update the Committee on progress in implementing the recommendations of the international lessons learned review commissioned following the issue of the S151 Officer's S114 report in May 2022.

2. Recommendations

2.1. To note the progress in implementing the action plan.

3. Link to the Corporate Plan

3.1. This report is consistent with the priorities in the Corporate Plan 2023-26 "Achieving Value for Money".

4. Background

4.1. In May 2022 the Council's S151 Officer issued a report under S1114 and S114a of the Local Government Finance Act 1988 informing Council that in her view it was likely that the Council had incurred items of unlawful expenditure between 2017 and 2021 as a result of providing international consulting services on a commercial basis outside of a company as required by the Localism Act 2011 and paying an international allowance to the Chief Executive without proper approval and in contravention of the Council's pay policy statement.

4.2. At its meeting on 27 July 2022 the Committee agreed the terms of reference at Appendix 1 for an independent investigation into the circumstances that gave rise to the unlawful commercial trading.

4.3. The purpose of the investigation was to:

- Draw out key lessons to be learned.
- Identify where the council's processes for ensuring commercial trading activities are undertaken on a lawful basis and subject to appropriate oversight and reporting are fit for purpose fell short of both standard and best practice.
- Make recommendations for addressing any weaknesses identified.

4.4. Mr John Gilbert, an experienced ex local authority Chief Executive, was subsequently commissioned to undertake the investigation and reported his findings to the Committee on 26 July 2023. This report provides an update on progress in implementing the recommendations agreed by the Committee.

5. Key Issues

5.1. Progress updates are highlighted in bold in the table below.

Recommendation	Response	Responsible Officer
Prior to any pre-trading activities taking place, there should be a gateway process, where potential commercial ideas are presented to a Council formulated Committee/Board.	Agreed. **A gateway process was agreed by Cabinet in November 2022. No new commercial proposals have come forward.**	**Completed** Director of Law & Governance
Consideration should be given to expanding your Risk Approval Panels Terms of Reference, as a vehicle for evaluating potential trading propositions and advice to the Shareholder Committee going forwards.	The membership and terms of reference of the Risk Appraisal Panel are as follows:- Membership Chairman of the Council (Chair) Leader of the Council (Vice-Chair) Deputy Leader of the Council Leaders of the Opposition Groups Chief Executive Monitoring Officer Executive Director of Finance & Section 151 Officer Plus relevant Cabinet Member dependent upon the project under discussion. Terms of Reference to consider the risks to the County Council associated with a project. **See Constitution for revised terms.**	**Completed** Director of Law & Governance
The Council should seek independent assurance that commercial risks are being	A review of the Council's risk management processes, in conjunction	**In progress** Chief Internal

evaluated and recorded on the strategic risk register.	with the Executive Management Team, was identified for 2023/24. This review is now in progress and this recommendation will be considered as part of that review. A fundamental review of the Council's corporate risks has taken place with a new corporate risk register agreed by Cabinet in December 2023. Work is ongoing to update the Council's Risk Management Framework and to consistently align and update all Service Strategic risk registers. This recommendation is in the process of being implemented as part of that work.	Auditor
The Chief Internal Auditor should meet every director on a bi-annual basis to understand operational challenges and concerns, with a view to ensure that the annual audit plan is robust. The outcome of the summary formulated from those meetings should then be initially presented to the meeting of the 3 statutory officers.	The Chief Internal Auditor meets formally with each director annually as part of the audit planning process. This includes the s151 Officer. Outcomes from the audit planning process are reported to 'senior management' (Executive Management Team) and the 'Board' (Audit Committee) in accordance with the Public Sector Internal Audit Standards. The Chief Internal Auditor attends meetings of the Executive Management Team on a bi-monthly basis and has already identified an action to	**Completed** Chief Internal Auditor

	increase engagement with individual directors during 2023/24. The Chief Internal Auditor already meets with the s151 Officer on a monthly basis.	
The Audit Committee should gain feedback from all members of the Council on an annual basis, as to what they believe should be on the Chief Internal Auditor's annual audit plan.	Development of the Internal Audit Plan is the responsibility of the Chief Internal Auditor. As part of developing the Internal Audit Plan, the Chief Internal Auditor undertakes engagement with a number of stakeholders, including Audit Committee (individual members and as a collective body). This recommendation will be discussed with Audit Committee. **To be discussed with Audit Committee as part of agreement of approach to development of 2024/25 Internal Audit Plan, at Audit Committee in January 2024.**	**In progress** Chief Internal Auditor
To further support this process, the Monitoring Officer should maintain a register of all commercial trading activities going forwards and give assurance that such activities are lawful.	A register of all commercial trading will be kept by the council and legal advice will be sought on all proposed activities. **There are none apparent at present. Work is being undertaken to assure this position.**	**Completed** Director of Law & Governance
The Monitoring Officer should issue formal advice setting out	The process of granting and recording delegations	**Completed**

clear principles of decision making. This advice should include requirements for recording of decisions taken by officers under delegated authority.	is under review. In the light of that review any changes will be made in accordance with the appropriate process. **The process of granting and recording delegations has been reviewed and is being rolled out with appropriate training.**	Director of Law & Governance
The Monitoring Officer should issue formal advice on members' rights to information and act as an escalation point for members in circumstances where they are unable to obtain information they are entitled to.	While the process and members entitlement to information is set out in the constitution the Director of Law and Governance will issue succinct guidance to members and officers, including details of how members can raise concerns. **Members rights to information has been clarified and the use FOIs has by members has fallen to effectively zero.**	**Completed** Director of Law & Governance
The Monitoring Officer should tighten up the arrangements for the commissioning of any external legal advice and should be the key statutory officer to formally request/sign off any external legal instructions with a copy retained by the legal team.	All relevant officers will be reminded of the requirement to commission all legal work with the support of the in-house team. **All relevant officers know of the requirement to commission all legal work with the support of the in-house team. This is now becoming standard practice.**	**Completed** Director of Law and Governance
Each Cabinet member should have a personal development plan as part of their annual appraisal process.	The Council recently refreshed and rolled out Member Personal Development Plans. This happened in consultation with Member Services	**Completed** Director of Law and Governance

	Working Group and Group Leaders and PDPs were shared with all Members in March 2023.	
Bespoke training should be provided for any new members and/or Cabinet members, including understanding company legislation.	This will be provided as required and on request.	**Completed** Head of Member Services
There needs to be a continual monitoring of the Council's Constitution to ensure that it picks up issues regarding schemes of delegation and levels of authorisation.	This has been and remains the role of the Director of Law of Governance. A review of current arrangements is being undertaken. Members will be advised of the conclusions.	**Completed** Director of Law & Governance
The S151 Officer should undertake an analysis of financial and procedural rules around commercial trading authority, as well as any schemes of delegation for approval of contracts of this type.	A review of finance and contract procedure rules is being undertaken following updates to the Council Constitution in May 2023. **Revisions to finance and contract procedure rules will be presented to Council for approval at the May AGM.**	**In progress** Executive Director of Transformation and Resources
Establish a programme of regular Cabinet/senior officer awaydays to ensure that there is cohesion and alignment and positive relationship building between senior officers and members going forwards.	This has commenced. There now exists a Strategic EMT meeting in the four-week cycle of EMT meetings and strategic issues flow into SLT meetings.	**Completed**
The S151 Officer should issue guidance on accounting and financial management requirements for all commercial trading activities. Once agreement that internal support services are to be provided these	This is in progress. **Guidance will be incorporated in revised finance and contract procedure rules which will be presented to Council for approval at**	**In progress** Executive Director of Transformation and Resources

should be established and agreed through formal SLAs.	**the May AGM.**	
Upon the establishment of any future cross-council officer working group, any officers deployed to that group should keep written records of correspondence with their director and/or statutory officer. Furthermore, minutes of meetings of cross-council groups are shared appropriately, including the statutory officers, and available to be discussed at their monthly meetings.	Agreed and is now the practice.	**Completed**
There is a comprehensive review of officer training to ensure that is tailored to role, responsibility and risk, especially around government legislation. It should specifically include the key 'formal roles' that the s151 and Monitoring Officer have in ensuring good governance.	A programme of governance training and awareness is being developed to be delivered on a rolling basis. **A programme of governance training and awareness has been developed to be delivered as part of business as usual.**	**Completed** Director of Law & Governance
Examination and continual review of the reporting structure of the Chief Internal Auditor is undertaken.	Under the new tier3/4 structure approved by Staff and Appointments Committee on 25 April 2023 the Chief Internal Auditor now reports to the S151 Officer. He has direct access to the Chief Executive and Chair of Audit Committee, ensuring his independence. The CIA is not a member of the Executive Management Team.	**Completed**
There is a review of the number	Following the dissolution of	**Completed**

of joint posts across the organisation to ensure there is clarity of role, function and accountability.	the formal partnership with Northumbria NHS Foundation Trust in 2021 there are no longer any joint posts.	
The three statutory officers should work together and meet formally on a circa monthly basis.	Agreed. The statutory officers already meet informally on a regular fortnightly basis to discuss emerging issues and on a formal bi-monthly basis.	**Completed**
At the beginning of any initiative potentially involving significant amounts of both expenditure and/or income and involving a range of complexities, the Council's S151 and Monitoring Officer as statutory officers must sign off any formal documentation/reports.	Agreed. This already happens as a matter of good practice.	**Completed**
The Company Secretary should be line managed by the Monitoring Officer to ensure appropriate linkages with other legal operations.	Agreed. **Following further consideration and discussion, the only relevant company secretary post is that in Advance an arm's length company. Direct line management would be inappropriate.**	**Completed** Director of Law & Governance
Where there is a likelihood of working in partnership with a key strategic organisation and/or the formation of a joint venture, the establishment of a minimum of formally minuted, bi-monthly executive meetings should be held including Cabinet members and the equivalent non-executive board members where applicable. This should include	Agreed. **None at present.**	**Completed** Director of Law & Governance

the sharing of ‘governance intelligence’.		

IMPLICATIONS ARISING OUT OF THE REPORT

Policy	None.
Finance and value for money	There are no direct financial implications arising from this report. Effective control and oversight of commercial trading activities provide assurance that public resources are being used appropriately and ensure transparency and accountability.
Legal	The report has been reviewed by the Director of Law and Governance and the legal issues are as set out in the body of the report.
Procurement	None.
Human Resources	None.
Property	None.
Equalities	None.
Risk Assessment	None
Crime & Disorder	None.
Customer Considerations	None.
Carbon Reduction	None.
Health & Wellbeing	None
Wards	All.

Background Papers:

Report sign off:

	Name
Monitoring Officer/Legal	Stephen Gerrard
Executive Director of Transformation and Resources & S151 Officer	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder(s)	N/A

Report Author:

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Northumberland
County Council

Audit Committee

Wednesday, 31 January 2024

Outcomes from the External Quality Assessment of the Internal Audit Service

Report of Head of Internal Audit and Risk Management

1. Link to Key Priorities of the 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 "Achieving Value for Money" priority of the Corporate Plan 2023-26.

2. Purpose of report

The purpose of the report is to advise Audit Committee of the findings / outcomes from the external quality assessment of the Internal Audit Service, undertaken in accordance with the Public Sector Internal Audit Standards.

