Public Document Pack

RUSHMOOR BOROUGH COUNCIL

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

at the Council Offices, Farnborough on
Wednesday, 20th March, 2024 at 7.00 pm

To:

Cllr P.J. Cullum (Chairman)
Cllr S. Trussler (Vice-Chairman)

Cllr C.W. Card
Cllr D.E. Clifford
Cllr A.H. Gani
Cllr Christine Guinness
Cllr Nadia Martin
Cllr Sarah Spall
Cllr Nem Thapa
Cllr Jacqui Vosper
Cllr G. Williams

Non-Voting Member:
Mr Tom Davies – Independent Member (Audit)

Standing Deputies
Conservative Group: Cllr Peace Essien Igodifo and Cllr S.J. Masterson
Labour Group: Cllr K. Dibble and Cllr C.P. Grattan
Liberal Democrat: Cllr T.W. Mitchell

Enquiries regarding this agenda should be referred to the Democracy Team
committeeservices@rushmoor.gov.uk

A G E N D A

1. **MINUTES –** (Pages 1 - 6)

   To confirm the Minutes of the Meeting held on 31st January 2024 (copy attached).

2. **RISK MANAGEMENT PROCESS 2023/24 –** (Pages 7 - 22)

   To receive the Assistant Chief Executive's Report No. ACE2402 (copy attached) which provides an update on the ongoing development and maintenance of the Council's risk management process over 2023/24.

3. **TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2023-24 –** (Pages 23 - 40)

   To consider the Executive Head of Finance's Report No. FIN2404 (copy attached) which sets out the activities of the Treasury Management and Non-Treasury Management Investment Operations as at 31st December, 2023.

4. **ACCOUNTING POLICIES FOR THE YEAR –** (Pages 41 - 60)

   To consider the Executive Head of Finance's Report No. FIN2403 (copy attached) which reviews the proposed accounting policies to be applied for the closure of the 2023/24 accounts and provides an update regarding the 2024/25 accounts.

5. **ANNUAL STATEMENT OF ACCOUNTS/EXTERNAL AUDIT OPTIONS –**

   The Executive Head of Finance to give a verbal update to the Committee.

6. **INTERNAL AUDIT - AUDIT UPDATE ON 2023/24 –** (Pages 61 - 64)

   To receive the Audit Manager's Report No. AUD2402 (copy attached) which provides a progress update on the 2023/24 Audit Plan.

7. **OUTSTANDING AUDIT RECOMMENDATIONS –**

   The Executive Head of Finance to give a verbal update to the Committee.

8. **INTERNAL AUDIT - AUDIT PLAN 2024/25 –** (Pages 65 - 70)

   To consider the Internal Audit Manager's Report No. AUD2403 (copy attached), which sets out the Internal Audit Plan for 2024/25 for approval.

PUBLIC PARTICIPATION AT MEETINGS

Members of the public may ask to speak at the meeting on any of the items on the agenda by writing to the Committee Administrator at the Council Offices, Farnborough by 5.00 pm two working days prior to the meeting.

This page is intentionally left blank

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

Minutes of the meeting held on Wednesday, 31st January, 2024 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr P.J. Cullum (Chairman)
Cllr S. Trussler (Vice-Chairman)

Cllr C.W. Card
Cllr A.H. Gani
Cllr Christine Guinness
Cllr Nadia Martin
Cllr S.J. Masterson*
Cllr Sarah Spall
Cllr Nem Thapa
Cllr Jacqui Vosper
Cllr G. Williams

Apologies for absence were submitted on behalf of Cllr D.E. Clifford.

*Cllr S.J. Masterson attended the meeting as a Standing Deputy.

Non-Voting Member

Mr Tom Davies (ex officio)

28. **MINUTES**

The minutes of the meeting held on 27th November 2023 were agreed and signed as a correct record of the proceedings, subject to an amendment that Cllr Sarah Spall be recorded as present at the meeting.

29. **APPOINTMENTS**

The Committee **AGREED** the appointment of Cllr D.E. Clifford as a Member of the Committee in place of Cllr Ade Adeola for the remainder of the 2023/24 Municipal Year.

30. **POLLING DISTRICTS AND POLLING PLACES REVIEW 2023-24**

The Committee considered the Corporate Manager – Democracy’s Report No. DEM2401 on the outcome of the formal review of polling districts and polling places 2023/24, which set out proposals for Rushmoor’s polling districts and places. The review, which was a requirement for all constituencies in England, had been carried out with the support of the Elections Group and had included a full public consultation.

The Committee was advised of the formal review requirements and the process that had been followed, together with a summary of the comments raised during the consultation as set out in paragraph 4 of the report.

The Chairman of the Elections Group attended the meeting to summarise and present the proposals set out in Annex 1 to the Report. The key changes related to Wellington Ward (additional polling place at Smith Dorrien for the Wellesley area), Rowhill Ward (existing polling places at the Field Centre and the Traction Club to be made permanent) and Aldershot Park Ward (relocation of polling place from Lido car park mobile station to Aldershot Cricket Club).

RESOLVED: That

(i) the recommendations for polling districts and places as set out in Annex 1 to Report No. DEM2401 be adopted, and

(ii) authorisation be given to the Corporate Manager – Democracy to issue the appropriate notice and publish the required changes to the electoral register as a result of the review.

31. PAY POLICY STATEMENT AND GENDER PAY GAP

The Committee considered the Executive Director Report No. PEO2401, which sought approval for a Pay Policy Statement for 2024/25, as set out in the Report. The Pay Policy Statement set out the framework within which pay was determined within the Council and provided an analysis comparing the remuneration of the Chief Executive with other employees of the Authority. The Report also set out the calculations of the gender pay gap, which the Council was required to publish annually under the Equality Act 2010 (Specific Duties and Public Authorities Regulations 2017).

The Committee noted that the comparisons looked at the ratio between the Chief Executive and the full-time equivalent salary for a permanent member of staff employed in the lowest grade within the structure. The ratio for 2024/25 was 5.9:1. The second ratio included within the analysis looked at the relationship between the median remuneration of all staff compared to the Chief Executive. It was noted that the ratio for 2024/25 was 3.5:1 the same as the previous year.

The Committee noted that the average difference (or 'gap') in pay rates between male and female salaries had decreased from 13.8% to 12.69%. The number of female employees had increased in Quartile 4 which was the highest pay quartile. As last year, both the median female hourly rate and the median male hourly rate had increased and the median gap has again decreased slightly from 10.9% to 9.52%.

The Committee:

(i) **RECOMMENDED TO THE COUNCIL** that approval be given to the Pay Policy Statement 2024/25, as set out in the Executive Director Report No. PEO2401; and

(ii) **RESOLVED** that the Gender Pay Gap report, as set out in the Report, be noted.

32. RUSHMOOR DEVELOPMENT PARTNERSHIP PROGRESS REVIEW

The Committee considered the Executive Director's Report No. ED2401, as Council Shareholder, on the latest progress review from the Rushmoor Development Partnership (RDP). The Report provided commentary on progress and delivery through the Partnership during 2022 and 2023 on the key regeneration sites agreed as part of the initial RDP Business Plan.

The partnership in which the Council and Hill Partnerships Limited's staff worked together, had enabled a commercial approach to be taken to bringing forward sites such as Parsons Barracks and Union Yard in Aldershot, and the realisation of the Civic Quarter Masterplan. Overall, the RDP had made a positive contribution to moving forward the Council's regeneration objectives over the period of the report. The Committee was invited to note the progress achieved and that a future report on the role of the company or new project plans would come forward in due course.

RESOLVED: that Report No. ED2401 be noted.

33. ANNUAL CAPITAL STRATEGY 2024/25

The Committee considered the Executive Head of Finance Report No. FIN2401 which set out the proposed Capital Strategy for the year 2024/25 to 2026/27, including the Prudential Indicators for capital finance for 2024/25. The Report gave a high-level overview of how capital expenditure, capital financing and treasury management activity contributed to the provision of local public services, along with an overview of how associated risk was managed and the implications for future financial sustainability. The Strategy had been written in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) "Prudential Code" and the "Treasury Management Code of Practice" 2021, and the Department for Levelling Up, Housing and Communities (DLUHC) guidance on Local Government Investment.

The Committee was advised that decisions made during the year on capital and treasury management would have financial consequences for the Authority for many years into the future. They were therefore subject to both a national regulatory framework and to local policy framework, which were summarised in the report.

It was advised that the Council had incurred prudential borrowing of £168 million, in relation to its capital expenditure. As the debt as short term it would need to be replaced on an ongoing basis. However, the Council was expecting to reduce its borrowing need by selling £40m of assets to generate capital receipts over the next three years. This would reduce the revenue costs associated with borrowing going forward.

With regard to a query regarding the disposal of assets, it was noted that the Council's properties were valued each year and capital receipts from such sales, could be used to fund revenue streams, reduce debt and invest in development.

The Committee **RECOMMENDED TO THE COUNCIL** that the Capital Strategy for 2024/25 to 2026/27 and Prudential Indicators for 2024/250 as set out in the Executive Head of Finance Report No. FIN2401be approved.

34. ANNUAL TREASURY MANAGEMENT STRATEGY AND ANNUAL NON-TREASURY MANAGEMENT INVESTMENT STRATEGY 2024/25

The Committee considered the Executive Head of Finance Report No. FIN2402 which set out the proposed Treasury Management Strategy and Non-Treasury Management Strategy for the year 2024-25, including the borrowing and investment strategies and treasury management indicators for capital finance for 2024-25 and the Minimum Revenue Provision (MRP) Statement.

Treasury risk management at the Council was conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code), which required approval of a treasury management strategy before the start of each financial year. The Executive Head of Finance's Report No. FIN2402 fulfilled the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The CIPFA Code also required the Authority to have a separate Non-Treasury Investment Strategy (as set out in Appendix 2 to the report) which had to be approved before April 2024. Local authorities were also required by regulation to have regard to the provisions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) 2021.

The report set out the purpose, functions and activities of the treasury management operation and the non-treasury investment management operations and set out the Treasury Management Strategy, Annual Borrowing Strategy and Annual Treasury Management Investment Strategy (Appendix 1), Non-Treasury Investment Strategy (Appendix 2) and the Council's Minimum Revenue Provision (MRP) Statement (Appendix 3). These policies and parameters provided an approved framework within which officers undertook the day-to-day capital, treasury and non-treasury investment activities.

Following discussion on the report, the Executive Head of Finance advised that the Bank of England were predicting a base rate of 3% by the middle of 2026, this would be monitored and reviewed as necessary.

The Committee

(i) **RECOMMENDED TO THE COUNCIL** that

(a) the Treasury Management Strategy 2024-25, Annual Borrowing Strategy 2024-25 and the Annual Treasury Management Investment Strategy (as set out in Appendix 1 to the Executive Head of Finance Report No. FIN2402) be approved;

(b) the Annual Non-Treasury Investment Strategy 2024-25 (set out in Appendix 2) be approved; and

(c) the Minimum Revenue Provision (MRP) Statement (set out in Appendix 3) be approved.

35. **ANNUAL STATEMENT OF ACCOUNTS/EXTERNAL AUDIT OPINION - UPDATE**

The Executive Head of Finance provided an update to the Committee on the current position regarding the Annual Statement of Accounts and External Auditor's Opinion.

It was advised the Government planned to lay statute in June, 2024 to reset the audit process. This would result in the next audit taking place on the current years finances in Autumn, 2024. All outstanding accounts, prior to 2023/24, would remain unaudited and published on the website with a national disclaimer explaining the situation.

RESOLVED: That the update be noted.