3. Recommendations

3.1 It is recommended that Audit Committee consider and note the contents of the report.

4. Background

4.1 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." The Public Sector Internal Audit Standards (PSIAS) and accompanying Local Government Application Note, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) comprise the 'public sector internal auditing standards' which are necessary to undertake the effective internal audit required by the Accounts and Audit Regulations 2015.

4.2 All local government Internal Audit providers in the UK are expected to comply fully with the PSIAS. It is a requirement of the PSIAS that Internal Audit is externally assess 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 and the outcomes reported to Audit Committee in March 2018. Audit Committee agreed in January 2023 that an external assessment for Northumberland County Council's Internal Audit Service was performed before the end of March 2023, by CIPFA. It was recognised that the external assessment would take place only a short time after some fundamental changes in service delivery had taken place following the end of the shared service arrangement, but it was proposed that by using a leading local government governance body for the external assessment, the assessment would be comprehensive and provide suitable recommendations to assist the transition in service delivery.

4.3 The external assessment subsequently required rescheduling and CIPFA commenced their work on 2 May 2023. In addition to validation of the Internal Audit Service's self-assessment of compliance to the PSIAS, the review also included a review of a sample of audit files, interviews with a wide sample of key stakeholders, and a survey sent to a range of key stakeholders.

4.4 The report from the external assessor is attached as Appendix 1. The overall opinion of the external assessor is as follows:

"It is our opinion that the internal audit service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

The Internal Audit service has self-assessed themselves as generally conforming to the standards and we concur with that view. We are mindful of the fact that at the time of the EQA this was a relatively new in-house service, and they were in the process of changing and developing much of the legacy processes inherited from the previous shared service with North Tyneside Council. We acknowledge that they have made considerable progress towards compliance with the PSIAS and the LGAN, but there are still some areas that would benefit from further enhancement."

4.5 This is a positive result and "generally conforms" is the highest assessment outcome provided by CIPFA.

4.6 Within the report from the external assessor, some suggested improvements have been identified and an action plan has been developed to respond to and address these. The action plan is attached as Appendix 2.

5. Options open to the Council and reasons for the recommendations

5.1 Not applicable.

6. 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.

Finance and value for money	The only direct financial implication arising from the recommendations set out in this report was the cost of the external assessment. This cost is minor and has been 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 was engaged in accordance with all of the County Council's procurement requirements
Human resources	None.
Property	None.
The Equalities Act: is a full impact assessment required and attached?	No - no equalities issues identified Equalities Impact Assessment not required.
Risk assessment	There are no specific risks arising from this report, as the external 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 and disorder	None.
Customer considerations	This report has been prepared for Audit Committee, as the designated 'board' under the PSIAS, to consider.
Carbon reduction	None.
Health and wellbeing	None.
Wards	(All Wards);

7. 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, Chartered Institute of Public Finance & Accountancy, February 2019
- Northumberland County Council Finance and Contract Rules, February 2021
- The Accounts and Audit Regulations 2015, April 2015

8. Links to other key reports already published

Public Sector Internal Audit Standards, Report to Audit Committee, January 2023

9. Author and Contact Details

Kevin McDonald, Head of Internal Audit and Risk Management (Chief Internal Auditor)
Email: Kevin.McDonald@northumberland.gov.uk

External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Northumberland County Council's Internal Audit Service

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Quality Assessment: Diana Melville, FCPFA

22 December 2023

Northumberland County Council's Internal Audit Service

Table of contents

1. Introduction

1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments (EQA), or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal Audit service's own self-assessment at least once in a five-year period.

2. Background

2.1 The internal audit service provides internal audit and investigatory services to Northumberland County Council and the Council's wholly owned subsidiary company Advance Northumberland. The Chief Audit Executive is the Council's Head of Internal Audit and Risk Management (referred to as the HIA&RM in this report). The internal audit service consists of ten posts, including two specialist computer auditors and two posts with managerial responsibilities. The HIA&RM is an experienced internal audit professional who is a CCAB accountant (CIPFA). There are currently two Group Assurance Manager posts in the structure, and they are both experienced internal audit professionals. One is a CCAB accountant (FCCA) and a Chartered Internal Auditor (CMIIA), while the other is AAT qualified and is currently undertaking the CIA qualification with the IIA. Below the Group Assurance Manager Level there are three Senior Auditor posts and three Assurance/Audit Officer posts.

2.2 From an operational perspective, the internal audit service is part of the Transformation and Resources Directorate and the HIA&RM reports directly to the Executive Director of Transformation and Resources, who is the Council's Section 151 Officer.

2.3 The internal audit service has been operating under PSIAS since its launch in 2013, albeit as a shared service with North Tyneside Council until April 2022. This is the first (EQA) that the in-house service has commissioned. It should be noted that the in-house service is still relatively new and, as such, this is reflected in our opinion of their conformance to the PSIAS.

3. Validation Process

3.1 This validation of the service's self-assessment comprised a combination of a review of the evidence provided by Internal Audit; a review of a sample of completed internal audits; a survey that was sent to, and completed by, a range of stakeholders; and interviews with key stakeholders, using MS Teams. The interviews focussed on determining the strengths and weaknesses of Internal Audit and assessed the service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

3.2 The internal audit service provided a comprehensive range of documents that they used as evidence to support their self-assessment, and these were available for examination prior to and during this validation review. These documents included the:

- self-assessment against the standards;
- quality assurance and improvement plan (QAIP);
- evidence file to support the self-assessment;
- the audit charter;
- the annual report and opinions

- the audit plan and strategy;
- audit procedures manual;
- a range of documents and records relating to the team members;
- progress and other reports to the Audit Committee.

All the above documents were examined during this EQA.

3.3 The main phase of the validation process was carried out during the week commencing 1 May 2023, with further work and interviews undertaken during the following weeks. This phase of the EQA involved a review of a sample of audit files and interviews with a wide sample of key stakeholders. Overall, the feedback from the interviewees was positive with clients valuing the professional, knowledgeable, and objective way the internal audit service delivered their services.

3.4 A survey was sent to a range of key stakeholders and the results analysed during the review. Details of the survey findings have been provided to the HIA&RM and a summary table has been included in this report.

3.5 The assessor reviewed examples of completed audits, to confirm his understanding of the audit process used at the Council, and to determine how Internal Audit has applied the PSIAS and LGAN in practice.

4. Opinion

It is our opinion that the internal audit service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

4.1 The Internal Audit service has self-assessed themselves as generally conforming to the standards and we concur with that view. We are mindful of the fact that at the time of the EQA this was a relatively new in-house service, and they were in the process of changing and developing much of the legacy processes inherited from the previous shared service with North Tyneside Council. We acknowledge that they have made considerable progress towards compliance with the PSIAS and the LGAN, but there are still some areas that would benefit from further enhancement.

The table below shows the internal audit service's level of conformance to the individual standards assessed during this external quality assessment:

Standard / Area Assessed	Level of Conformance
Mission Statement	**Generally Conforms**
Core principles	**Generally Conforms**
Code of ethics	**Generally Conforms**
Attribute standard 1000 – Purpose, Authority and Responsibility	**Partially Conforms**

Standard / Area Assessed	Level of Conformance
Attribute standard 1100 – Independence and Objectivity	**Generally Conforms**
Attribute standard 1200 – Proficiency and Due Professional Care	**Generally Conforms**
Attribute standard 1300 – Quality Assurance and Improvement Programmes	**Generally Conforms**
Performance standard 2000 – Managing the Internal Audit Activity	**Generally conforms**
Performance standard 2100 – Nature of Work	**Generally Conforms**
Performance standard 2200 – Engagement Planning	**Generally Conforms**
Performance standard 2300 – Performing the Engagement	**Generally Conforms**
Performance standard 2400 – Communicating Results	**Generally Conforms**
Performance standard 2500 – Monitoring Progress	**Generally Conforms**
Performance standard 2600 – Communicating the Acceptance of Risk	**Generally Conforms**

5. Areas of full conformance with the Public Sector Internal Audit Standards

5.1 Mission Statement and Definition of Internal Audit

The definition of internal audit from the PSIAS is included in the 2022 version of the audit charter for Northumberland County Council but not the Mission Statement. This was added to the 2023 version by the HIA&RM during the EQA.

5.2 Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate an Internal Audit function's effectiveness, and provide a basis for considering the organisation's level of conformance with the Attribute and Performance standards of the PSIAS.

The indication from this EQA is that the Core Principles form part of Internal Audit's procedures and working methodologies and they are a competent and experienced service that conforms to the Core Principles.

5.3 Code of Ethics

The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the *profession, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Code of Ethics provides guidance to internal auditors and in essence, it sets out the rules of conduct that describe behavioural norms expected of internal auditors and are intended to guide their ethical conduct. The Code of Ethics applies to both individuals and the entities that provide internal auditing services.*

The indication from this EQA is that the internal audit service conforms to the Code of Ethics, and this forms part of their procedures and audit methodologies. The code of ethics is part of their overarching culture and underpins the way the service operates.

5.4 **Attribute Standard 1100 – Independence and Objectivity**

Standard 1100 states that the internal audit activity must be independent, and internal auditors must be objective in performing their work.

The need for independence and objectivity is an integral part of any internal audit service's culture. The HIA&RM reports in his own name directly to the Executive Director of Transformation and Resources and to the Audit Committee.

The general view from many of the officers that were interviewed and/or returned surveys is that the service is independent and objective, although it is also apparent that some individuals at the Council still need further convincing that the current HIA&RM and his team are very different to the previous regime that was in place under the shared arrangement with North Tyneside Council. Whilst much has already been achieved to raise the profile of the service, it can take a long time to change people's perceptions. To achieve this, the HIA&RM needs to continually raise the profile of the service and demonstrate to all officers and elected members that they are a modern, independent and objective assurance and consulting service that adds value to their clients.

Consideration should also be given to undertaking a self-assessment of HIA&RM's compliance with the five principles from the CIPFA guidance on the Role of the Head of Internal Audit. We recommend undertaking such a self-assessment to identify any areas that may need enhancing and including these in the QAIP.

Furthermore, consideration should also be given to the contents of the CIPFA publication "Internal Audit: Untapped Potential" as this provides a wealth of useful advice and guidance on enhancing the internal audit service. Appendix B, entitled "Maximising the Impact of Internal Audit" is particularly significant to raising the service's profile.

We have included actions relating to the above observations in section 9 of this report.

We have reviewed the internal audit service's procedures and their standard documentation; their quality assurance and improvement plan; and a small sample of completed audit files. We have also reviewed their reporting lines and their positioning within the organisations. The HIA&RM has responsibility for the Council's risk management function, and this is set out clearly in the audit charter, along with the mechanism that will be followed when this function is being audited, to ensure the independence and objectivity of the HIA&RM and the internal audit service are maintained. In order to enhance transparency, we suggest that the Audit Committee regularly reviews and challenges the effectiveness of these arrangements. We have included an action in section 9 of this report relating to this observation.

All employees declare any potential impairment to their independence or objectivity on an annual basis. Where there have not been any impairments to the independence and objectivity of either the Head of Internal Audit and Risk Management, or the service as a whole, it is good practice to include a statement confirming this in the HIA&RM's annual report. This was added to the 2022/23 annual report during the EQA.

Notwithstanding the above observations, we feel that the internal audit service generally conforms with attribute standard 1100 and the LGAN.

5.5 **Attribute Standard 1200 – Proficiency and Due Professional Care**

Attribute standard 1200 requires the internal audit services' engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the staff, and how they apply their knowledge in practice.

The internal audit service consists of ten posts, including two specialist computer auditors and three posts with managerial responsibilities. The HIA&RM is an experienced internal audit professional who is a CCAB accountant (CIPFA). There are currently two Group Assurance Manager posts in the structure, and they are both experienced internal audit professionals. One is a CCAB accountant (FCCA) and a Chartered Internal Auditor (CMIIA), while the other is AAT qualified and is currently undertaking the CIA qualification with the IIA. Below the Group Assurance Manager Level there are three Senior Auditor posts and three Assurance/Audit Officer posts.

All the Senior Auditor posts are occupied by experienced internal audit professionals. One is a specialist computer auditor with a relevant computer audit qualification (QICA). Of the other three, one holds the AAT qualification; one is a part qualified accountant (CIMA) who also holds the PIIA qualification (and is a temporary resource); and the other is an Assurance Officer who is acting up into the post but only performing some of the elements of the role. They do not hold a relevant audit or accountancy qualification but are currently undertaking the PIA qualification with the IIA. There are three posts at the Assurance Officer level but only two were occupied at the time of the EQA, both by experienced internal auditors. One post is designated as a specialist IT Assurance Officer who is part CIPFA qualified. The other assurance Officer post is occupied by an individual on a fixed term contract but does not hold a relevant accountancy or internal audit qualification.

In addition to the qualifications referred to above, we note that the HIA&RM, the Group Audit Mangers, two senior Auditors and the IT Assurance Officer all hold the Advanced Professional Certificate in Investigative Practice.

The standards require internal audit services to consider the use of data analytics when performing their audit reviews. The individual team members have access to software that can be used for data analysis, such as MS Excel, and the service does have a licence for an old version of IDEA but at the time of the EQA were not using it on a regular basis as the service does not currently carry out much data analytics as part of their audit methodologies. Where they do so, it is generally performed by utilising the tools in MS Excel, however, this application has a limited range of functionality compared to the specialist data analytics applications. The HIA&RM is aware of the limitations in the functionality of Excel and has also identified that the service needs to make greater use of data analytics for its audits, by using IDEA, and the Power BI reporting application that is now being used in many parts of the Council. While we acknowledge that there is a cost attached to obtaining an up-to-date version of IDEA, we believe the HIA&RM should consider this as the functionality within the latest version of IDEA is significantly greater than the previous versions. This would enable the service to enhance their data analytics capabilities, such as undertaking data matching and data mining exercises, developing the continuous auditing / monitoring of key systems such as the fundamental financial systems, and providing enhanced assurance by testing the whole data population when carrying out audits rather than sample testing and extrapolating the results to the whole population. We have included this as an advisory action in section 9 of this report.

There is an opportunity to further broaden the use of data analytics by making use of external sources of data that can be used for benchmarking purposes, such as the local authority data held in the CIPFA statistics and 'Nearest Neighbour Model' applications, which the Council should already have access to, and/or the data held by the Local Government Association in their LG Inform application. These are now versatile and adaptable tools that should not be overlooked, particularly when auditors are preparing the terms of reference for audits as benchmarking can highlight areas where there may be scope to add value to operations, or at least challenge the current thinking. We have included this as an advisory action for management to consider in section 9 of this report.

Notwithstanding the above observations, it is our opinion that the internal audit service generally conforms with attribute standard 1200 and the LGAN.

5.6 **Attribute Standard 1300 – Quality Assurance and Improvement Programmes**

This standard requires the Head of Internal Audit and Risk Management to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

The internal audit service is a relatively new in-house function that was formed in April 2022 following the demise of the shared internal audit service with North Tyneside Council. Although the HIA&RM and many of the team members previously worked for the shared service and were familiar with their operating practices, the HIA&RM deemed many of these did not meet the needs of the in-house service. Consequently, he has been developing the service's working methodologies to ensure they meet the need of the County Council and Advance Northumberland, including developing some of the processes and procedures from scratch. The HIA&RM has developed a comprehensive quality assurance and improvement programme that is designed to ensure engagements are performed to a high standard. This was reported to, and agreed by, the Audit Committee in January 2023. However, we have observed that this document does not include an action plan setting out the improvements that the service needs to make and a time frame for achieving them. We have therefore included an advisory action for this observation in section 9 of this report.

Supervision of audit engagements is carried out during the audit process, and evidence is recorded in the audit files. The service has carried out an annual self-assessment of their conformance to the standards and the LGAN and commissioned this EQA early after becoming operational as an in-house function. The service has agreed a set of key performance indicators with the audit committee to be introduced during 2023/24, but as these have only recently been agreed there were no KPIs to review during the EQA.

We have examined the self-assessment and supporting evidence provided by the internal audit service during this EQA. Notwithstanding the above observation we feel the service generally conforms to attribute standard 1300 and the LGAN.

5.7 **Performance Standard 2000 – Managing the Internal Audit Activity**

The remit of this standard is wide and requires the Chief Audit Executive to manage the internal audit activity effectively to ensure it adds value to its clients. Value is added to a client and its stakeholders when internal audit considers their strategies, objectives, and risks; strives to offer ways to enhance their governance, risk management, and control processes; and objectively provides relevant assurance to them. To achieve this, the Chief Audit Executive must produce an audit plan and communicate this and the service's resource requirements, including the impact of resource limitations, to senior management and the Audit and Risk Committee for their review and approval. The Chief Audit Executive must ensure that internal audit's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The standard also requires the Chief Audit Executive to establish policies and procedures to guide the internal audit activity, and to share information, co-ordinate *activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.*

Last, but by no means least, the standard requires the Chief Audit Executive to report periodically to senior management and the Audit Committees on internal audit's activities, purpose, authority, responsibility, and performance relative to its plan, and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the audit committee.

The internal audit service has an audit manual in place that covers the main aspects of the internal audit service's operations.

The service has developed planning processes and assurance maps, based around the three lines model for the Council's strategic risks. We have reviewed the strategic audit plan for 2023/24, including the draft assurance map that forms part of the planning process, and have made the following observations. The service's audit plan and strategy are based on the risk-based auditing concept and is underpinned by the Council's strategic risk register and the draft assurance maps. Whilst it is acknowledged that the risk-based auditing concept is the recommended approach for a modern internal audit service, it does expect the service to be insightful and take into consideration local and national issues. These issues may not feature on the strategic risk register but, nonetheless, should be subjected to review by internal audit. There are some relatively common high-profile risks that are found on the audit plans of many unitary and upper tier authorities that do not currently feature in the service's audit plan. For example, risks relating to SEND, the safeguarding of vulnerable individuals, public health, children's social care or adult social care, the majority of which are statutory services. Many councils around the country are issuing warnings that they have significant gaps in their funding that they may not be able to continue to deliver these services, with the worst-case scenarios being that some may have to issue a section 114 notice. Whilst we acknowledge that this may not be the case for Northumberland County Council, we would, nonetheless, have expected to see some of these services featured on the audit plan. We are aware the HIA&RM has started to review the service's audit universe to ensure that it is comprehensive and takes into consideration the local, national and emerging issues facing local authorities, however, we recommend that this exercise is accelerated to ensure the service has a comprehensive audit universe in place, that is linked to the relevant strategic and operational risks in time for the 2023/24 audit planning cycle. Such an audit universe could also then be used to underpin the draft assurance map.

We have also observed from the draft assurance map, that the HIA&RM does not appear to be intending to place much reliance on other potential sources of assurance. Whilst the standards only recommend that the HIA&RM needs to consider other potential sources of assurance, we feel there is a risk that the service may be missing an opportunity here as there are many external and internal sources of assurance that could provide a degree of assurance, albeit limited, and feed into the HIA&RM's annual report and opinion.

In addition, there are opportunities to enhance the way the Council obtains assurance by the service considering working with the service directorates to undertake some joint reviews of specific functions. For example, it is common for both adults and children's social care functions to have comprehensive quality assurance and improvement processes in place that focus on the assessment and delivery of the individual care packages. Whilst internal audit is not qualified or skilled to undertake this type of review, they are able to review the processes that feed into and support the care assessments. Undertaking joint reviews with the social care functions can provide a more holistic view of those services and has the potential to add greater value to their operations and the Council as a whole. We have included actions relating to these observations in section 9 of the report.

The service produces an audit strategy and a prioritised risk-based audit plan that maps the audits to the Council's priorities and the strategic risk register. The audit plan is reviewed and approved by the Corporate Management Team and the Audit Committee.

Details of the completed audits, together with updates on the progress being made on delivering the audit plan are reported to the Corporate Management Team and the Audit Committee. An annual report and opinion are also issued at the end of the year and presented to the Corporate Management Team and the Audit Committee. The HIA&RM attends all meetings of the Audit Committee, and progress on delivery of the audit plan is reported to the Audit Committee twice a year. However, to ensure that audit committees are kept abreast of progress and any issues affecting delivery of the plan or changed priorities in a timely manner, most internal audit services tend to update committees more frequently with the norm being three or four times a year. We have included an action relating to this observation in section 9 of the report.

The HIA&RM has direct access to the Independent Chair of the Audit Committee and meets with him prior to the scheduled Audit Committee meetings to go through the agenda items and any issues relating to them.

The indication from this EQA is that the service has made significant progress in transforming from the old, shared service arrangement with North Tyneside Council and although the HIA&RM has put in place a framework for managing the service, there are elements of this that need further enhancing. Nonetheless, it is our opinion that the internal audit service generally conforms to performance standard 2000 and the LGAN.

5.8 Performance Standard 2100 – Nature of Work

Standard 2100 covers the way the internal audit activity evaluates and contributes to the improvement of the organisation's risk management and governance framework and internal control processes, using a systematic, disciplined and risk-based approach.

Although this is the underlying approach adopted by the internal audit service and forms part of their working methodologies, there appears to have been a greater focus on internal control in the past rather than the effectiveness of the Council's risk management and governance frameworks. Since the service has been brought back in house, and the external review that focussed on the failings in the Council's governance arrangements, the HIA&RM has started to address this, however, as we have highlighted elsewhere in the report, there is still more work needed around the effectiveness of the risk management and governance frameworks.

During this EQA, we reviewed a sample of completed audits and examined them to see if they conformed to standard 2100, the LGAN and internal audit's own methodologies. We found that the sample that we reviewed conformed to all three.

The indication from this EQA is that the internal audit service generally conforms to performance standard 2100 and the LGAN.

5.9 Performance Standard 2200 – Engagement Planning

Performance standard 2200 requires internal auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.

As already mentioned, the service has a set of audit procedures and methodologies in place, and there are robust supervision processes in place that cover engagement planning. From the sample of audits that we examined during the EQA, we found that they covered the key objectives we would have expected to see in the audit.

The indication from this EQA is that the service generally conforms to performance standard 2200 and the LGAN.

5.10 **Performance Standard 2300 – Performing the Engagement**

Performance standard 2300 seeks to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions, and that all engagements are properly supervised.