36. **INTERNAL AUDIT - AUDIT UPDATE**

The Committee received the Audit Manager's Report No. AUD2401 which provided a progress update on the 2023/24 Audit Plan.

In response to a question regarding staff levels to carry out the current year's remaining work, the Audit Manager advised the Committee that a plan of action was in place to appoint external auditors to deliver the Plan.

RESOLVED: That the Audit Manager's Report No. AUD2401 be noted.

37. **SELECTION OF THE MAYOR AND DEPUTY MAYOR 2024/25**

The Committee considered the Chief Executive's Report No. DEM2402 which set out the current position on the selection process for the Mayor and Deputy Mayor for the 2024/25 Municipal Year.

Following a review of the criteria for the selection of the Mayor and Deputy Mayor, the Council had adopted a revised protocol in December 2022. In accordance with the updated procedure, all Councillors had been invited to indicate their interest in the role of Deputy Mayor for 2024/25, progressing through to Mayor in 2025/26.

The Corporate Manager – Democracy reported that since the publication of the agenda, an update had been received from the Chief Executive to advise that Cllr Gaynor Austin be recommended for the role of Deputy Mayor in 2024/25 and confirmed that Cllr Austin's nomination met the criteria by order of seniority and eligibility.

The Committee was advised that this year's Deputy Mayor, Cllr Mara Makunura, had confirmed her wish to proceed through the normal progression to the position of Mayor for 2024/25.

The Committee expressed support for the nominations. During discussion, reference was made to the Mayoral protocol and balancing the dual roles of councillor and Mayor as the First Citizen of the Borough.

The Committee **RECOMMENDED TO THE COUNCIL** that:

(i) Cllr Mara Makunura be appointed as Mayor-Elect for the 2024/25 Municipal Year; and

(ii) Cllr Gaynor Austin be appointed as Deputy Mayor-Elect for the 2024/25 Municipal Year.

The meeting closed at 8.53 pm.

CORPORATE GOVERNANCE AUDIT AND STANDARDS COMMITTEE

20 MARCH 2024

ASSISTANT CHIEF EXECUTIVE
REPORT NO. ACE2402

RISK MANAGEMENT PROCESS 2023/24

SUMMARY AND RECOMMENDATIONS:

This paper updates Members of the Corporate Governance, Audit and Standards Committee on the ongoing development and maintenance of the Council's risk management process over 2023/24.

Attached to this report is the current Corporate Risk Management Policy.

CGAS Members are asked to note this report and comment on the adequacy of the Council's risk management arrangements.

1. Background

1.1 The Constitution states that one of the roles of the Corporate Governance, Audit and Standards Committee (CGAS) is to "*provide independent assurance of the adequacy of the risk management framework".* Specifically in relation to risk management, the Constitution states that CGAS should *"monitor the effective development of risk management in the Council".*

1.2 This report provides an update to CGAS Members on risk management activity that has taken place over the course of 2023/24 in line with arrangements set out in the Council's Risk Management Policy, which is attached as Appendix A.

1.3 As was reported in previous years, 2023/24 has continued to be a period of significant uncertainty across a broad range of economic, social and political matters. With matters such as high interest rates continuing beyond expected timeframes and the cost of living crisis in the wider community increasing levels of deprivation, the Council – along with many partner agencies, are seeing significant impact on our resources and operating costs. The wider financial implications for the Council have been a focus in recent times, with mitigation plans adapting to meet the ongoing challenges presented.

1.4 It is important to recognise the role that the Council's risk management process has played in recognising the potential impacts of the risks the Council faces and ensuring the Senior Management Team, the Cabinet and Members are regularly updated.

1.5 The risk management process will continue to play an important role in the Council meeting its key objectives as existing risks continue to develop during 2024/25.

2.0 Development of Risk Management

2.1 The Council has continued its work to embed risk management within the organisation and streamline the processes in place. Since moving the Council's risk registers to an MS Lists based system located in July 2022, improvement continues to be made in timely engagement and the level of detail provided. This has greatly improved efficiency and also allows the risk registers to be easily interrogated in a live format at any time by key personnel.

2.2 The Council's Officers continue to attend professional peer groups and conferences in risk management and will be further investing in the development of staff by providing formal training during 2024/25. This will enable the Council to improve its overall resilience and continue to improve upon the arrangements currently in place, where possible seeking out improvement and incorporating best practice.

2.3 The Council's risk management policy and arrangements continue to be reviewed and developed in order to remain effective and to provide continual improvement. The last revision was published in February 2022 and is attached. A new, updated draft is expected to be published in Q1/Q2 2024/25. Amongst other updates this will incorporate improvements in the way that the Council carries out its annual strategic analysis, determines its risk appetite and will more closely link the risk management process with the Council Plan and performance management arrangements.

2.4 Work has continued in response to the internal audit of risk management that concluded in February 2022. Of the 6 actions identified, the final outstanding item has been addressed in the latest draft of the risk management policy. Further work is however planned to investigate how the Council can establish an effective high level risk appetite policy (or policies), in addition to risk appetite being determined on a risk-by-risk basis.

2.5 New risks continue to be identified as part of the Council's horizon scanning process, giving us the time to fully consider the action required to limit the impact. One example of this is the reform of the procurement legislation in the UK and the requirement to put all new requirements into place by October 2024. This will have an impact across all services. Similarly, the Council will need to respond to proposed introduction of Martyn's law and duties that will be imposed upon those that own and operate public buildings and some large public events, previously known as the 'Protect' Duty. The Council will also continue to review the position on the impacts of wider change, such as extreme weather events due to climate change, ongoing budgetary pressures and supply chain disruption.

3.0 Risk Management Reporting during 2023/24

3.1 As set out in the risk management policy, reports on risk have been presented to the Council's Corporate Management Team on a quarterly basis and presented to Cabinet, alongside the quarterly performance report.

3.2 In addition, risk is discussed with greater frequency outside of these meetings, with regular discussions and risk register reviews taking place across projects and programmes and with performance and risk reporting being considered by the Overview and Scrutiny Committee at their meetings on 20th July 2023 and 2nd January 2024.

4.0 Recommendations

4.1 CGAS is asked to note this report which summarises how risk has been managed across the Council in 2023/24.

BACKGROUND DOCUMENTS:

Appendix A – Risk Management Policy

Link – Cabinet Report: Council Plan and Risk Register Quarterly Update October to December 2023

Link – Agenda for Overview and Scrutiny Committee on Thursday, 20th July, 2023, 7.00 pm Rushmoor Borough Council

Link – Agenda for Overview and Scrutiny Committee on Tuesday, 2nd January, 2024, 7.00 pm - Rushmoor Borough Council

CONTACT DETAILS:

Rachel Barker, Assistant Chief Executive – 07771 540950
rachel.barker@rushmoor.gov.uk

Roger Sanders, Corporate Risk Manager – 01252 398809,
roger.sanders@rushmoor.gov.uk

This page is intentionally left blank

Rushmoor Borough Council
Corporate Risk Management Policy and Procedures
v2.0 27/04/22

1. Introduction and Overview

This document describes Rushmoor Borough Council's policy and procedures for the assessment and management of risk.

What is Risk?

Risk can be defined as the combination of the probability of an adverse event occurring and its potential consequences. In this context it is used to define a matter/incident/issue that may prevent the Council from meeting its core objectives or that may result in the critical failure of all or part of the Council or its functions.

There is however the potential for risk to present the opportunity for benefit as well as threats to success. Therefore, the goal will not always be to entirely eliminate risk.

Why we need to manage risk?

Rushmoor employees manage risk every day without describing it as "risk management". Employees consider what might go wrong and take steps to reduce the likelihood or impact if it does. However, Rushmoor cannot rely entirely on informal processes. As a public body, the Council must provide assurance to the Elected Members and the public they serve that it is recognising and managing risk effectively.

Who Manages Risk at Rushmoor?

Everyone at Rushmoor is responsible to some degree in the management of risk in their day-to-day activities, from front line staff to Heads of Service (HoS), Executive Directors and the Chief Executive.

Significant risks must however be formally identified, assessed and appropriately managed in order to mitigate their likelihood and/or their adverse impacts, such as on the continued operation of the Council, compliance with legal obligations or achieving strategic objectives.

Ultimately, the responsibility to ensure that the Council's risk management process is effective lies with ELT and the Chief Executive. The responsibility to manage this process is delegated to the Assistant Chief Executive and an Officer fulfilling the role as the Corporate Risk Manager.

2. Scope & Purpose

Senior employees with overall managerial responsibility for the majority of risks (predominately HoS) are referred to in this process as 'risk owners'. A single point of contact responsible for taking the lead in ensuring that the risks and any mitigations are managed appropriately.

Rushmoor Borough Council oversees the management of risk through the work of its Corporate Management Team (CMT). All significant risks will be periodically reviewed by this team. The determination as to whether a risk is deemed 'significant' is discussed throughout this document and assisted through the use of a common risk management procedure, to ensure consistency in approach.

The Council will record and assess its work to manage risk through the use of risk registers. These will be split into individual Service Risk Registers (SRR) and a single central Corporate Risk Register (CRR). Corporate risks will also be further split down into ‘standing corporate’, ‘elevated service’ or ‘strategic’ risks. All of these processes and terms are described in full later in this document.

These risk registers are not intended to be used as a means of managing **all** risk to the Council, or the management of its day-to-day business activities, but to summarise significant risks for Senior Management and Members to ensure that they are effectively managed.

Given its nature, the risk management process will provide a regular periodic snapshot of the current level of risk to the Council in each case and any additional mitigation planned for those risks.

3. Leadership and Management

The risk management process is overseen by the Assistant Chief Executive (ACE). The day-to-day management and maintenance of the risk management system is the responsibility of the Corporate Risk Manager (CRM). To ensure that the CRM itself does not become a single point of failure, the ACE will ensure that the process can be temporarily administered by other Officers in the CRM’s absence, with an appropriate level of training and understanding to deliver this function.

Risk owners, predominately HoS, will be ultimately responsible for the management of risks and the maintenance of associated processes such as Service Risk Registers. Service Managers may however be delegated the responsibility of managing risks and updating registers by their HoS.

Risk will be on the CMT agenda at least every 2 months to ensure that regular routine collective oversight is given to risk at a Senior level. This will also assist in the consistency of approach and determining the Council’s tolerance for risk, including the natural determination of what the collective management consider to be a ‘significant’ risk. The way in which the risk management process is highlighted to elected members is detailed later in this policy.

The Corporate Risk Manager will provide advice, support and guidance on the Council’s risk management process to all levels upon request.

4. Training

The CRM and any staff providing assistance will be provided appropriate training to ensure that they are able to effectively fulfil this role.

The CRM will provide training to all staff that routinely carry out risk management activities in line with this policy, such as Heads of Service and Service Managers. All staff requiring training must be identified by HoS. This training will take place at least every two years, upon significant change to the policy or risk register template(s)/methodology, or upon the identification of any significant concerns in competence.

An overview of risk management is provided to all new starters to the Council by the CRM, as arranged by HR.

In addition, the Corporate Risk Manager will provide advice, support and guidance on the Council's risk management process to all levels upon request.

5. Meetings and Minutes

HoS will be responsible for ensuring that their Service Risk Register is updated at least monthly, and that risk is a standing agenda item on their service meetings.

The ACE, with the assistance of the CRM, will ensure risk is on the CMT agenda at least every 2 months.

The CRM will ensure that the Corporate Risk Register is updated prior to this meeting and that a copy is provided to the ACE for presentation at CMT.

Minutes from this CMT meeting will be circulated and stored for future reference.