As we have mentioned above, the internal audit service has a set of audit procedures and methodologies and sound supervision arrangements in place that meet the requirements of the standards. We reviewed the evidence provided in support of the service's self-assessment, together with a sample of audits to see if they conformed to the standards, and internal audit's own working methodologies. We found that the evidence we examined generally conformed to the standards, the LGAN, and the service's own audit procedures. There is scope to make greater use of data analytics as part of the audit process and we have covered this detail under attribute standard 1200 above. We therefore conclude that internal audit service generally conforms to performance standard 2300 and the LGAN.

5.11 **Performance Standard 2400 – Communicating Results**

This standard requires internal auditors to communicate the results of engagements to clients and sets out what should be included in each audit report, as well as the annual report and opinion. When an overall opinion is issued, it must take into account the strategies, objectives and risks of the clients and the expectations of their senior management, the audit committee and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".

The service's procedures and supervision processes cover the communication of results of individual audits and meet the requirements of the standards and the LGAN. During the EQA we reviewed the evidence provided in support of the service's self-assessment and the audit reports issued for a sample of audits to establish if they conformed to the standards. We found that all the evidence we examined generally conformed to the standards and internal audit's own procedures and methodologies. For 2023/24 the service has changed its reporting format and moved away from a detailed report to a one-page summary report that includes some graphics and links to the agreed audit brief and the agreed management action plan, although most of the audits we examined used the detailed report format. The new 'lean' one page format report is very easy to read and understand, and the use of colour draws the reader's attention to the key elements of the report.

We also reviewed the progress and annual reports presented to the audit committee and found that, overall, these also generally conformed to the standards. There are some issues around the frequency of reporting to the audit committee and reporting on the newly agreed KPIs, but these have been covered in detail elsewhere in the report.

We therefore conclude that the internal audit service generally conforms to performance standard 2400 and the LGAN.

5.12 **Performance Standard 2500 – Monitoring Progress**

There is a comprehensive follow-up process in place, the objective of which is to monitor the client's progress towards the implementation of agreed actions. The results of the follow-up reviews are reported to the Audit Committee. From this EQA, it is evident that the internal audit service generally conforms to performance standard 2500 and the LGAN.

5.13 **Performance Standard 2600 – Communicating the Acceptance of Risk**

Standard 2600 considers the arrangements which should apply if the HIA&RM has concluded that managers have accepted a level of risk that may be unacceptable to the organisation. Situations of this kind are expected to be rare, consequently, we did not see any examples of this during this review. From this EQA, it is evident that the Internal Audit Service conforms to performance standard 2600 and the LGAN.

6. Areas of partial conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

6.1 **Attribute Standard 1000 – Purpose, Authority and Responsibility**

The purpose, authority and responsibility of the Internal Audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The internal audit charter must be reviewed regularly and presented to senior management and the audit board for approval.

There is an audit charter in place for the County Council but not for Advance Northumberland. We reviewed this document and found it contained the elements that the PSIAS expects to be included in an audit charter, apart from the Mission Statement referred to above, although there is scope to enhance the style and flow of the document. At the time of the EQA, Advance Northumberland did not have a separate audit charter and relied on the one for the County Council. The Local Government Application Note states that "*PSIAS 1000 requires the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter*". It goes on to state "*Responsibility for and ownership of the internal audit charter remains with the organisation".* The standard is quite clear that ownership of the audit charter resides with the organisation, and not the internal audit service. This mean that where internal audit provides services to more than one organisation, a separate audit charter is required for each organisation. We have included a medium priority action in section 9 of this report relating to this observation.

Although internal audit provides services to Advance Northumberland, which is a separate external legal entity albeit wholly owned by the Council, we understand that from discussions with key stakeholders that internal audit does not have any form of contract or service level agreement in place with Advance Northumberland. We also understand that this is unlike the other functions of the Council that provide services to Advance Northumberland that do have some form of contract or service level agreement in place. To enhance the transparency around the relationship between internal audit and Advance Northumberland, we have included a medium priority action in section 9 of this report relating to this observation.

To enhance the flow and readability of the audit charter, we suggest that the HIA&RM compares it to those produced by other local authorities to identify a style and format that is easier for a lay person to read and understand. We have included an action relating to this observation in section 9 of this report.

Notwithstanding the above observations, we are satisfied that the internal audit service generally conforms to attribute standard 1000 and the LGAN.

7. Areas of non-conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

7.1 There are no areas of non-conformance with the Public Sector Internal Audit Standards or the CIPFA Local Government Application Note.

8. Survey results

8.1 Overall, the results of the survey of key stakeholders were spread across the options available to the respondents, with greater numbers tending to indicate that they either 'agree' or 'partially agree' with the statements in the survey. There are a few 'do not agree' and several 'don't know' responses that the HIA&RM may wish to explore in more detail to determine if there are any underlying reasons for those responses that need to be addressed. Whilst many respondents appear to value the services provided by internal audit, there are several respondents that felt that internal audit did not have sufficient resources to provide them and the Council with the level of service that they need. This issue was also raised by some of the key stakeholders that were interviewed during the EQA. The detailed findings from the survey have been shared with the Head of Internal Audit and Risk Management to enable them to explore the responses in more depth. A summary of the survey results is included in this report at Appendix A.

9. Issues for management action

9.1 From this EQA we have identified a total of fifteen observations for the HIA&RM and/or the Council. It should be noted that some of the actions are for the Audit Committee and/or the Executive Director of Transformation and Resources to consider, not just the HIA&RM.

Issues for management action	**Priority**
The Head of Internal Audit and Risk Management should explore all options for raising the profile of internal audit to demonstrate to all officers and members that they are an independent, objective, insightful and proactive assurance and consulting service that adds value to its clients.	**Advisory**
The Council should undertake a self-assessment of the Head of Internal Audit and Risk Management's compliance with the five principles from the CIPFA guidance on the "Role of the Head of Internal Audit". We recommend undertaking such a self-assessment as this will not only help with raising the profile of the Head of Internal Audit and Risk Management but may identify aspects of the principles that need enhancing. These should be included in the service's quality assurance and improvement programme (QAIP). The self-assessment should be overseen by the Executive Director for Transformation and Resources.	**Advisory**
The Head of Internal Audit and Risk Management, together with the Executive Director for Transformation and Resources, should consider the contents of the CIPFA publication "Internal Audit: Untapped Potential" as this not only provides a wealth of useful information, but also makes recommendations around how local authorities can make best use of their internal audit services. Appendix B, entitled "Maximising the Impact of Internal Audit" is	**Advisory**

Issues for management action	Priority
particularly significant to raising the service's profile and can be developed into a self-assessment of the service.	
The Head of Internal Audit and Risk Management has responsibility for the Council's risk management function, and this is set out clearly in the audit charter, along with the mechanism that will be followed when this function is being audited, to ensure the independence and objectivity of the Head of Internal Audit and Risk Management, and the internal audit service as a whole, are maintained. To enhance transparency and ensure these arrangements remain fit for purpose we recommend that the Audit Committee regularly reviews and challenges the effectiveness of these arrangements.	**Low**
While we acknowledge that there is a cost attached to obtaining an up-to-date version of IDEA, we believe the HIA&RM should consider this as the functionality within the latest version of IDEA is significantly greater than the previous versions. This would enable the service to enhance their data analytics capabilities, such as undertaking data matching and data mining exercises, developing the continuous auditing / monitoring of key systems such as the fundamental financial systems, and providing enhanced assurance by testing the whole data population when carrying out audits rather than sample testing and extrapolating the results to the whole population.	**Advisory**
Internal audit should consider using the local authority data held in the CIPFA statistics and 'Nearest Neighbour Model' applications, which the Council should already be able to access, and/or the data held by the Local Government Association in their LG Inform application. These are adaptable tools that should not be overlooked, particularly when preparing audit terms of reference as they can highlight areas where there may be scope to add value to the Council.	**Advisory**
The HIA&RM has developed a comprehensive quality assurance and improvement programme that is designed to ensure engagements are performed to a high standard. This was reported to and agreed by the Audit Committee in January 2023. However, we have observed that this document does not follow best practice and include an action plan setting out the improvements that the service needs to make and a time frame for achieving them. We suggest that the quality assurance and improvement plan include an action plan and progress on delivering this is reported regularly to the Audit Committee.	**Advisory**
We are aware the HIA&RM has started to review the service's audit universe to ensure that it is comprehensive and takes into consideration the local, national and emerging issues facing local authorities, however, we recommend that this exercise is accelerated to ensure the service has a comprehensive audit universe in place, that is linked to the relevant strategic and operational risks in time for the 2023/24 audit planning cycle.	**Medium**

Issues for management action	Priority
Such an audit universe could also then be used to underpin the draft assurance map.	
We have also observed from the draft assurance map, that the HIA&RM does not appear to be intending to place much reliance on other potential sources of assurance. Whilst the standards only recommend that the HIA&RM needs to consider other potential sources of assurance, we feel there is a risk that the service may be missing an opportunity here as there are many external and internal sources of assurance that could provide a degree of assurance, albeit limited, and feed into the HIA&RM's annual report and opinion	**Low**
In addition, there are opportunities to enhance the way the Council obtains assurance by the service considering working with the service directorates to undertake some joint reviews of specific functions. For example, it is common for both adults and children's social care functions to have comprehensive quality assurance and improvement processes in place that focus on the assessment and delivery of the individual care packages. Whilst internal audit is not qualified or skilled to undertake this type of review, they are able to review the processes that feed into and support the care assessments. Undertaking joint reviews with the social care functions can provide a more holistic view of those services and has the potential to add greater value to their operations and the Council as a whole. We have included actions relating to these observations in section 9 of the report.	**Advisory**
To ensure that the Audit Committee are kept abreast of progress and any issues affecting delivery of the plan or changed priorities in a timely manner, most internal audit services tend to update committees more frequently with the norm being three or four times a year. We therefore suggested consideration is given to increasing the number of times progress is reported to the Audit Committee.	**Advisory**
Although Advance Northumberland is a separate legal entity, it does not have its own audit charter but instead relies on one for the Council. To conform with the requirements of the standards which require all of the service's clients to have their own audit charter, we recommend that a separate audit charter is put in place for Advance Northumberland.	**Medium**
The service provides internal audit services to Advance Northumberland, a separate external legal entity, albeit wholly owned by the Council, however, the service does not have any form of contract or service level agreement in place with Advance Northumberland, unlike the other Council functions that provide services to Advance Northumberland. To enhance the transparency around the relationship between internal audit and Advance Northumberland, we recommend that a separate service level agreement is put in place.	**Medium**

Issues for management action	**Priority**
To enhance the flow and readability of the current audit charter, we suggest that the HIA&RM compares it to those produced by other local authorities to identify a style and format that is easier for a lay person to read and understand.	**Advisory**
Management should be mindful of the fact that a consultation on revising the Institute of Internal Auditors Global IPPF which is incorporated into the PSIAS, has recently taken place and any changes to the standards arising from the consultation may affect the service's future conformance to the standards. It is, therefore, suggested that the Audit Manager keeps a watching brief on the developments to the standards and how this may impact the service in the medium term.	**Advisory**

The co-operation of the Head of Internal Audit and Risk Management and the Group Assurance Managers in providing the information requested for the EQA, is greatly appreciated. Our thanks also go to the Chair of the Audit Committee and the key stakeholders that made themselves available for interview during the EQAs and/or completed the survey.

Ray Gard, CPFA, FCCA, FCIIA, DMS

22 December 2023

10. Definitions

Level of Conformity	Description
Generally Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the individual Standard, the element of the Code of Ethics, and the Local Government Application Note in all material respects. This means that there is general conformance to a majority of the individual standards, elements of the Code of Ethics, or the Local Government Application note, and at least partial conformance to the others.
Partially Conforms	The internal audit service is endeavouring to deliver an effective service, however, they are falling short of achieving some of their objectives and/or generally conforming to a majority of the individual standards, elements of the Code of Ethics, or the Local Government Application note and at least partial conformance to the others. There will usually be significant opportunities to improve the delivery of effective internal audit, and enhance conformance to the standards, elements of the Code of Ethics, and/or the Local Government Application Note. The internal audit service may be aware of some of these opportunities and the areas they need to develop. Some identified deficiencies may be beyond the control of internal audit and may result in actions for Senior Management or the Board of the organisation to address.
Does Not Conform	The internal audit service is not aware of; not making efforts to comply with; or is failing to achieve many/all of the individual standards, elements of the Code of Ethics, or the Local Government Application Note. These deficiencies will usually have a significant adverse impact on internal audit's effectiveness and its potential to add value and are likely to represent significant opportunities for improvement to internal audit. Some identified deficiencies may be beyond the control of internal audit and may result in recommendations to Senior Management or the Board of the organisation.

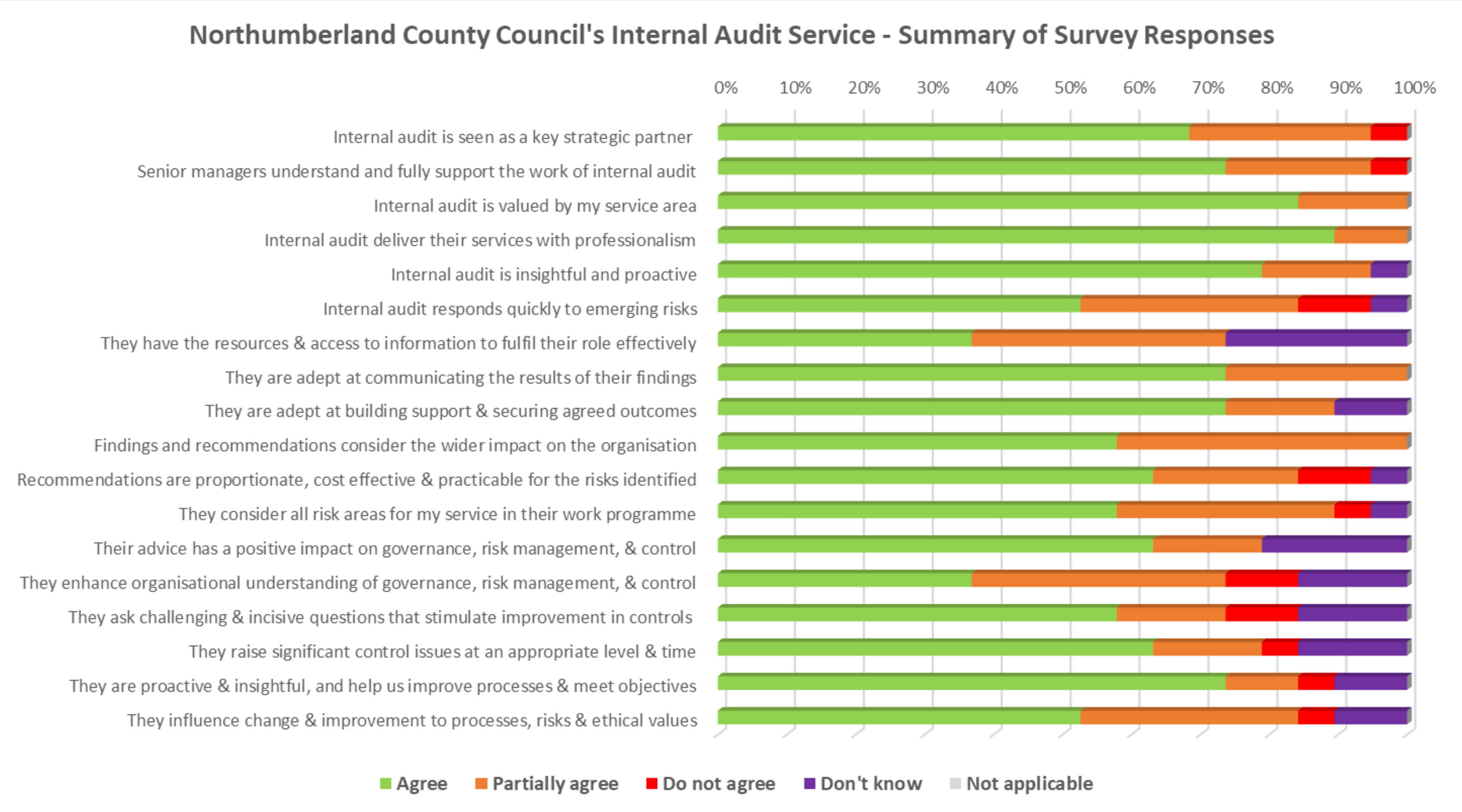
Action Priorities	Criteria
High priority	The internal audit service needs to rectify a significant issue of non-conformance with the standards and/or operational issues that could impact on their conformance to the standards. Remedial action to resolve the issue should be taken urgently.
Medium priority	The internal audit service needs to rectify a moderate issue of conformance with the standards and/or operational issues that could impact on their conformance to the standards. Remedial action to resolve the issue should be taken, ideally within a reasonable time scale, for example six months.

Low priority	The internal audit service should consider rectifying a minor issue of conformance with the standards and/or operational issues that could impact on their conformance to the standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
Advisory	These are issues identified during the course of the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice.

11. Disclaimer

This report has been prepared by CIPFA at the request of Northumberland County Council, and the terms for the preparation and scope of the report have been agreed with them. The matters raised are only those that came to our attention during our work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, we have only been able to base findings on the information and documentation provided to us. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the issues that exist with their conformance to the Public Sector Internal Audit Standards that exist, or of all the improvements that may be required.

The report was prepared solely for the use and benefit of Northumberland County Council's internal audit service, including the Officers and elected Members of the Council, and to the fullest extent permitted by law, CIPFA accepts no responsibility and disclaims all liability to any other third party who purports to use or rely, for any reason whatsoever on the report, its contents, conclusions, any extract, and/or reinterpretation of its contents. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.


Northumberland County Council's Internal Audit Service - Summary of Survey Responses
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Internal audit is seen as a key strategic partner
Senior managers understand and fully support the work of internal audit
Internal audit is valued by my service area
Internal audit deliver their services with professionalism
Internal audit is insightful and proactive
Internal audit responds quickly to emerging risks
They have the resources & access to information to fulfil their role effectively
They are adept at communicating the results of their findings
They are adept at building support & securing agreed outcomes
Findings and recommendations consider the wider impact on the organisation
Recommendations are proportionate, cost effective & practicable for the risks identified
They consider all risk areas for my service in their work programme
Their advice has a positive impact on governance, risk management, & control
They enhance organisational understanding of governance, risk management, & control
They ask challenging & incisive questions that stimulate improvement in controls
They raise significant control issues at an appropriate level & time
They are proactive & insightful, and help us improve processes & meet objectives
They influence change & improvement to processes, risks & ethical values
Agree
Partially agree
Do not agree
Don't know
Not applicable

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External Quality Assessment Action Plan **Appendix 2**

Issues for management action	Priority	Management Response
The Head of Internal Audit and Risk Management should explore all options for raising the profile of internal audit to demonstrate to all officers and members that they are an independent, objective, insightful and proactive assurance and consulting service that adds value to its clients.	**Advisory**	Agreed. This will be undertaken, in conjunction with the following two actions, during 2024.
The Council should undertake a self-assessment of the Head of Internal Audit and Risk Management's compliance with the five principles from the CIPFA guidance on the "Role of the Head of Internal Audit". We recommend undertaking such a self-assessment as this will not only help with raising the profile of the Head of Internal Audit and Risk Management but may identify aspects of the principles that need enhancing. These should be included in the service's quality assurance and improvement programme (QAIP). The self-assessment should be overseen by the Executive Director for Transformation and Resources.	**Advisory**	Agreed. A self-assessment will be undertaken during 2024.
The Head of Internal Audit and Risk Management, together with the Executive Director for Transformation and Resources, should consider the contents of the CIPFA publication "Internal Audit: Untapped Potential" as this not only provides a wealth of useful information, but also makes recommendations around how local authorities can make best use of their internal audit services. Appendix B, entitled "Maximising the Impact of Internal Audit" is particularly significant to raising the service's profile and can be developed into a self-assessment of the service.	**Advisory**	Agreed. An evaluation of the publication will be undertaken during 2024.
The Head of Internal Audit and Risk Management has responsibility for the Council's risk management function, and this is set out clearly in the audit charter, along with the mechanism that will be followed when this function is being audited, to ensure the independence and objectivity of the Head of Internal Audit and Risk Management, and the internal audit service as a whole, are maintained. To enhance transparency and ensure these arrangements remain fit for purpose we recommend that the Audit Committee regularly reviews and challenges the effectiveness of these arrangements.	**Low**	Agreed. Audit Committee regularly review the Internal Audit Charter. Following the EQA, an updated Internal Audit Charter is being drafted and will be presented to Audit Committee for approval. The Internal Audit Charter will continue to be subject to regular review by Audit Committee.

Issues for management action	Priority	Management Response
While we acknowledge that there is a cost attached to obtaining an up-to-date version of IDEA, we believe the HIA&RM should consider this as the functionality within the latest version of IDEA is significantly greater than the previous versions. This would enable the service to enhance their data analytics capabilities, such as undertaking data matching and data mining exercises, developing the continuous auditing / monitoring of key systems such as the fundamental financial systems, and providing enhanced assurance by testing the whole data population when carrying out audits rather than sample testing and extrapolating the results to the whole population.	**Advisory**	Agreed. This will be considered.
Internal audit should consider using the local authority data held in the CIPFA statistics and 'Nearest Neighbour Model' applications, which the Council should already be able to access, and/or the data held by the Local Government Association in their LG Inform application. These are adaptable tools that should not be overlooked, particularly when preparing audit terms of reference as they can highlight areas where there may be scope to add value to the Council.	**Advisory**	Agreed.
The HIA&RM has developed a comprehensive quality assurance and improvement programme that is designed to ensure engagements are performed to a high standard. This was reported to and agreed by the Audit Committee in January 2023. However, we have observed that this document does not follow best practice and include an action plan setting out the improvements that the service needs to make and a time frame for achieving them. We suggest that the quality assurance and improvement plan include an action plan and progress on delivering this is reported regularly to the Audit Committee.	**Advisory**	Agreed. Progress on improvement actions has been reported to Executive Management Team and Audit Committee. This will be formalised into an action plan format and used in future reporting to Executive Management Team and Audit Committee.
We are aware the HIA&RM has started to review the service's audit universe to ensure that it is comprehensive and takes into consideration the local, national and emerging issues facing local authorities, however, we recommend that this exercise is accelerated to ensure the service has a comprehensive audit universe in place, that is linked to the relevant strategic and operational risks in time for the 2023/24 audit planning cycle. Such an audit universe could also then be used to underpin the draft assurance map.	**Medium**	Agreed. This work was in progress and we aim to have this in place as part of audit planning, from February 2024.