6. Methodology

6.1. Risk Identification

Risks will be identified by a number of methods, for example (but not limited to):

Business Planning Assessments – Corporate Level
A strategic analysis tool (such as a PESTLE analysis) can used to identify and analyse the current status and position of an organisation and the environment in which it operates. Tools such as this are used to provide a context for the organisation's role in relation to the external environment and the impact of external issues.

An appropriate analysis will be carried out by the Strategic and Corporate Policy Team annually, as part of the overall business planning process for the Council

Business Planning – Service Level
Heads of Service will identify any significant threats to their service during the business planning process, including ongoing matters and new and emerging threats.

Audit
Risk identification and analysis work takes place routinely within the Councils' Audit team. Any new/emerging or increased risks will be brought to the attention of the appropriate risk owner and ACE/Corporate Risk Manager.

Audit will routinely share reports that highlight or assess the management of risk in the Organisation in order that any gaps or inaccuracies are identified and resolved – in conjunction with the risk owner.

Horizon Scanning
The Corporate Risk Manager will ensure that industry publications are reviewed, to identify any new and emerging risks that may affect the Council.

Such publications will include:

- Allianz Risk Barometer: Top Business Risks (annual)
- Hampshire County Council: Community Risk Register
- Cabinet Office: National Risk Register of Civil Emergencies
- World Economic Forum: The Global Risks Report (annual)

New and Emerging Risks
The identification of new/emerging risks will also occur during the day-to-day operation of Services, where new (and sometimes unexpected) risks can arise/become apparent during the course of their work. Once identified, these risks must be appropriately incorporated into Rushmoor's risk management processes.

6.2. Risk Assessment Method

Each risk managed by this process will be assessed and given a risk category based upon the probability of the risk arising and the impact on the Council if does arise. The same method of rating/scoring will be used throughout. If a risk (a potential future adverse event) becomes an issue (where the adverse event occurs despite the mitigation put in place), the risk management process will continue to be used to manage that risk.

A traffic light indicator / RAG rating is used to show the risk category. A Corporate risk matrix, maintained and updated by the CRM, is provided to assess the probability and impact of risks. This is provided later within this document.

The assessment of the risk for each register entry will take place three times, as follows:

Inherent Risk
This assessment takes place at the very beginning of the process, it does not take into account any mitigation currently in place or planned in the future. The purpose is to initially assess the significance of the risk to the Council.

If at this stage the risk is assessed as being low, although a Service may wish to record and monitor it, it is very unlikely to be appropriate for inclusion in the Corporate Risk Register.

This risk score is not expected to routinely change unless the risk itself fundamentally changes.

Residual Risk
This assessment takes place once the current mitigation(s) have been identified and recorded. It is an assessment of the current risk to the Council when taking into account any action already taken. It does not take into account the expected effect of any future mitigations planned.

This risk score is likely to change regularly as future mitigation(s) are completed/established and the effects can be assessed.

Target Risk / Risk Appetite
This assessment of risk is based upon the position that the Council aspires to achieve against each risk. It is effectively determines the goal that the Council has for the risk – and so also determines whether the mitigations in place and planned are adequate.

This risk score can also be seen as an assessment of the Council's risk appetite for each specific risk entry, whereby a decision must be taken as to whether the residual risk is acceptable. The 'risk gap' between the residual and the target risk are a clear measure of the Council's success or otherwise in the management of its risks.

Given the breadth of duties and roles that the Council holds, it is foreseeable that some target risks will be higher than others – and that in some cases the target risk will not be low. Although Council's are generally risk averse given their responsibility for the appropriate spending of public funds, some risks may be accepted.

6.3. Risk Appetite & Corporate Objectives

Risk Appetite
It is important to ensure that a common approach to risk management takes place between Services, and that where the Corporate appetite to specific risks can be defined – they are considered by risk owners. Given the wide and varied roles the Council has, it is only possible to formally define Corporate risk appetite at a high level.

An example may be the Council's financial position. If the Council is in a position where savings must be made – the appetite for any risk where there will be significant costs outside of agreed budgets will be very low.

The consideration of the impact of all risks on the Council's risk appetite forms a part of the risk assessment process, as provided by the CRM. Services will be expected to describe the potential impact (either positive or negative) and what action is being taken to address them, if appropriate.

The Council's risk appetite will be determined by ELT with the ACE, and recorded as a list in Appendix 2 to this policy. These will be updated as and when the risk appetite changes – or reviewed at least annually at the beginning of each financial year.

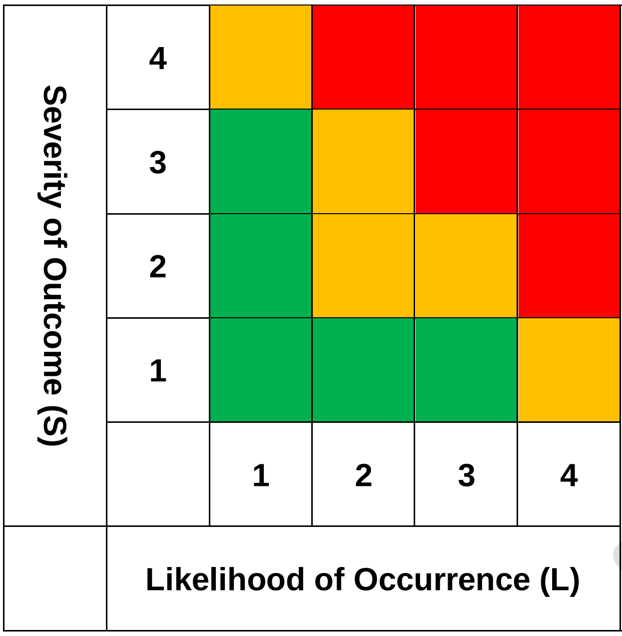
Links to Corporate Objectives
The Council's risk management process must be aligned to the strategic and corporate objectives/priorities, where relevant, which will allow for greater consistency in the mitigation of risks and closer connection with the Council's performance management arrangements.

The consideration of the impact of all risks on the Council's priorities forms a part of the risk assessment process, as provided by the CRM. Services will be expected to describe the potential impact (either positive or negative) and what action is being taken to address them, if appropriate.

As these priorities will change over time, they are recorded in Appendix 3 to this policy and must be referred to during the risk management process.

6.4. Matrix & RAG Risk Rating

The risk matrix to be used for the assessment of all risks is as follows:



High Risk		Strongly consider further mitigation, tolerating risk is unlikely to be acceptable
Med. Risk		Tolerable if risk/exposure is acceptable at senior level
Low Risk		Additional action may not be necessary to manage risk

Rating Consistency Guidance

	Likelihood of Occurrence (L)	Severity of Outcome (S)
1	**Very unlikely** Very unlikely to occur, (no history or near misses etc). Less than 5% probability.	**Minor** Risk to specific role. Legal action unlikely. No significant illness or injury. Negative customer complaint. Financial impact negligible.
2	**Unlikely** Unlikely but may occur (may have happened, but not within past 5 years). Is not expected to happen in next 5 years, less than 25% probability	**Moderate** Risk to normal continuation of service. Legal action possible but defendable. Short term absence/minor injury. Negative customer complaints widespread. Financial impact manageable within existing Service budget.
3	**Likely** Likely to occur (or already happened in the past 2 to 5 years). Is expected to happen in the next 2 to 5 years, 25 - 50% probability	**Significant** Partial loss of service. Legal action likely. Extensive injuries or sickness. Negative local publicity. Significant fine. Financial impact manageable within existing Corporate budget - but not Service.
4	**Very likely** Very likely to occur (or has already happened in the past year), may occur frequently. Is expected to happen in the next year, more than 50% probability	**Major** Total loss of service. Legal action likely & difficult to defend. Death or life threatening. Negative National publicity. Imprisonment. Financial impact not manageable within existing funds.

6.5. Risk Mitigation Methods

There are various options for dealing with risk, often referred to as the four Ts:

- **Tolerate** (accept the risk) – if we cannot reduce a risk (or if doing so is out of proportion to the risk) we can tolerate the risk; ie do nothing further to reduce the risk.

- **Treat** (mitigate the risk) – if we can reduce the risk by identifying mitigating actions and implementing them, we should do so. For many of the risks on the corporate risk register this is the action we are most likely to take.

- **Transfer** – risks can be transferred to other organisations, for example by use of insurance, shared services with other Authorities or by contracting out an area of work.

- **Terminate** (stop the work) – this applies to risks we cannot mitigate other than by not doing work in that specific area. For example, if a particular project is very high risk and these risks cannot be mitigated to an acceptable level we may decide to terminate it entirely.

It is important to note that the Council's appetite to risk may vary over time and by work area, in some circumstances risk may be sought out for gain e.g. enterprise risk, property portfolio expansion etc.

6.6. Risk Types & Records

<u>Service Risks</u>

In order to ensure that key risks are identified, assessed, managed appropriately and recorded consistently a risk register will be updated and maintained by every service. These are known as Service Risk Registers (SRR) and will record all Service risks.

All Service Risk Registers must be reviewed and updated at least monthly by the risk owner or their delegated Service Managers.

The Corporate Risk Manager will provide each Service with an appropriate template for carrying out and recording their risk assessments. This will include an appropriate method of version control and the ability to archive risks that are no longer current.

Service Risk Registers (SRR)

These will contain all significant risks to a service that are key to the organisation in terms of the potential severity of the outcome. It is not the intention to use the SRRs as a means of managing day-to-day work of a service.

It is the responsibility of each HoS to maintain its own SRR and review/update it whenever there is a significant change in circumstances, or at least monthly in their Service meetings.

The SRRs will include a method by which Heads of Service can identify risks to be included in the Corporate Risk Register as Standing Corporate or Escalated Service risks. These will be identified by virtue of the potential risks to the Council as a whole, or their Council-wide crosscutting nature. They are further described below.

Heads of Service will be expected to have regular update meetings with their respective Portfolio holders, using their risk registers to keep the Portfolio Holder aware of the current status of the risks within their service. This update must take place at least quarterly.

Those risks identified as being officially sensitive in nature will be marked to ensure that they can be easily redacted from any publicly available copy of the register.

Services must use the risk register format/template provided by the Corporate Risk Manager.

Capital Project Risks
Capital projects, such as large-scale regeneration projects, will be treated in a similar manner to Services. Each Project team will hold and maintain a project risk register and manage the day-to-day risks within their teams. The Project Sponsor will be responsible for ensuring that risk register is reviewed on a regular basis.

The ACE and/or members of ELT will sit on the Property, Major Works and Regeneration Programme Board to ensure that any key risks that should be highlighted in the Corporate Risk Register for wider circulation are identified. The ACE will ensure that the most appropriate risk owner is identified and that the risk is included in the Corporate Risk Register.

Corporate Risks
These are risks that have greater significance for the Council as a whole.

These can be further split down as being 'Escalated Service risks', 'Standing Corporate risks' or 'Strategic Risks'.

Escalated Service (ES) risks are likely to be those that by virtue of the severity of the potential outcome and/or inadequate controls may be considered a single point of failure for the Council, rather than a threat to a single Service alone. It could also include those risks that are newly identified and have little or no mitigation or controls in place, that require wider consideration.

These risks will tend to be operational and arise, be resolved/adequately mitigated and then removed from the corporate register.

There are a number of tests that can be applied in order to determine whether a Service risk should be escalated, but given their nature and to ensure consistency of approach it may be appropriate to discuss these risks with the Corporate Risk Manager before escalating them. The application of a high-risk rating is not a reason in its own right to escalate a risk. The Service should also consider whether oversight/discussion is required at CMT or if the risk can be wholly managed within the Service. If no Corporate oversight/discussion/intervention etc is required it is not expected that they will be escalated.