Issues for management action	Priority	Management Response
We have also observed from the draft assurance map, that the HIA&RM does not appear to be intending to place much reliance on other potential sources of assurance. Whilst the standards only recommend that the HIA&RM needs to consider other potential sources of assurance, we feel there is a risk that the service may be missing an opportunity here as there are many external and internal sources of assurance that could provide a degree of assurance, albeit limited, and feed into the HIA&RM's annual report and opinion.	**Low**	Agreed. This has been considered further during 2023/24.
In addition, there are opportunities to enhance the way the Council obtains assurance by the service considering working with the service directorates to undertake some joint reviews of specific functions. For example, it is common for both adults and children's social care functions to have comprehensive quality assurance and improvement processes in place that focus on the assessment and delivery of the individual care packages. Whilst internal audit is not qualified or skilled to undertake this type of review, they are able to review the processes that feed into and support the care assessments. Undertaking joint reviews with the social care functions can provide a more holistic view of those services and has the potential to add greater value to their operations and the Council as a whole. We have included actions relating to these observations in section 9 of the report.	**Advisory**	Agreed. This has been considered further and implemented during 2023/24.
To ensure that the Audit Committee are kept abreast of progress and any issues affecting delivery of the plan or changed priorities in a timely manner, most internal audit services tend to update committees more frequently with the norm being three or four times a year. We therefore suggested consideration is given to increasing the number of times progress is reported to the Audit Committee.	**Advisory**	Agreed. This will be considered as part of formulating the Audit Committee Work Programme for 2024/25.
Although Advance Northumberland is a separate legal entity, it does not have its own audit charter but instead relies on one for the Council. To conform with the requirements of the standards which require all of the service's clients to have their own audit charter, we recommend that a separate audit charter is put in place for Advance Northumberland.	**Medium**	Agreed. An Internal Audit Charter specifically for Advance Northumberland is being drafted.

Issues for management action	**Priority**	**Management Response**
The service provides internal audit services to Advance Northumberland, a separate external legal entity, albeit wholly owned by the Council, however, the service does not have any form of contract or service level agreement in place with Advance Northumberland, unlike the other Council functions that provide services to Advance Northumberland. To enhance the transparency around the relationship between internal audit and Advance Northumberland, we recommend that a separate service level agreement is put in place.	**Medium**	Agreed. A separate service level agreement for services provided to Advance Northumberland will be drafted for consideration and approval by Advance Northumberland.
To enhance the flow and readability of the current audit charter, we suggest that the HIA&RM compares it to those produced by other local authorities to identify a style and format that is easier for a lay person to read and understand.	**Advisory**	Agreed. Revised Internal Audit Charter is being drafted.
Management should be mindful of the fact that a consultation on revising the Institute of Internal Auditors Global IPPF which is incorporated into the PSIAS, has recently taken place and any changes to the standards arising from the consultation may affect the service's future conformance to the standards. It is, therefore, suggested that the Audit Manager keeps a watching brief on the developments to the standards and how this may impact the service in the medium term.	**Advisory**	Noted.

Northumberland
County Council

Audit Committee

Wednesday, 31 January 2024

Preparation of the Strategic Audit Plan 2024/25

Report of Head of Internal Audit and Risk Management

1. Link to Key Priorities of the Corporate Plan

The work of Internal Audit contributes to the achievement of all priorities in the Council's Corporate Plan. In particular, it supports the "Achieving Value for Money" priority of the Corporate Plan 2023-26.

2. Purpose of report

The purpose of this report is to outline the approach to preparing the 2024/25 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.

3. Recommendations

3.1 It is recommended that Audit Committee endorse the approach to preparation of the 2024/25 Strategic Audit Plan.

3.2 Audit Committee are also invited to highlight any areas for consideration by the Head of Internal Audit and Risk Management, for inclusion in the 2024/25 Strategic Audit Plan.

4. Background

4.1 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". 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.

4.2 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.

4.3 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.

4.4 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.

4.5 This report outlines the approach to preparing the next Strategic Audit Plan (2024/25), 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."

4.6 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.

4.7 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.

4.8 The Strategic Audit Plan is scheduled to be presented to the Audit Committee in March 2024. 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.

4.9 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, Audit Committee Members, and elected 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.

4.10 Once this process is finalised, the Strategic Audit Plan presented to the Audit Committee for approval in March 2024 will set out Internal Audit's planned 2024/25 coverage. This will include detail on all key areas of Internal Audit provision, and the objectives which each assignment will deliver.

5. Options open to the Council and reasons for the recommendations

5.1 The following decision options are available for consideration by Audit Committee:

Option 1

Audit Committee endorses the approach to the preparation of the 2024/25 Strategic Audit Plan

Option 2

Audit Committee does not endorse the approach to the preparation of the 2024/25 Strategic Audit Plan

Option 1 is the recommended option. The proposed approach has been designed to ensure that all legislative responsibilities and professional standards are fully complied with.

6. 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. 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	There are no specific procurement implications within this report.
Human resources	There are no specific human resources implications within this report.
Property	There are no specific property implications within this report.
The Equalities Act: is a full impact assessment required and attached?	No - no equalities issues identified Equality Impact Assessment not required.
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 and disorder	There are no specific crime and disorder implications within this report.
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	There are no specific carbon reduction implications within this report.
Health and wellbeing	There are no specific health and wellbeing implications within this report.
Wards	(All Wards);

7. 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, May 2023; and
- NCC Finance and Contract Rules, December 2011

8. Links to other key reports already published

None.

9. Author and Contact Details

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Tony Candlish, Group Assurance Manager
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Northumberland County Council

This report is on the public agenda, but the committee will be advised to consider a resolution excluding the public from the meeting while they are considering some additional information about the issue.

Audit Committee

Wednesday, 31 January 2024

Corporate Risk Management Update

Report of Councillor(s) Cllr. Richard Wearmouth, Deputy Leader and Cabinet Member for Corporate Resources

Responsible Officer(s): Jan Willis, Executive Director for Resources & Transformation (S151)

1. Link to Key Priorities of the Corporate Plan

Effective risk management and the work of Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan. In particular, it supports the "Achieving Value for Money" priority of the Corporate Plan 2023-26.

2. Purpose of report

The purpose of this report is to provide Audit Committee with an update on the latest position of the corporate risk register following review by Executive Management Team and Cabinet.

3. Recommendations

3.1 It is recommended that Audit Committee receive and note the contents of the report presented to and agreed by Cabinet in December 2023.

4. Background

4.1 It is a statutory responsibility for local authorities to ensure that a sound system of internal control is in place, which includes effective arrangements for the management of risk (Accounts and Audit Regulations 2015). The Council complies with this requirement and has a risk management process which was developed in accordance with best practice and consulted upon with Audit Committee. It is designed to ensure that risks to the Council's business are properly identified, managed, and monitored by appropriate senior officers within the organisation.

4.2 As part of the Council's corporate governance arrangements, there is an established approach to corporate risk management with an equivalent approach being cascaded through all levels of the risk management hierarchy. The risk management hierarchy identifies, monitors and manages risk at three key levels:

a) Corporate level;

b) Service Strategic level; and

c) Service Operational level.

4.3 Corporate risks are agreed against the 'exceptionality test', i.e., risks that are exceptional in nature, or which could have a major impact on the whole organisation and are 'owned' and managed by a nominated officer from Executive Management Team and the designated Cabinet Member with relevant portfolio responsibility.

4.4 Following the senior management restructure, the opportunity was taken to undertake a fundamental review of our corporate risks. The full updated corporate risk register was agreed by Cabinet on 12 December 2023. The report to Cabinet is attached as **Appendix 1**. A summary of each corporate risk, and information relating to changes in the corporate risks as a result of reviews undertaken was appended to the report to Cabinet and this is attached as **Appendix 2**. The detailed risk register is attached as a confidential (part 2) exempt appendix at **Appendix 3.**

5. Options open to the Council and reasons for the recommendations

Not applicable.

6. Implications

Policy	Effective risk management supports the effective implementation of all policy decisions.
Finance and value for money	Effective risk management will help ensure that the County Council is better able to manage its resources and deliver value for money.
Legal	The Accounts and Audit Regulations 2015 place a responsibility upon all local authorities to ensure that they have a sound system of internal control which includes effective arrangements for the management of risk.
Procurement	There are no specific procurement implications within this report.
Human resources	There are no specific human resources implications within this report.

Property	There are no specific property implications within this report.
The Equalities Act: is a full impact assessment required and attached?	No - no equalities issues identified Equality Impact Assessment not required.
Risk assessment	Embedding risk management will reduce the level of risks that may prevent the achievement of the County Council's objectives.
Crime and disorder	There are no specific crime and disorder implications within this report.
Customer considerations	There are no specific customer consideration implications within this report.
Carbon reduction	There are no specific carbon reduction implications within this report.
Health and wellbeing	There are no specific health and wellbeing implications within this report.
Wards	(All Wards);

7. Background papers

Accounts and Audit Regulations 2015, April 2015

8. Links to other key reports already published

Corporate Risk Management Update, report to Cabinet 12 December 2023

9. Author and Contact Details

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Northumberland County Council

Cabinet

Tuesday, 12 December 2023

Corporate Risk Management

Report of Councillor(s) Councillor Richard Wearmouth, Deputy Leader and Cabinet Member for Corporate Resources

Responsible Officer(s): Jan Willis, Executive Director for Resources & Transformation (S151)

1. Link to Key Priorities of the Corporate Plan

Effective risk management is central to the achievement of all priorities included in the Council's Corporate Plan. In particular, it supports the "Achieving Value for Money" priority of the Corporate Plan 2023-26.

2. Purpose of report

The purpose of this report is to inform Cabinet of the latest position of the County Council's corporate risks following review by Executive Management Team and Cabinet portfolio holders, and to provide an update in relation to the Council's risk management arrangements.

3. Recommendations

3.1 It is recommended that:

- Cabinet agrees the contents of the report in accordance with its responsibility for ensuring effective risk management throughout the organisation;
- Cabinet notes, if agreed, this report will be presented to the next meeting of Audit Committee as a source of assurance in its role of monitoring the effective development and operation of risk management and risk-related issues across the County Council and as part of its ongoing evaluation of the framework of governance, risk management and control within Northumberland County Council's accounting group boundary.

4. Forward plan date and reason for urgency if applicable

10 November 2023

5. Background

5.1 It is a statutory responsibility for local authorities to ensure that a sound system of internal control is in place, which includes effective arrangements for the management of risk (Accounts and Audit Regulations 2015). Risk management is adopted by mature businesses and organisations in order to identify, evaluate and control unplanned events that could impact upon the successful delivery of aims, objectives and priorities. The County Council complies with this requirement and has a risk management process which was developed in accordance with best practice and consulted upon with Audit Committee. It is designed to ensure that risks to the County Council's business are properly identified, managed, and monitored by appropriate senior officers within the County Council. A review of the Risk Management Framework is currently underway to ensure this continues to support the County Council in achieving its objectives. Cabinet will be updated and consulted as this review progresses.