Standing Corporate (SC) risks may also be considered a single point of failure for the Council, and in most cases, although the Corporate response may be managed by a single Service, they will be cross cutting and long term in nature. Standing Corporate risks will tend to remain on the Corporate Risk Register for longer periods of time, if not indefinitely. Examples of these may be the Council's financial position or compliance with data protection legislation, both of which have a wide impact and involvement from across the Council, but are generally overseen or managed by one service.

Standing Corporate risks, impacting more than one Service, will normally be managed by one Service with the expertise required, but if not they will be assigned to one single risk owner as the lead. This is for practical purposes to avoid duplication and ensure that they are managed overall by a single Officer. Although the day-to-day management of the risk itself may not fall entirely upon that risk owner, they will be responsible for collating and updating CMT and the risk register entry on behalf of the Council.

Strategic (S) Risks
Strategic risks will be recorded and maintained by the ACE or Corporate Risk Manager in consultation with the most relevant member(s) of CMT/ELT. These risks will tend to be long term in nature and are likely to be outside the direct control of the Council, for example the local economy, employment or obesity levels. Therefore they will be unlikely to sit within a Service Risk Register.

As they are longer term in nature, the Strategic risks will be updated every 2 months in order that they can be presented to CMT.

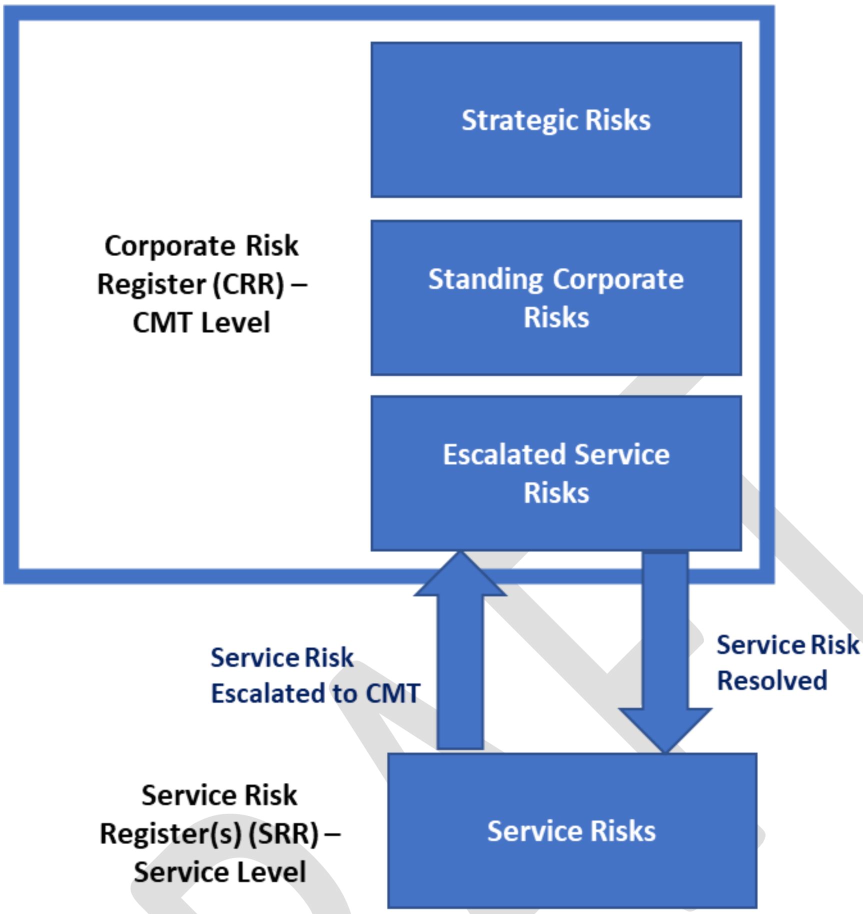
Corporate Risk Register (CRR)
This register contains the key risks to the Council that are considered to be current issues of corporate significance. This will be made up of all of the Council's Strategic, Escalated Service and Standing Corporate risks identified.

With the assistance of HoS, the CRR will be updated by the CRM every 2 months in order that it can be presented to CMT by the ACE for review and discussion.

Those risks identified as being officially sensitive in nature will be marked to ensure that they can be easily redacted from any publicly available copy of the register. This will be the responsibility of the risk owner during the assessment process.

An appropriate method of version control will be kept by the CRM to ensure that the most up to date register is in use but that older versions of the register remain accessible.

Diagram: Rushmoor Borough Council Risk Management Process



7. Governance and Targets

The ACE will report risk to CMT at least every two months using the CRR to ensure Heads of Service, Executive Directors and the Chief Executive remain aware of the key risks to the Council and the measures being put in place. The risk owners may be required to present their risk entries to CMT for wider discussion.

The ACE will report the CRR to elected members via two routes; to CGAS on an annual basis and to Cabinet via the Quarterly Performance Report.

The risk management process is cyclical, running on an annual cycle to complement the existing processes in place, particular those that also identify risk and effect resources – e.g. the business planning process. It is key that these processes work together to produce the greatest benefit for the Council.

Reporting of the CRR may be required more regularly on some occasions, see the table in Appendix 1 at the end of this policy for the full schedule, illustrating the approximate annual cycle of work and the key times for each part of the risk management process:

Appendix 1: Approximate Risk Management Cycle

	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Business Planning	New Business Plans and budgets in place for financial year.	.				Business Planning process for following year begins.			Key risks identified in Corporate Business Planning process provided to HoS.		Budget approval provided for following year Business Plans.	
Internal Audit		Audit Opinion presented to CLT + LA&GP. Risks to the organisation considered.	Audit work for the next quarter set. New and emerging risks considered.			Audit work for the next quarter set. New and emerging risks considered.			Audit work for the next quarter set. New and emerging risks considered.		Annual audit plan set.	Audit work for the next quarter set. New and emerging risks considered.
CMT	CRR presented to CMT by ACE			CRR presented to CMT by ACE	.		CRR presented to CMT by ACE			CRR presented to CMT by ACE		
Cabinet		CRR reported via Quarterly Performance Report			CRR reported via Quarterly Performance Report			CRR reported via Quarterly Performance Report			CRR reported via Quarterly Performance Report	
CGAS								CRR Report to CGAS				

Appendix 2: Risk Appetite - TBC

The Council risk appetite for 2022/23 is:

-

Appendix 3: Corporate Objectives

The Council priorities for 2022/23 are:

- Strong community, proud of our area
- Healthy and green lifestyles
- Opportunities for everyone - quality education and a skilled local workforce
- Housing for every stage of life
- Vibrant and distinctive town centres
- A thriving local economy - kind to the environment

This page is intentionally left blank

Corporate Governance, Audit and Standards Committee
20 March 2024

EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2404

TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2023-24

SUMMARY:
This report sets out the activities of the Treasury Management and non-Treasury Investment Operations as at 31 December 2023, and reports on compliance with Prudential Indicators.

RECOMMENDATIONS:
Members are requested to:
(i) Pass comment to the Cabinet on the contents of this report in relation to the treasury management and non-treasury investment operations.

1. INTRODUCTION

1.1 Full Council approved the Annual Treasury Management Strategy and Non-Treasury Investment Strategy for the financial year 2023-24 in February 2023. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management 2021 ("the Code") and is fully incorporated into the Council's adopted strategy.

2. PURPOSE

2.1 This report sets out compliance with the strategy and performance against Prudential Indicators to the end of Quarter 3 (December) of 2023-24 within appendices (A to D):

Appendix A
- The **Treasury Management operations** which sets out how the Council's treasury service operated during the period to December 2023;
- The **Treasury Management Borrowing** which sets out the Council's borrowing during the period to December 2023, and;
- The **Treasury Management Investments** which sets out the Council's Treasury Management investment operations for the period to December 2023.

Appendix B
- The **Non-Treasury Investment** sets out the Council's Non-Treasury investment performance for the period to December 2023.

Appendix C

- the **Prudential indicators** performance is compared to the indicators set out in the Annual Capital Strategy for the year 2023-24.

Appendix D

- Market commentary regarding the year 2023-24 from the Council's treasury management advisors Arlingclose

3 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS DURING 2023-24 TO DATE

3.1 All treasury activity was conducted within the approved Treasury Management Practices (TMP's).

3.2 During 2023-24 there was an unprecedented number of Bank of England base rate increases from 3% in March 2023 to the current 5.25%. Whilst borrowing has remained within the approved limits (£200.8 million), interest costs have significantly increased. All borrowing is currently short term and will remain so until the interest rate reduces as predicted by the financial markets to circa 3.1% by mid-2025. The Council's revenue budget has capacity to pay approximately £3million interest on its borrowing, equating to £100million of borrowing in the long term. Interest costs above £3million are being funded by the Council's reserves. A full narrative on this challenge, including long term mitigation, is provided in the 2024-25 Annual Treasury Management Strategy adopted by Full Council at its meeting on 22nd February 2024.

3.3 Pooled funds are a long-term investment of surplus cash. Due to the rapid change in base rate and forecast economic climate the funds are currently valued at less than initial sums invested, full detail can be found in section 5. The mitigation is to hold these funds into the future to avoid the crystallisation of the capital loss. The current return of pooled funds is performing in line with short term treasury deposits.

Contact Details:

Report author:
Rosie Plaistowe-Melham – Services Manager Finance
01252 398037
rosie.plaistowe@rushmoor.gov.uk

Head of Service:
Peter Vickers - Executive Head of Finance
peter.vickers@rushmoor.gov.uk

APPENDIX A

Treasury management operation for the quarter ended December 2023

1 INTRODUCTION

1.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed, ensuring security of surplus monies invested and minimise the Council's cost of borrowing. The Council has adopted security, liquidity and then yield (SLY) as its treasury investment model objectives.

2 TREASURY MANAGEMENT ADVICE

2.1 The Council engages the services of Arlingclose for independent treasury advice. They provide a range of treasury management services including technical advice on debt and investment management and long-term capital financing. They advise on investment trends, developments and opportunities consistent with the Council's Treasury Management Strategy.

2.2 All investment activity is carried out by the Council's own treasury team with advice from Arlingclose and having due regard to information from other sources such as the financial press and credit-rating agencies.

2.3 The Council's treasury management team maintain their knowledge of investment management. Staff attended relevant workshops provided by Arlingclose and other service providers.

3 TREASURY MANAGEMENT OPERATIONS

3.1 All treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's Approved Treasury Management Strategy. Full detail of compliance against treasury indicators are given in Appendix C.

3.2 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates.

3.3 The treasury management position as at 31 December 2023 and the change during the year is shown in the table below.

	31/03/2023 Balance £m	Movement £m	31/12/2023 Balance £m	Rate %
Long-term borrowing (> 12 months)	5.0	12.5	17.5	4.43
Short-term borrowing (< 12 months)	115.0	29.5	144.5	4.11
Total Borrowing	**120.0**	**42.0**	**162.0**	
Pooled Funds	(19.3)	-	(19.3)	5.79
Short-term investments	-	(15.0)	(15.0)	5.75
Cash	(1.8)	(23.1)	(24.9)	4.95
Total Investments	**(21.1)**	**(38.1)**	**(59.2)**	
Net borrowing/(investments)	**98.9**	**3.9**	**102.8**	

4 TREASURY MANAGEMENT BORROWING OPERATIONS

4.1 As at 31 December 2023 the Council held £162m of loans, an increase of £42m from the position at 31 March 2023, as part of its strategy for funding previous and current years' capital programmes, these are summarised in the table below.

Borrowing	31/03/2023 Balance £m	Movement £m	30/12/2023 Balance £m	Rate %
Long-term borrowing	5.0	12.5	17.5	4.43
Short-term borrowing	115.0	29.5	144.5	4.11
Total Borrowing	**120.0**	**42.0**	**162.0**	

4.2 The projected borrowing position to year end can be seen in the table below:

External Borrowing Summary	
1/4/2023 balance - started before this date	**120,000,000**
Of which repaid pre-January	(109,000,000)
Replaced borrowing in year to date	151,000,000
Balance to date	**162,000,000**
Borrowing contracted in Q4	13,000,000
Projected to be repaid in last Q4	(13,000,000)
Required projected borrowing in Q4	0
Total projected debt at 31/3/2024	**162,000,000**

5 INVESTMENT ACTIVITY IN 2023-24

5.1 The Council lends (invests) surplus cash as part of its day-to-day cash flow management. During the year, the Council's investment position is shown in the table below. Money Market Funds are same day maturity whilst Pooled Funds have no defined maturity date, however, are available for withdrawal after a notice period of a week with the exception of CCLA fund (6 months).

Investment	**31/03/2023 Balance £m**	**Movement £m**	**31/12/2023 Balance £m**	**Rate %**
Money Market Funds	1.1	23.6	24.7	4.86
Pooled Funds	21.9	-	21.9	5.79
Investments in LA's	-	15.0	15.0	5.75
Total	**23.0**	**38.6**	**61.6**	

5.2 All Money Market Fund investments are with counterparties credit rated A+, this is in compliance with TMP's. A full list of Money Market investments made can be found below.

Money Market Funds	£
Aberdeen Standard Investments	7,000,000
Deutsche Bank	100,000
Insight	3,800,000
CCLA Public Sector Deposit Fund	6,800,000
Federated Short-Term Sterling Prime Fund	7,000,000
Total	24,700,000

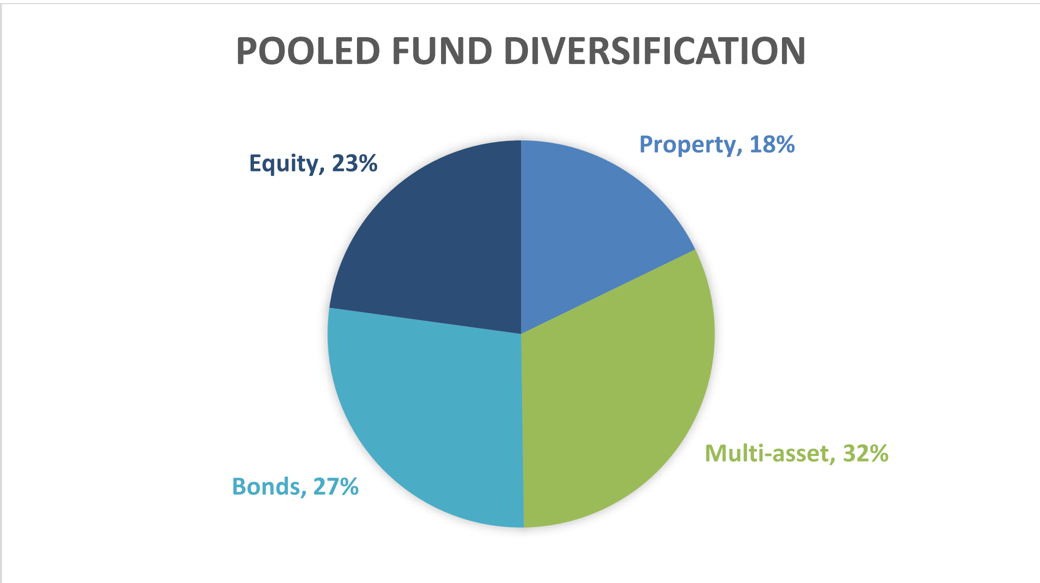
Current Investments in Local Authorities is as follows:

Investments in Local Authorities	£
City of Kingston Upon Hull	5,000,000
PCC Lancashire	5,000,000
City of Stoke on Trent	5,000,000
Total	15,000,000

5.3 £21.9m of the Council's investments are held in externally managed strategic pooled funds spread (diversified) across equity, multi-asset, bond and property funds where short-term security and liquidity are lesser considerations, and objectives are regular revenue income and long-term price stability. The value of the pooled fund portfolio had decreased to £19.28m as reported at the end of Quarter 2 (September 2023), this has improved to £19.49m an increase on value of £212,000 since March 2023.

Pooled Funds investment	31/03/2023 Balance £m	Movement £m	31/12/2023 Balance £m
<u>Pooled Funds:</u>			
CCLA LAMIT Property Fund	3.9	-	3.9
M&G Investments Strategic Corporate Bond Fund	4.0	-	4.0
UBS Multi Asset Fund	5.0	-	5.0
Aegon Diversified Monthly Income Fund	2.0	-	2.0
Threadneedle Strategic Bond Fund	2.0	-	2.0
Schroder Income Maximiser Fund	5.0	-	5.0
Total Investments	**21.9**		**21.9**

Diversification of Pooled Fund	Amount invested £m	% of Total Investments
Property	3.9	18%
Multi-asset	7.0	32%
Bonds	6.0	27%
Equity	5.0	23%
Total	**21.9**	**100%**



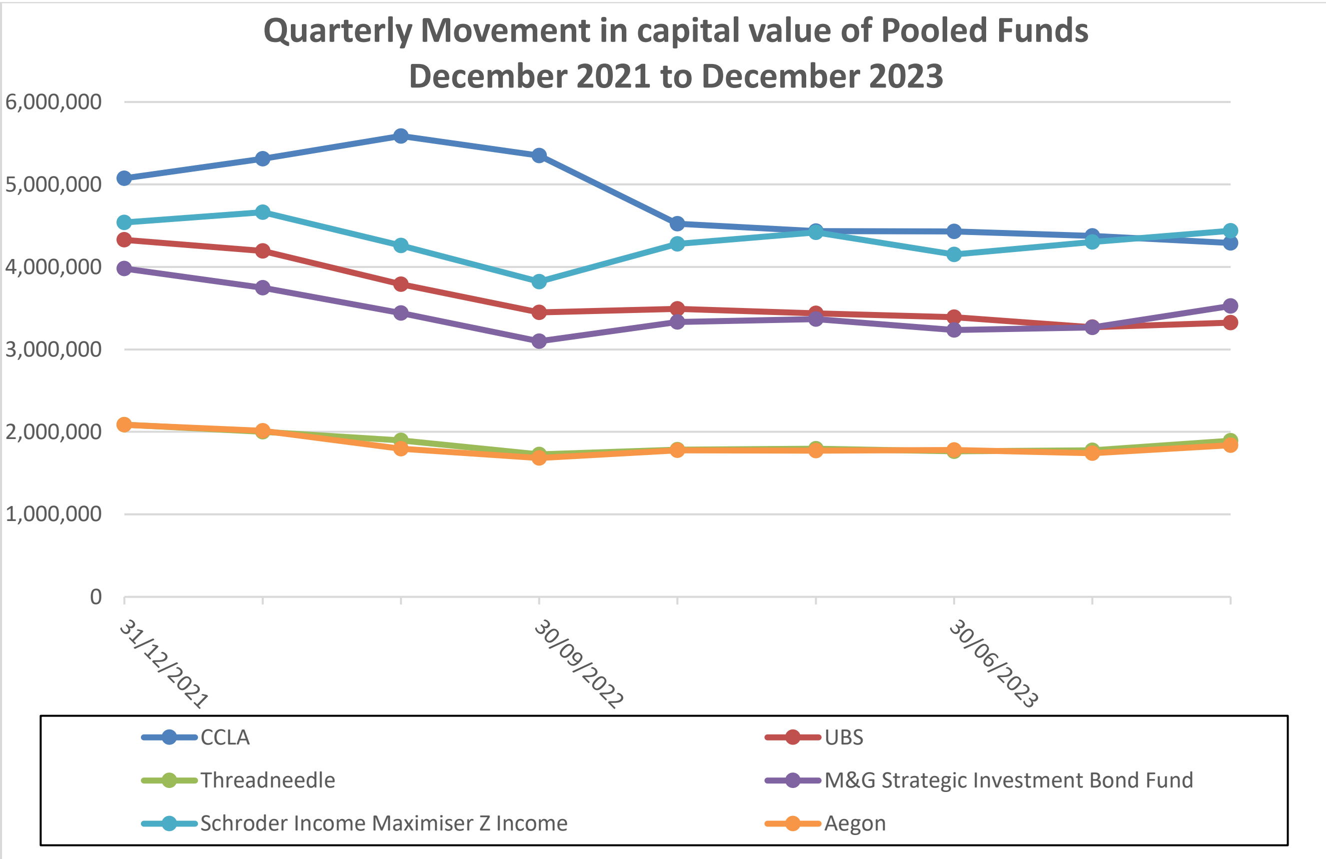
Pooled Funds performance			Capital Growth	Dividends Earned
Fund Name	Cost	Valuation 31/12	December 2022-December 2023	
Aegon (Kames)	2,000,000	1,831,496	59,277	111,720
CCLA – Lamit Property Fund	3,882,127	4,290,692	-231,756	214,410
M&G Strategic Corporate Bond Fund	4,000,000	3,5,32,770	199,179	158,448
Schroder Income Maximiser Fund	5,000,000	4,440,218	160,438	328,203
Threadneedle Strategic Bond Fund	2,000,000	1,887,682	102,490	76,532
UBS Multi Asset Income Fund	5,000,000	3,509,214	-30,407	225,205
	21,882,127	19,492,071	259,221	1,114,518

5.4 As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's long term investment objectives is being reviewed.

5.5 **Accounting Standard IFRS9 impact April 2025** – The statutory override for pooled funds in England – requires change in value of the original capital invested (i.e., current market price resulting in gains and losses) to be held as a value on the Balance Sheet until the fund is sold (i.e., when the gain or loss becomes real) – is set to end in 2025-26, i.e., the last year it will be in place will be 2024-25. Pooled funds are currently valued below their purchase price because of rising interest rates and the economic downturn, resulting in a loss that will be an unbudgeted cost to the General Fund (rather than held as a notional value on the balance sheet) in **2025-26**.

5.6 Currently the override ending is a risk. If the override does end, Pooled Funds will introduce significant volatility on the Councils revenue budget because the revenue account will be subject to movements in Pooled fund valuation each year. Immediate divestment will result in a real cost to the revenue account, the values are improving, and the best mitigation strategy will be to set aside a revenue reserve to cover a reasonable worst-case scenario of the cost that reflects the current unrealised loss and expected improvement through to March 2026. Using a probability-based modelling tool provided by Arlingclose, at a 90% confidence level, assuming 2% inflation and current level of dividend the table shows reserve provision requirement of £3.9m a reduction of £1m from the September reserve estimate of £4.9m.

5.8 There is variation in performance across the portfolio over the last two years as shown below.



5.9 **Income Returns** – The income returned by fund for the period to 31 December 2023 is analysed below:

- CCLA's Local Authorities' Mutual Investment Trust - £3.9 million investment at commencement of the year. The Property Fund is designed to achieve long-term capital growth and income from investments in the commercial property sector. The fund has returned 4.74% annualised income during 2023-24.

- UBS Multi-Asset Income Fund - £5 million investment. This fund follows a strategy of reducing volatility exposure levels by spreading investments across a diversified range of asset classes. This fund has returned 6.36% annualised income during 2023-24.