5.2 As part of the County Council's corporate governance arrangements, there is an established approach to corporate risk management with an equivalent approach being cascaded through all levels of the risk management hierarchy. The risk management hierarchy identifies, monitors, and manages risk at three key levels; Corporate, Service Strategic and Service Operational. Following the senior management restructure during 2023, work is ongoing to align Service Strategic risk registers to the new structure and ensure these risks are consistently subject to review in accordance with the timescales established by the Risk Management Framework.

5.3 Our risk methodology and approach includes an established risk matrix and scorecard to measure risks, and templates for recording risks. The risk management team provides support to service areas throughout the County Council in using this risk methodology. The approach to risk management is intended to deliver a consistent and effective approach to risk management throughout all aspects of the County Council's business.

5.4 Corporate risks are agreed against the 'exceptionality test', i.e., risks which could have a major impact on the achievement of Corporate Plan objectives and priorities and significant to have an effect on the whole organisation. These risks are 'owned' and managed by a nominated officer from Executive Management Team and the designated Cabinet Member with relevant portfolio responsibility. Corporate risks are currently presented to Executive Management Team twice yearly for discussion, challenge, and agreement, and agreed with Cabinet portfolio holders.

5.5 The corporate risk register was most recently agreed with members in July 2022, with updates undertaken during November 2022 and February 2023. Following the senior management restructure, a fundamental review of our corporate risks has been undertaken, with the following 12 risks agreed by Executive Management Team and designated Cabinet Members to be managed at a corporate level and are presented to Cabinet for agreement:

	Risk Title	Current Risk Score	Target Risk Score
1	Financial Sustainability	D2	D3
2	OD/Workforce	C3	D3
3	Civil Contingency & Business Continuity	C3	D3
4	Corporate Compliance	D2	E3
5	High-profile Capital Projects	D2	D2
6	Response to Climate Change	C2	C3
7	Wholly-owned Companies	D2	D3
8	Cyber Security	B2	C3
9	Adult Service Domiciliary Care National Shortage	A2	B3
10	BEST	C3	D3
11	Strategic Community Safety	A2	E3
12	Social Housing (Regulations) Act 2023	B2	D3

5.6 A summary of each corporate risk, and information relating to changes in the corporate risks as a result of the reviews throughout 2023 are included at **Appendix A**. The detailed risk register is attached as a confidential (part 2) exempt appendix at **Appendix B**, detailing how each of the risks are being managed and mitigated.

6. Options open to the Council and reasons for the recommendations

6.1 The following decision options are available for consideration by Cabinet:

Option 1

Cabinet agrees the Risk Management Update report.

Option 2

Cabinet does not agree the Risk Management Update report.

Option 1 is the recommended option. Cabinet should receive and agree this report in accordance with its responsibility for reviewing the effectiveness of risk management arrangements.

7. Implications

Policy	Effective risk management supports the effective implementation of all policy decisions.
Finance and value for money	Effective risk management will help ensure that the County Council is better able to manage its resources and deliver value for money.
Legal	The Accounts and Audit Regulations 2015 place a responsibility upon all local authorities to ensure that they have a sound system of internal control which includes effective arrangements for the management of risk.

Procurement	There are no specific procurement implications within this report.
Human resources	There are no specific human resources implications within this report.
Property	There are no specific property implications within this report.
The Equalities Act: is a full impact assessment required and attached?	No - no equalities issues identified Equality Impact Assessment not required.
Risk assessment	Embedding risk management will reduce the level of risks that may prevent the achievement of the County Council's objectives.
Crime and disorder	There are no specific crime and disorder implications within this report.
Customer considerations	There are no specific customer consideration implications within this report.
Carbon reduction	There are no specific carbon reduction implications within this report.
Health and wellbeing	There are no specific health and wellbeing implications within this report.
Wards	(All Wards);

8. Background papers

The Accounts and Audit Regulations 2015, April 2015.

9. Links to other key reports already published

None.

10. Author and Contact Details

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APPENDIX A

Northumberland County Council

Corporate Risk Management Update

November 2023

1 Introduction

1.1 Corporate risks are agreed against the 'exceptionality test', i.e., risks which could have a major impact on the Corporate Plan objectives and priorities and significant to have an effect on the whole organisation. These risks are 'owned' and managed by a nominated officer from Executive Management Team and the designated Cabinet Member with relevant portfolio responsibility, who are responsible for ensuring that the risk is being managed effectively. Corporate risks are presented to Executive Management Team twice yearly for discussion, challenge, and agreement, and agreed with Cabinet portfolio holders.

1.2 The corporate risk register was most recently agreed with members in July 2022, and at that time, 16 risks were agreed to be managed at corporate level.

1.3 Corporate risks were reviewed and updated during November 2022 and February 2023. Following the senior management restructure, the opportunity has been taken by Executive Management Team to fundamentally review those risks being managed as corporate risks. There are now 12 risks which have been agreed by Executive Management Team and designated Cabinet Members to be managed at a corporate level and are presented to Cabinet for agreement. These are summarised at Section 7 of this report, which includes the risk title and description, risk owners, and current and target risk scores. Section 8 of the report details the Risk Matrix and Scorecard which provides guidance on scoring the likelihood and impact of risks.

2. New Corporate Risks Identified

2.1 Consultation with Executive Directors has identified four new risks for inclusion in the corporate risk register. These risks are:

- **Adult Services Domiciliary Care National Shortage**: There is a risk that there is increasing difficulty in providing sufficient domiciliary care services to those people assessed as needing it, and the sustainability of domiciliary care providers countywide due to workforce shortages, which is being experienced nationwide.

- **BEST**: There is a risk that BEST does not deliver on its objectives of embedding new ways of working, to make the Council more modern, efficient and fit for purpose, to deliver best outcomes for residents and support the ongoing financial sustainability of the Council.

- **Strategic Community Safety**: There is a risk that the Council may fail to comply with its statutory duties and responsibilities managed and undertaken within Strategic Community Safety and the Safer Northumberland Partnership (SNP) in relation to The Crime and Disorder Act (1998), Domestic Violence, Crime and Victims Act (2004), Anti-social Behaviour, Crime and Policing Act (2014), The Counter Terrorism and Security Act (2015) and the soon to be enacted Martyn's Law, Terrorism (Protection of premises) draft bill.

- **Social Housing (Regulations) Act 2023**: This risk is being developed with the relevant Executive Directors and management.

3. Changes to Corporate Risk Score

3.1 Following review, there are three risks where a change in score has been agreed, a summary of these and the rationale for the changes is provided below:

- **Financial Sustainability** (formerly Financial Assumptions): There is a risk to the medium-term financial sustainability of the Council due to a lack of funding, which threatens the ability of the Council to provide a full range of services, including statutory requirements and Corporate Plan priorities.

  There is uncertainty regarding future funding streams, in addition to uncertainty due to the economic climate and the likelihood of further changes during the delivery of the Medium Term Financial Plan (MTFP) to 2027. Due to this level of uncertainty, ongoing budget constraints and overall funding reductions combined with rising demand for services and increased costs, the Council may not be able to continue delivering the full range of services in the way it has traditionally delivered them.

  However, the Council is not in imminent danger of financial failure and strategies are in place for the duration of the MTFP to ensure the Council is capable of balancing its budget. In addition, BEST is looking at how we deliver best value across a range of themes and has already achieved £1.63m in savings. For these reasons, the risk has reduced from B2(Red) to D2(Amber).

- **Corporate Compliance**: There is a risk that the County Council could fail to comply with statutory and regulatory requirements, and other matters of good governance such as the need for additional transparency, accountability and links between outcomes and the corporate plan, leading to damage, prosecution, impact on the safety of residents and staff and resulting loss of reputation.

  There is a regime of performance monitoring across all services. Key Performance Indicators are managed centrally by the Performance Team and discussed by Service Directors, Executive Directors and Members on a quarterly basis. Enhancements have been identified that align with existing recommendations for improvements, and these have now been implemented and the overall risk has been reduced. The Data & Business Intelligence Strategy is yet to be implemented, but a refresh of the Corporate Plan has been concluded, and service plans have been completed. The risk score has therefore reduced from C2(Red) to D2(Amber).

- **Response to Climate Change**: There is a risk that the Authority may not be successful in achieving its targets in responding to climate change and particularly in respect of reducing the carbon footprint of the County Council to carbon neutral by 2030, its pledge of working with national government to achieve carbon neutrality for the county of Northumberland by 2030 and to achieving net-zero (all greenhouse gases) for the county of Northumberland by 2040.

  A change to the methodology by which the Department for Energy Security and Net Zero calculates Local Authority level emissions means that the County's emissions are higher than previously thought making the task of reaching carbon neutrality and net zero more difficult. In addition, recent central government policy announcements shifting the deadline for key decarbonisation policies (e.g. ban of sale of internal combustion engine cars, ban on new oil boilers) beyond the original 2030 target date increases the likelihood of the risk occurring. The risk score has therefore increased from D2(Amber) to C2(Red).

4. Corporate Risk Scores Unchanged

4.1 There were no changes to the risk score of five risks. These are summarised below, along with any notable changes:

- **Civil Contingency & Business Continuity**: There is a risk that a civil emergency, major incident or business interruption could lead to failure to support the community in an emergency and/or loss of critical functions, buildings, ICT and staff.

  Additional controls have been identified in relation to Multi-agency Gold Incident Command (MAGIC) training for all strategic rota personnel and Tactical Emergency Command training for all tactical rota personnel.

- **Wholly-owned Companies** (formerly Advance Northumberland): There is a risk that the operations of the Council's wholly-owned companies do not properly align with the Council's priorities, and that governance and financial issues impact on the effective running of the companies.

  This risk was formerly the Advance Northumberland corporate risk but has been amended to be more generic to cover the risk to the Council associated with wholly-owned subsidiaries. Whilst this currently only relates to the Advance Northumberland group of companies the risk will incorporate any further wholly-owned companies that may be established by the Council in future.

- **Cyber Security**: There is a risk that a Cyber Attack against the Council's information systems and data may have an adverse impact on service delivery.

  Funding has been secured to procure a number of systems and support packages to increase the Council's resilience and response to cyber-attacks.

- **High-Profile Capital Projects** (formerly Multiple and Concurrent High-profile Large-scale Capital Projects): There is a risk that the Council does not maximise the external funding secured through Government and regional agencies to deliver large-scale capital regeneration and infrastructure projects, i.e. NEP3, Northumberland Line and Energising Blyth.

  This risk has been amended to incorporate the Council's key regeneration and infrastructure projects as detailed above.

- **OD / Workforce**: There is a risk that the Council may not attract, recruit, train and retain an appropriate workforce and equip the workforce with the right skills to deliver required outcomes effectively.

  There are no significant changes to this risk.