- Threadneedle Strategic Bond Fund - £2 million investment. The fund aims to provide income and capital appreciation through investment grade and high yield bonds. This fund has returned 4.29% annualised income during 2023-24

- M & G Corporate Bond Fund - £4m investment. This fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. This fund has returned 4.75% annualised income during 2020/221.

- Schroder Income Maximiser Fund - £5m investment made in December 2018. The fund aims to provide both income and capital growth, delivering a target income of 7.77% per annum. The fund has returned 7.67% annualised during 2023-24.

- Aegon Diversified Monthly Income Fund - £2m investment made in February 2019. The fund aims to provide income with the potential for capital growth over the medium term. The fund has returned 6.30% annualised during 2023-24.

6 TREASURY MANGEMENT COMPLIANCE PERFORMANCE

6.1 Detailed compliance with TMP's approved in February 2023 for 2023/24 financial year is provided in Appendix C.

APPENDIX B

NON-TREASURY INVESTMENT OPERATIONS FOR FIRST HALF OF 2023-24

1 INTRODUCTION

1.1 The purpose of non-treasury investment management operations is to ensure that all investment decisions are made with a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.

1.2 The Council holds £140.5m of such investments at as 31 December 2023 in:

- directly owned property £132.3m
- loans to local businesses and landlords £6.6m
- loans to subsidiaries and partnerships £1.5m

2 PROPORTIONALITY

2.1 The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the forecast proportion of gross service expenditure funded by investment activity.

	2022-23	2023-24	
	Actual £m	Budget £m	Forecast £m
Gross Service Expenditure	58.0	57.5	57.0
Investment Income	8.1	8.3	8.5
Proportion	14.0%	14.4%	14.9%

3 SERVICE IMPROVEMENT LOANS

3.1 The Council lends money to its subsidiaries, local businesses, and its employees to support local public services and stimulate local economic growth. The Council is a funding partner of Farnborough International Limited (FIL), enabling FIL to develop the Farnborough International exhibition and conference centre. Expanding the exhibition and conferencing capabilities in Farnborough brings increased economic capacity to the Borough and is a reinvestment in local business.

3.2 The Council's performance and upper limits on the outstanding loans to each category of borrower have been set as follows:

Category of Borrower	2023/24 Approved Limit £m	December 2023 Actual £m
Local businesses	6.7	6.6
Subsidiaries & Partnerships	3.5	1.5
Employees	0.1	0.0
Total	**10.3**	**8.2**

4 SERVICE INVESTMENTS: SHAREHOLDING IN SUBSIDIARIES

4.1 The Council invests in the shares of its subsidiary and holds a financial share in a development partnership and Rushmoor Homes to support local public services and stimulate local economic growth.

5 COMMERCIAL INVESTMENT: PROPERTY

5.1 The Council invests in local and regional commercial and residential property with the intention of making a net surplus that will be spent on local public services. The forecast transactions during 2023-24 will remain the same as at 31 December 2023.

During the year the Council purchased The Meads as part of its regeneration masterplan.

Property by Type	2023	2023/24 transactions		
	Carry Forward	Purchase Cost	Sales	Total
Mixed Use	5.2	-	-	4.5
Industrial Units	26.9	-	-	23.7
Retail	50.8	6.4	-	57.2
Offices	43.0	1.2	-	44.2
Total	**125.9**	**7.6**	**-**	**133.5**

6 NON-TREASURY INVESTMENT INDICATORS

6.1 The Council measures and manages its exposures to non-treasury investment risks using the following indicators.

6.2 **Total risk exposure:** This indicator shows the Council’s total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn.

Total Investment Exposure	31-Mar-2024	
	Estimate £m	Forecast £m
Treasury Management Investments	35.9	35.9
Service Investments: Loans	8.1	8.1
Service Investments: Shares	-	-
Commercial Investments: Property	133.5	133.5
Total Investment	**177.5**	**177.5**
Commitment to lend	2.9	-
Total Exposure	**180.4**	**177.50**

6.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure (internal borrowing).

	31-Mar-2023	
Investments funded by borrowing	Estimate £m	Actual £m
Service Investments: Loans	8.1	8.1
Commercial Investments: Property	133.5	133.5
Investment in Town Centres	30.5	26.9
Total Funded by Borrowing	**172.1**	**168.5**

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

Investments rate of return (net of all costs)	31-Mar-2023	
	Estimate %	Actual %
Treasury Management investment	4.0	3.6
Service Investments: Loans	5.5	5.9
Commercial Investments: Property	2.6	5.24

APPENDIX C

PRUDENTIAL INDICATORS

1.1 **Prudential Indicators:_**The following indications are required by the CIPFA "Prudential Code" 2017 edition.

1.2 **Estimates of Capital Expenditure:** The Council's planned capital expenditure and financing may be summarised as follows.

	2023-24	
	Budget £m	**Forecast £m**
General Fund Capital Expenditure	50.0	37.2
Total	**50.0**	**37.2**
External Sources	9.2	8.5
Own Resources	2.6	2.6
Debt	38.2	26.1
Total	**50.0**	**37.2**

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

	2023-24	
	Budget £m	**Forecast £m**
MRP	2.17	1.57
Capital Receipts	2.63	2.63

1.4 **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

	2023-24	
	Budget £m	Forecast £m
Debt (inc. leases)	172.1	162.0
Capital Financing Requirement	177.0	169.2
Difference	4.9	7.2

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

	2023-24	
	Budget Limit £m	Forecast Limit £m
Authorised Limit - total external debt	200.8	200.8
Operational Boundary - total external debt	195.8	195.8

1.6 Compliance with specific investment limits is demonstrated in the table below.

	31-Dec-23 Actual £m	2023-24 Limit £m	Complied?
Any group of pooled funds under the same management	21.9	25.0	Yes
Money Market Funds	24.7	25.0	Yes

2 TREASURY MANAGEMENT INDICATORS

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

2.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31-Dec-23 Actual	2023-24 Target	Complied?
Portfolio average credit rating	A+	A-	Yes

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each period without giving prior notice.

	31-Dec-23 Actual £m	2023-24 Target £m	Complied?
Total sum borrowed in past 3 months without prior notice	-	1.0	Yes

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

	31-Dec-23 Actual £m	2023-24 Limit £m	Complied?
Upper limit on one-year impact of a 1% **rise** in interest rates (on borrowing net of investments)	0.175	0.5	Yes
Upper limit on one-year impact of a 1% **fall** in interest rates (on borrowing net of investments)	0.175	0.5	Yes

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

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

2.7 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2023-24 £m	2022-23 £m	2021-22 £m
Actual principal invested beyond year end	21.9	21.9	21.9
Limit on principal invested beyond year end	90.0	90.0	90.0
Complied	Yes	Yes	Yes

Market commentary regarding the year 2023-24 from the Council's treasury management advisors Arlingclose

Economic background: UK inflation rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the CPI remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August was indeed the peak for Bank Rate.

Economic growth in the UK remained weak over the period, edging into recessionary territory. In calendar Q3 2023, the economy contracted by 0.1%, following no change in Q2. Monthly GDP data showed a 0.3% contraction in October, following a 0.2% rise in September. While other indicators have suggested a pickup in activity in the subsequent months, Q4 GDP growth is likely to continue the weak trend.

July data showed the unemployment rate increased to 4.2% (3mth/year) while the employment rate rose to 75.7%. Pay growth edged lower as the previous strong pay rates waned; total pay (including bonuses) growth was 7.2% over the three months to October 2023, while regular pay growth was 7.3%. Adjusting for inflation, pay growth in real terms were positive at 1.3% and 1.4% for total pay and regular pay, respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 3.9% (down from 4.6%) in November 2023. The largest downward contribution came from energy and food prices. The core rate also surprised on the downside, falling to 5.1% from 5.7%.

The Bank of England's Monetary Policy Committee held Bank Rate at 5.25% throughout the period, although a substantial minority continue to vote for a 25-basis point rate rise. The Bank continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.

Following the December MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, it is likely this will reverse at some point and spending will struggle. Higher rates will also impact exposed businesses; according to S&P/CIPS survey data, the UK manufacturing and construction sectors contracted during the quarter. The services sector recovered, however, with the PMI rising strongly in December, possibly due to improving consumer confidence.

The US Federal Reserve held its key interest rate at 5.25-5.50% over the period. While policymakers continued to talk up the risks to inflation and therefore interest rates, this stance ebbed over the quarter culminating in a relatively dovish outcome from the December FOMC meeting. The European Central Bank continues to resist market policy loosening expectations, but the Eurozone CPI rate has fallen sharply as GDP growth as markedly slowed, hitting 2.4% in November (although rising to 2.9% on energy-related base effects).

Financial markets: Financial market sentiment and bond yields remained volatile, but the latter rapidly trended downwards towards the end of 2023 on signs of sharply moderating inflation and economic growth.

Gilt yields fell towards the end of the period. The 10-year UK benchmark gilt yield rose from 4.57% to peak at 4.67% in October before dropping to 3.54% by the end of December 2023. The Sterling Overnight Rate (SONIA) averaged 5.19% over the period.

Credit review: Arlingclose maintained the advised maximum duration limit for all banks on its recommended counterparty list to 35 days over the period.

In October, Moody's revised the outlook on the UK's Aa3 sovereign rating to stable from negative. This led to similar rating actions on entities that include an element of government support in their own credit ratings, including banks and housing associations. Local authorities were, however, downgraded on expectations of lower government funding.

Following the issue of a Section 114 notice, in November Arlingclose advised against undertaking new lending to Nottingham City Council. After reducing its recommended duration on Warrington Borough Council to a maximum of 100 days in September, the local authority was subsequently suspended from the Arlingclose recommended list following a credit rating downgrade by Moody's to Baa1.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period. Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE | **EXECUTIVE HEAD OF FINANCE**

20 MARCH 2024 | **REPORT NO. FIN2403**

KEY DECISION? NO

ACCOUNTING POLICIES FOR THE YEAR 2023/24 AND 2024/25

SUMMARY AND RECOMMENDATIONS:

This report reviews the proposed accounting policies to be applied for the closure of the 2023/24 accounts and provides an update regarding the 2024/25 accounts. These are prepared in line with Chartered Institute of Public Finance Accountants (CIPFA) Code of Practice on Local Authority Accounting in the UK (the Code). Adopting the policies supports timely and robust production of a high-quality set of annual accounts. In addition, this report notifies members of the nature of updated disclosures required and reviews the internal level of materiality.

RECOMMENDATION:

(i) Corporate Governance, Audit and Standards Committee adopt the accounting policies including the amendment disclosed at Appendix 1 for closure of the 2023/24 accounts; and,

(ii) The Committee notes the updated disclosures and internal level of materiality to be included within the statement of accounts for 2023/24.

1. INTRODUCTION

1.1. Local authorities in the United Kingdom are required to prepare their accounts in compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is developed each year by CIPFA/LASAAC (Local Authority Scotland Accounts Advisory Committee) and has effect for financial years commencing on or after 1 April each year.

1.2. The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority.

1.3. As part of its Annual Statement of Accounts, the Council needs to disclose the accounting policies it has applied in the preparation of the Accounts.

1.4. The Corporate Governance, Audit and Standards committee is charged with responsibility for the oversight of financial reporting integrity and plays a pivotal role in helping to ensure that the critical accounting policies, judgments and estimates applied by management present a fair and accurate picture of the Council's financial position.

2. BACKGROUND

2.1. Annually the Finance team review the Accounting Policies in line with each new years CIPFA Code to ensure the current Accounting Policies are in line with the statutory requirements as set out.

2.2. During 2023/24 the Finance team have undertaken an in-depth review to ensure the policies are appropriate and provide the users of the accounts with a true and fair view of the Councils financial position.

2.3. The Accounting Policies enable the Committee to understand and evaluate the facts, economics and financial reporting requirements surrounding each critical accounting judgment and estimate and is sufficiently satisfied that management's accounting policies, judgements and estimates are fit for purpose.

3. CHANGES FOR 2023/24

Accounting Policies

3.1. The accounting policies have not changed compared to the policies applied for the previous financial year (2022/23), other than for the following reasons:

(a) Removed the PFI policy as not applicable
(b) Updated format as per the CIPFA Code guidance notes
(d) Date references relating to the financial year 2022/23 applicable to some of the accounting policies have been updated

The set of accounting policies applied for the year 2023/24 remain as per the previous financial year, and apart from changes disclosed at paragraph 3.1.

The final update will be vii. Employee Benefits in regard to the Local Government Pension Scheme discount rate which will be informed by the IAS19 Pensions report from the Pensions Actuary. This will be provided to the Council during the year end process.

These accounting policies do not depart from the provisions of the 2023/24 Code.

Materiality

3.2. The External Auditors for the Council, Ernst & Young, have set a financial materiality level for the 23/24 audit. This is £1.054m which equates to 75% of 1.8% of gross expenditure on provision of services.

3.3. Members should however note that the materiality can be reflection of nature as well financial value. Therefore, there can be materiality judgements which are usually particularly sensitive. These include:

(a) Transactions with related parties
(b) Sensitive matters, such as fraud and non-compliance with law
(c) Unusual or non-recurring transactions/balances.

The underlying guidance requires the accounts to give a 'true and fair' view of the financial position of the council for users of the accounts.

Disclosures

3.4. The Finance team have reviewed the statement of accounts for potential disclosure amendments against materiality for the Council to minimise unnecessary disclosures as per CIPFA code guidance to declutter the accounts. The preparations for 2023/24 accounts have commenced and disclosures will be reviewed against the previous years' disclosures in line with above stated level of materiality.

3.5. No additional requirements for disclosures are set out in the 2023/24 CIPFA Code.

4. CHANGES FOR 2024/25

4.1. Best practice is to agree the Accounting Policies for the upcoming year ahead of year end. The 2024/25 CIPFA Code has not yet been published, however there are some known changes for 2024/25.

4.2. The major change for the 2024/25 Statements will be the implementation of the accounting standard IFRS16 regarding lease accounting. This will require the Council to begin to include leased assets in the asset register as a 'right of use asset', and a lease liability. This will therefore impact on the Balance Sheet, asset charges to revenue, the Cashflow Statement and the prudential indicators as reported in the Treasury Management Strategy. It will also require additional disclosures in the notes to the accounts.

4.3. Other changes anticipated to impact the Councils statements include;

- changes to the narrative report around additional requirements on performance;
- removal of statutory overrides regarding fair valuation gains and losses on pooled investments which currently remove the direct impact of gains and losses on the General Fund.

4.4. To ensure appropriate consideration of these changes and the necessary changes to the Accounting Policies for 2024/25, it is proposed to present the 2024/25 Accounting Policies later in the year, once the CIPFA Code 2024/25 has been published, to give officers sufficient time to consider the changes in full.

5. IMPLICATIONS (of proposed course of action)

Risks

5.1. There is a risk that if the accounts are non-compliant with statutory regulations, the Council's Statement of Accounts will receive material recommendations, and may not be signed off by the Councils external auditors in line with statutory deadlines. This will have reputational risk and require additional resources to rectify issues as appropriate.

Legal Implications

5.2. The Council has a duty to provide accurate and appropriate accounts. In compiling these it has a duty to comply with relevant guidance and standards. Whilst the changes have no direct legal impacts, they support appropriate oversight of the Council's financial health.

Financial and Resource Implications

5.3. The accounts will be completed within current agreed budgets and staffing resource.

Equalities Impact Implications

5.4. There are no direct implications in this report.

Other

5.5. There are no direct implications in this report.

6. CONCLUSIONS

6.1. This report states the changes to the accounting policies, informs members of additional/amended disclosures and the level of internal materiality to be applied in the Annual Statement of Accounts for 2023/24.

6.2. An approved set of accounting policies enable the Finance team to complete the Annual Statement of Accounts with considered rules and assumptions and provide clarity to the readers of the Accounts as to how they have been prepared.

LIST OF APPENDICES/ANNEXES:
Accounting Policies – Draft 2023/24

BACKGROUND DOCUMENTS:
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2023/24

CIPFA Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes For 2023/24 Accounts

CONTACT DETAILS:

Report Author – Rosie Plaistowe-Melham, rosie.plaistowe@rushmoor.gov.uk
Head of Service – Peter Vickers, peter.vickers@rushmoor.gov.uk

This page is intentionally left blank

Note 1 - Accounting Policies

i. General Principles

The statements of account summarise the authority'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 by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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.

ii. 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 in 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 is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- 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 in financing and investment income and expenditure for the income that might not be collected.

iii. 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 no more than one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates & Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless not material or stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. Charges to Revenue for Non-Current Assets

Services and support services 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 fixed assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance (England and Wales) or the statutory repayment of loans fund advances. Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by the contribution in the General Fund balance MRP or the statutory repayment of loans fund advances, by way of an adjusting transaction with the capital adjustment account in the Movement in Reserves Statement for the difference between the two.

vi. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e., the collection fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the collection fund, billing authorities, major preceptors and central government (for NDR) share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR:

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the authority’s share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority’s General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the collection fund adjustment account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority’s share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

vii. Employee Benefits

Benefits Payable during Employment:

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g., cars) for current employees and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g., time off in lieu) earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements 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 authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority 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 authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits:

Employees of the authority are members of one pension scheme:
- the Local Government Pensions Scheme, administered by Hampshire County Council.

This scheme provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the authority.

The Local Government Pension Scheme:

The Local Government Scheme is accounted for as a defined benefits scheme:
- The liabilities of the Hampshire County Council's pension fund attributable to the authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e., an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of X.X% based on the indicative rate of return on high quality corporate bond.
- The assets of Hampshire County Council's pension fund attributable to the authority are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

The change in the net pension liability is analysed into the following components:

Service cost comprising:
- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement
- net interest on the net defined benefit liability (asset), i.e., net interest expense for the 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.

Remeasurements comprising:

- the 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 events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the Hampshire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the 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.

Discretionary Benefits:

The authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After the Balance Sheet Date

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;
- 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.

ix. Financial Instruments

Financial Liabilities:

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) 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 the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

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. The authority holds financial assets measured at:

- Amortised cost,
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e., where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost:

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority 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 CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest), and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the authority has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the financing and investment income and expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund balance is managed by a transfer to or from the financial instrument adjustment account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of a financial asset are credited or debited to the financing and investment income and expenditure line in the CIES.

Expected Credit Loss Model:

The Council recognises expected credit loss on all its financial assets held at amortised cost or FVOCI, 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 Council.

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.

Financial Assets Measured at Fair Value through Comprehensive Income:

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

Financial Assets Measured at Fair Value through Profit and Loss:

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised in the Surplus or Deficit on the Provision of Services.

Fair Value Measurements of Financial Assets:

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the authority's financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement data.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES and are balanced by entries in the Pooled Investment Fund Adjustment Account (PIFAA).

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income and expenditure (non-ringfenced 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 reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

xi. Heritage Assets

The Council's heritage assets largely comprise items of civic regalia as well as a memorial and a statue. They are all held in support of their primary objective of contributing to knowledge and culture 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 authority's accounting policies on property, plant and equipment.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

The Council does not have any internally generated intangible assets. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at cost less accumulated depreciation and any accumulated impairment loss. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

xiii. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

xiv. Long-term contracts

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

xv. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

xvi. Jointly Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

xvii. 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 authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the capital adjustment account in the Movement in Reserves Statement for the difference between the two.

Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to 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 (eg there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

The Council has no Finance Leases where the Council is Lessor.

Operating Leases

Where the authority 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 or where this is initiated by a service to the individual service, even if this does not match the pattern of payments (eg 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.

xviii. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

xix. 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.

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. 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.

Measurement:

Assets are initially measured at cost, comprising:

- 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 authority does not capitalise borrowing costs incurred while assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e., it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income and expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance to the capital adjustment account in the Movement in Reserves Statement.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:
- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Impairment:

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:
- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation:

Depreciation is provided for on all material Property, Plant and Equipment 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).

Depreciation is calculated on the following bases:
- dwellings and other buildings – straight-line allocation over the remaining useful life of the property as estimated by the valuer
- vehicles, plant and equipment – straight-line allocation over the remaining useful life of the asset.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale:

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e., netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.
A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the capital receipts reserve and can then only be used for new capital investment or set aside to reduce the authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the General Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed 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.

xx. Provisions, Contingent Liabilities and Assets

Provisions:

Provisions are made where an event has taken place on or before the Balance Sheet date:
- that gives the authority a present obligation
- that probably requires settlement by a transfer of economic benefits or service potential, and
- where a reliable estimate can be made of the amount of the obligation.

If it is not clear whether an event has taken place on or before the Balance Sheet date, it is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the Balance Sheet date. The present obligation can be legal or constructive.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the authority has an obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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 authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority 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 authority. 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 with sufficient reliability.

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 authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxi. 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 to score against the Surplus or Deficit on the Provision of Services in the CIES. 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, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant notes.

xxii. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES 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.

xxiii. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

xxiv. Fair value measurement of non-financial assets

The authority's accounting policy for fair value measurement of financial assets is set out in note ix. The authority also measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either:

a) in the principal market for the asset, or

b) in the absence of a principal market, in the most advantageous market for the asset.

The authority measures the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority 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 authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 – unobservable inputs for the asset.

This page is intentionally left blank

CORPORATE GOVERNANCE
AUDIT AND STANDARDS COMMITTEE

AUDIT MANAGER
REPORT NO. AUD 24/02

20TH MARCH 2024

INTERNAL AUDIT – AUDIT UPDATE

SUMMARY:
This report describes:

- A progress update on the 2023/24 Audit Plan.

RECOMMENDATION:
Members are requested to:

i. Note the audit work completed.
ii. Note the update to the deliverables for Quarters 4.

1 Introduction

1.1 This report is to provide Members with:

- An overview of the work completed towards the 2023/24 audit plan;
- A progress update on the 2023/24 Audit Plan; and
- A schedule of work to be delivered in Q4.

2 Audit Work Completed

2.1 The Southern Internal Audit Partnership have now been selected to assist the Council with the delivery of the annual audit plan from 24/25 onwards, which will provide the Council with greater resilience.

2.2 The table below provides an overview of the assurance opinion, given to the completed audits since the last update:

Audit Title	Assurance Opinion	Recommendations by Priority		
		High	Medium	Low
2023/24 Internal Audit Plan				
Serco	Substantial	0	3	2
Health and Safety of Council Buildings	Substantial	0	7	1

2.3 Below is a summary of the key findings from the audits.

Serco

The Authority entered into a contract with Serco for the provision of waste, recycling, street cleaning, public convivences, open spaces and grounds maintenance of open spaces in 2017. This is a long-term contract currently scheduled to run until 2027 with an option to extend for a further 10 years.
The performance of the supplier is monitored at an operational level on a monthly basis with additional partnership meetings held quarterly. The information available from Serco and other sources allow the service to adequately monitor the supplier's performance.