5. Corporate Risks De-escalated for Management at Service Strategic Level

5.1 Four risks have been de-escalated to be managed at a service strategic level. These risks are detailed below.

- **Engagement of Communities**: There is a risk that, following implementation of new policies and approaches aimed at involving communities, people perceive they are not listened to and become disengaged from the Council.

  Given the publication of the Council's Corporate Plan 2023-26 and engagement activities currently being implemented, it is considered that this risk is no longer a corporate risk but, instead, should continue to be monitored at Service Strategic level.

- **Information Governance**: There is a risk that confidential and sensitive data may be lost or disclosed.

  It is acknowledged that this is a corporate responsibility. However, it is considered that this risk is no longer a corporate risk but, instead, should continue to be monitored and managed at a Service Strategic level across all services of the Council.

- **Contract Management**: There is a risk that unless designated contract managers engage with the robust systems and procedures in place, there is a possibility that contractors fail to deliver value for money or meet the needs of service users.

  Through the BEST in Class Commissioning Workstream, including the introduction of a new Commissioning and Contract Management Framework, it is considered that this is no longer a corporate risk but this should continue to be monitored and managed at Service Strategic level.

- **Ukraine Crisis**: There is a risk that the Russia / Ukraine conflict may have a significant impact on a number of Council services e.g. Housing including Asylum Seeker & Refugee Service and statutory Homelessness Service, Education and Social Care places and Capital Programme (timber & steel supply chain).

  There is now a better understanding of the costs and impact to the authority and those impacts are now being dealt with as 'business-as-usual' by the relevant services. It is considered that this risk is no longer a corporate risk but, instead, should continue to be monitored and managed at a Service Strategic level.

6. <u>Corporate Risks to be Closed</u>

6.1 As a result of the review, four risks have been closed. These risks are detailed below:

- **Northumberland Enterprise Holdings Limited**: There is a risk that, if robust corporate governance is not in place, Northumberland Enterprise Holdings Ltd (NEHL) could fail to perform in the best interests of Northumberland.

  This company is now registered as a dormant company on Companies House and is no longer considered a corporate risk and can be closed. New risks will be developed at Service Strategic level to continue to monitor NEHL from a Companies House and HMRC compliance perspective.

- **Regeneration**: There is a risk that Northumberland County Council may not secure sufficient opportunities to recover from COVID-19 and develop the economy, in particular those presented through the North of Tyne Combined Authority, Borderlands, the Local Enterprise Partnership and other national funding streams including the Comprehensive Spending Review 2020 and the national levelling up fund.

It was initially considered that post COVID-19 there may have been limited opportunities to develop the economy. However, we are currently unlocking and attracting large amounts of external funding to deliver our agenda and the new Devolution Deal, therefore it is considered that this is no longer a risk and can be closed. However, regeneration risks are continually assessed and managed at service strategic level and risk registers exist for individual projects.

- **Exceptional Governance Matters**: There is a risk that, if the recommendations of the Caller Review are not progressed in a thorough and timely manner then the Council will not be able to demonstrate meeting its responsibilities in relation to best value duty and there will be a significant loss to the Council's reputation.

  The Council has been implementing the recommendations through its improvement plan, including the new Constitution and Corporate Plan. These documents are a source of assurance in relation to the Corporate Compliance corporate risk which covers matters of good governance such as transparency, accountability and links between outcomes and the corporate plan. It is therefore considered that Exceptional Governance Matters is no longer a corporate risk and can be closed.

- **Inequalities**: There is a risk that, as we recover from the Covid pandemic, inequalities will continue to widen within and between some communities / community groups due to e.g. loss of work, reduced wages and loss of education. This has been further exacerbated by the cost-of-living pressures.

  Tackling inequalities is an issue that the Council has now identified as a corporate priority in the Corporate Plan. With the measures identified in the Corporate Plan and the fact that tackling inequalities is considered within the other corporate risks, it is considered that this is not a risk in its own right and should therefore be closed.

	Risk Title	Risk Owner	Member Owner	Risk Description	Current Risk Score	Target Risk Score
1	Financial Sustainability	Executive Director of Transformation & Resources	Cllr. Wearmouth	There is a risk to the medium-term financial sustainability of the Council due to a lack of funding, which threatens the ability of the Council to provide a full range of services, including statutory requirements and Corporate Plan priorities.	D2	D3
2	OD/Workforce	Director of Workforce & OD	Cllr. Wearmouth	There is a risk that the Council may not attract, recruit, train and retain an appropriate workforce and equip the workforce with the right skills to deliver required outcomes effectively.	C3	D3
3	Civil Contingency & Business Continuity	Chief Fire Officer	Cllr. Stewart	There is a risk that a civil emergency, major incident or business interruption could lead to failure to support the community in an emergency and/or loss of critical functions, buildings, ICT and staff.	C3	D3
4	Corporate Compliance	Director of Law & Corporate Governance	Cllr. Sanderson	There is a risk that the County Council could fail to comply with statutory and regulatory requirements, and other matters of good governance such as the need for additional transparency, accountability and links between outcomes and the corporate plan, leading to damage, prosecution, impact on the safety of residents and staff and resulting loss of reputation.	D2	E3
5	High-profile Capital Projects	Executive Director of Place & Regeneration	Cllr. Ploszaj	There is a risk that the Council does not maximise the external funding secured through Government and regional agencies to deliver large-scale capital regeneration and infrastructure projects, i.e. NEP3, Northumberland Line and Energising Blyth.	D2	D2
6	Response to Climate Change	Executive Director of Place & Regeneration	Cllr. Sanderson	There is a risk that the Authority may not be successful in achieving its targets in responding to climate change and particularly in respect of reducing the carbon footprint of the County Council to carbon neutral by 2030, its pledge of working with national government to achieve carbon neutrality for the county of Northumberland by 2030 and to achieving net-zero (all greenhouse gases) for the county of Northumberland by 2040.	C2	C3

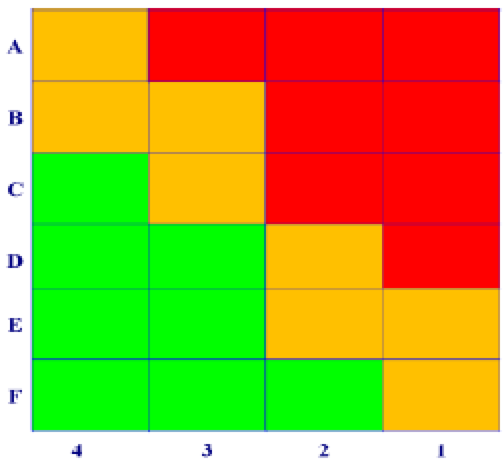
	Risk Title	Risk Owner	Member Owner	Risk Description	Current Risk Score	Target Risk Score
7	Wholly-owned Companies	Executive Director of Transformation & Resources	Cllr Sanderson	There is a risk that the operations of the Council's wholly-owned companies do not properly align with the Council's priorities, and that governance and financial issues impact on the effective running of the companies.	D2	D3
8	Cyber Security	Executive Director of Transformation & Resources	Cllr. Wearmouth	There is a risk that a cyber-attack against the Council's information systems and data may have an adverse impact on service delivery.	B2	C3
9	Adult Service Domiciliary Care National Shortage	Executive Director of Adults, Ageing & Wellbeing	Cllr. Pattison	There is a risk that there is increasing difficulty in providing sufficient domiciliary care services to those people assessed as needing it, and the sustainability of domiciliary care providers countywide due to workforce shortages, which is being experienced nationwide.	A2	B3
10	BEST	Executive Director of Transformation & Resources	Cllr. Wearmouth	There is a risk that BEST does not deliver on its objectives of embedding new ways of working to make the Council more modern, efficient and fit for purpose, and to support the ongoing financial sustainability of the Council.	C3	D3
11	Strategic Community Safety	Executive Director of Public Health, Communities & Inequalities	Cllr. Stewart	There is a risk that the Council may fail to comply with its statutory duties and responsibilities managed and undertaken within Strategic Community Safety and the Safer Northumberland Partnership (SNP) in relation to The Crime and Disorder Act (1998), Domestic Violence, Crime and Victims Act (2004), Anti-social Behaviour, Crime and Policing Act (2014), The Counter Terrorism and Security Act (2015) and the soon to be enacted Martyn's Law, Terrorism (Protection of premises) draft bill.	A2	E3
12	Social Housing (Regulations) Act 2023	Executive Director of Place & Regeneration	Cllr. Horncastle	There is a risk that the Council may fail to comply with its statutory duties and responsibilities under the Social Housing (Regulations) Act 2023, including in relation to proactively monitoring and complying with enhanced consumer standards and the delivery of Awaab's Law.	B2	D3

Risk Matrix and Scorecard

LIKELIHOOD		PROBABILITY	INDICATOR
A	**Very High / Certain**	85% to 100%	Regular occurrence. Circumstances frequently encountered
B	**Highly Likely**	60% to 85%	Highly likely to happen at some point in the next 1 – 3 years.
C	**Medium / Likely**	30% to 60%	Likely to happen at some point in the next 1 – 3 years. Circumstances occasionally encountered
D	**Low / Possible**	15% to 30%	Only likely to happen once every 3 or more years.
E	**Very Low / Rare**	5% to 15%	Has happened rarely
F	**Negligible / Almost Impossible**	0% to 5%	Has never happened.

IMPACTS

	4 Minor	3 Moderate	2 Significant	1 Major
Financial Impact	£100k - £500k Budget exceeded by less than 10%	£500k - £1m Budget exceeded by 10% - 50%	£1m - £10m Budget exceeded by 50% - 100%	>£10m Budget exceeded by over 100%
Service Provision	Minor service delay; short term disruption to minor service	Major element of service not provided for 1 day, minor element not provided for 1 week.	Major element of service not provided for 1 week, longer term disruption to minor element.	Longer term disruption to major service element.
Project	Minor delay - days	A few milestones missed	A major milestone missed	Project does not achieve objectives and misses majority of milestones
Legislative / Contractual	Failure to meet minor terms of contract	Breach of minor contract; failure to meet significant contract terms	Breach of significant contract; element of legislative requirement not achieved.	Statutory requirement not achieved.
Health & Safety	Sticking plaster / first aider; sickness < 3 days	Broken bones / illness; sickness > 3 days	Extensive serious / permanent injury; sickness > 4 weeks	Loss of life / large scale major illness
Governance	Some elements of governance framework ineffective	Some elements of governance framework criticised by external body	Criticism of all governance arrangements by external body	Ineffective governance arrangements
Morale	Mild impact on morale	Some hostile relationship and minor non-cooperation	Industrial action	Mass staff leaving / unable to attract staff
Reputation	Short term adverse public opinion; minor letters; no media attention.	Adverse local media	Persistent adverse local media coverage; adverse national publicity	Remembered for years!
Government relations	Minor local service issues	Poor Assessment(s)	Service taken over temporarily	Service taken over permanently



Corporate risks considered high priority normally to be managed down in the medium term - reviewed every 6 months.

Service risks:
Red risks are to be managed down as a matter of urgency – reviewed every 3 months.
Amber risks are to be managed down in the medium term and monitored – reviewed every 6 months.
Green risks considered low priority but are also monitored – reviewed every 12 months.

Project risks are to be managed down and reviewed in line with specific project timescales.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 18

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