The nature of the contractual arrangements means that the Authority generate their own charges and send them to Serco. Testing found that the Authority are not able to reproduce an exact break down of previously raised invoices, therefore should the charges be challenged, they would not be able to fully justify the charges levied. In addition, the invoice process is inefficient, needing to be completed at evenings and weekends due to overloading the system.

Non routine works are raised via a suitably controlled process and raised on a monthly basis. Sample testing in this area found that the jobs were justified and being charged correctly. Inflationary changes to the contractual costs were found to be applied correctly from the outset of the contract. Similarly, the guaranteed minimum income provision within the contract has been correctly applied.

Health and Safety of Council Buildings

The Council hold health and safety responsibilities for 30 properties. These responsibilities include but are not limited to, the completion of Fire Risk Assessments, Electrical Instillation Condition Reports, Gas Safety Check, Legionella risk assessments, Lift Servicing, Building Condition Surveys and appropriately restricting building access.

Completion of statutory assessment and remedial actions raised is good with the opportunity to slightly increase monitoring of works raised to ensure all are completed in a timely manner.

The council are currently in contract with Temple Lifts who provide 2 monthly lift servicing which is not a statutory requirement and is not necessary.

Additionally, sufficient monitoring of inactive ID access cards is not currently in place.

3 Progress towards the 2023/24 Audit Plan

3.1 An audit on InTune mobile device management was scheduled within the 23/24 audit plan. However, an external company have provided a level assurance on this area as part of the Council's annual PSN certification work. Therefore, the audit has been removed from the audit plan as the internal work would have duplicated this work. This does not impact on the level assurance that can be provided within the audit opinion as the assurance from the external company can be utilised.

3.2 The table below provides a summary of progress to date (03/03/24):

Audit/ Audit follow up status	Number of reviews	%
Finalised	5	31
Draft report	3	19
In progress	7	44
Audits removed	1	6
	16	**100**
Audits to be started	0	0
Total	**16**	**100**

NB: The figures within the table include 1 audit carried forward from the 2022/23 audit plan.

4. Expected Deliverables for Q4 2023/24

4.1 The work expected to be delivered in quarter 4 is detailed within the table below. These audits can be subject to change due to the evolving auditing environment. Updates on these will be provide at the next committee meeting:

Service	Audit/ follow up/descriptor
ELT	**CREP** – C/f from 2022/23
Finance	**CIPFA financial code** - To review the Council's compliance towards the CIPFA financial code.
ELT	**Rushmoor Homes Limited** - Review the processes in place for RBC involvement with RHL including the process for drawing down funding.
Democracy	**Elections** - Review of process and system changes and data security.
IT	**Cloud CRM** - A review of the implementation of the Council's cloud-based CRM system.
Operations	**Parking** – Post transfer review of processes
People	**Payroll** - Key financial system reviewed on a 3-year cycle.
Regenerations/ Property & Growth	**Capital Programme – Meads** - A review of the acquisition of the Meads.
ACE	**Homes for Ukraine fund** - A review of the processes for the Homes for Ukraine funding.
ACE/ Finance/ Property & Growth – Lead auditee ACE	**Financial Assistance to Organisations** - Review of the ongoing grants given to organisations and the performance measures in place.

5. Recommendation

5.1 Members are requested to note the information provided within the report in relation to the progress of Audit work to date towards the 2023/24 audit plan, and the expected deliverables for Q4.

AUTHOR: Nikki Fleming, Service Manager - Audit
07867 377484

nikki.fleming@rushmoor.gov.uk

HEAD OF SERVICE: Peter Vickers, Executive Head of Financial Services and S151 Officer

References: *Internal Audit – Audit Plan 2023/24*, presented to the Committee on 27 March 2023.
Agenda for Corporate Governance, Audit and Standards Committee on Monday, 27th March, 2023, 7.00 pm - Rushmoor Borough Council

CORPORATE GOVERNANCE
AUDIT AND STANDARDS COMMITTEE

AUDIT MANAGER
REPORT NO. AUD 24/03

20TH MARCH 2024

INTERNAL AUDIT – AUDIT PLAN

SUMMARY:
This report is to set out the annual Audit Plan for 2024/25.

RECOMMENDATIONS:
Members are required to:

- Approve the annual Audit Plan, which will be monitored and updated on a rolling basis and progress reported to this Committee.

1 Introduction

1.1 The Audit Plan is produced annually to provide a framework for the use of Audit resources. To ensure that resources are focused on activities that will enable the Audit Manager to provide the Council with an overall assurance level on the Council's governance, risk management and internal control (GRC) environment.

2 Purpose of Internal Audit

2.1 The role of internal audit is defined within the Public Sector Internal Audit Standards (PSIAS), as an:

> *'independent, objective assurance and consulting activity designed to add value and improve an organisations 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'.*

2.2 Internal Audit provides the Council with assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working with consulting activities available to help to improve those systems and processes where necessary.

3 Methodology for compiling audit coverage

Audit Risk Universe and Criteria

3.1 The Audit Risk Universe has been updated to show auditable areas as at January 2024. This will be reviewed as appropriate throughout the year.

3.2 The Audit risk criteria has been developed to ensure it captures all relevant areas to be considered in determining the level of risk exposure within an auditable area. The Council Plan, the Corporate Risk Register and the details within the Annual Governance Statement are also taken into account when developing the Audit Plan.

3.3 The Audit risk criteria includes the following areas:

- **Corporate Priority**
  This looks at the Council's Plan and assesses to what level the auditable area contributes to the Plan. This is included so that areas of high corporate priority are considered more highly than areas of low corporate importance, which are not deemed to risk the Council achieving its overall objectives.

- **Impact on reputation**
  This looks at the potential impact on the Council's reputation if a risk within the auditable area was to transpire. This is included so that areas of high reputational impact are considered more highly for a review to ensure that the reputation of the Council is maintained.

- **Assurance from others**
  This considers whether another body either externally, e.g., External Audit, or internally have reviewed the area. This is included so that if assurance can be provided by others, then Internal Audit would not need to also review the same area.

- **Concerns raised**
  This looks at any concerns, raised by Senior Management or employees, any previous frauds identified, and any previous poor controls identified by Internal Audit. This is included as if concerns are raised then this could highlight control weaknesses impacting on the Council in various ways.

- **Laws or Regulations**
  This looks at if the auditable area is enshrined by Laws or Regulations or not. A requirement for high levels of compliance with Laws and Regulations will result in a higher risk to the Council if these are not adhered to.

- **Financial transactions total**
  This looks at the financial value of transactions in the auditable area, as the higher the value of the transactions the more risk of financial loss to the Council. This also looks at the number of transactions, as a small financial value but high frequency of transactions opens the auditable area up to a bigger risk of fraud and error.

- **Vulnerability**
  This looks at whether the area is completely new to the Council or not or if it's a constantly evolving area, e.g., IT. New and evolving areas will present a higher vulnerability than an area that has not changed. This should also be reflected in the Service Risk Registers and, if significant, then the Corporate Risk Register.

Input from Heads of Service/ Directors

3.4 Heads of Service were consulted on the areas, which were high risk on the audit universe and highlighted any potential areas of concern within their service which they felt would require further assurance in the year.

Developing the Audit Plan

3.5 Internal Audit reviews key financial systems on a 3-year rolling basis adjusted for any significant system developments or identified weaknesses. Additionally, all other areas of coverage are based on various risk factors developed by Internal Audit described in section 3.3 of this report and input from ELT and Heads of Service.

3.6 The first six months of work will be established based on the auditable areas with a view to risk, suitability of timing and availability of audit resource. This will be agreed with ELT and the Corporate Governance, Audit and Standards (CGAS) Committee. The work for the following quarters will be established at subsequent ELT and CGAS Committee meetings, as laid out in Table 1 below. This will allow Internal Audit to react more effectively to the needs of the Council when required throughout the year providing a more agile plan to meet changes in the auditable environment.

Communication and monitoring of the Plan

Table 1

Date	**Meeting**	**Report**	**Details**
4 March 2024	CGG	Internal Audit Plan	• Present the audit plan for 2024/25 • Set the work for quarter 1 & quarter 2 (subject to change if required for the needs of the organisation.)
12 March 2024	ELT		
20 March 2024	CGAS Committee	Audit Update	• Report on the work carried out to date.
29 April 2024	CGG	Internal Audit Assurance Opinion	• Present the audit opinion for 2023/24 • Present compliance towards the PSIAS and plan of work towards the standards in 2024/25.
7 May 2024	ELT		
23 May 2024	CGAS Committee	Year-end update report	• An overview of the work completed in 2023/24. Including

		Annual Governance Statement (AGS) and The Local Code of Corporate Governance	an update on audits not reported in March. • Present the AGS and update to the Local Code of Corporate Governance
2 September 2024	CGG	Internal Audit update	• Report on the work carried out to date. • Report any changes required to the plan. • Set the work for quarter 3.
10 September 2024	ELT		
25 September 2024	CGAS Committee		
11 November 2024	CGG	AGS update on actions Update on outstanding audit recommendations	• Report on the work carried out to date towards the actions defined within the AGS • Report on the implementation of audit recommendations to date.
19 November 2024	ELT		
27 November 2024	CGAS Committee		
6 January 2025	CGG	Internal Audit update	• Report on the work carried out to date. • Report any changes required to the audit plan. • Set the work for quarter 4.
14 January 2025	ELT		
29 January 2025	CGAS Committee		
10 March 2025	CGG	Internal Audit Plan Internal Audit update	• Present the audit plan for 2025/26 • Set the work for quarter 1 & quarter 2 (subject to change if required for the needs of the organisation.) • Report on the work carried out to date.
18 March 2025	ELT		
2 April 2025	CGAS Committee		

4 Resources

4.1 Due to being unsuccessful at recruiting to the two vacant Audit and Investigation posts, a further review has been carried out. To enable a more stable resource availability, the delivery of the internal audit plan will be carried out by contract auditors on a 5-year agreement. The work will be carried out by the Southern Internal Audit Partnership (SIAP).

5 2024/25 Audit Plan

5.1 The first six months’ work, as set out in Appendix A, has been selected from the higher risk areas. The list of audits is subject to review due to the changing needs of the organisation or services availability. An update will be provided at the Committee meeting in September.

AUTHOR: Nikki Fleming, Service Manager - Audit
01252 398810
nikki.fleming@rushmoor.gov.uk

HEAD OF SERVICE: Peter Vickers, Executive Head of Finance and S151 Officer
01252 398440
peter.vickers@rushmoor.gov.uk

Table of Audit expected deliverables for 2024/25

Service	Audit	Scope indication*
Property & Growth	Building Control	A review of the implementation of the new building control requirements.
Operations	Disabled Facilities Grants	To review the DFG process
ELT – Agree scope with Finance as Lead	Capital Programme	To review the capital programme process
Operations	Princes Hall	To review the financial processes in place.
Finance	Effectiveness of financial rules and processes & compliance with financial regulations	To review the effectiveness of processes in place and compliance.
Democracy	Elections	To review the implementation of the new election's legislation and data security.
ACE	Local Authority Housing Fund	To review the spending of the fund to ensure in line with requirements.
Finance	NNDR Billing, Collection & Recovery	Key financial system reviewed on a 3-year cycle.
Finance	Sales Ledger	Key financial system reviewed on a 3-year cycle.
Finance	FMS & Bank Reconciliation	Key financial system reviewed on a 3-year cycle.
Regeneration	Union Yard	A review of the Union yard project.
IT	Pay 360	To review the implementation of the upgraded pay 360 system.
Property & Growth	Biodiversity	To review the implementation of the mandatory Biodiversity net gain requirement.
Various	Follow up of all recommendations made.	Review the status of recommendations made in previous audits.

*** This is just the potential scope of the audit which can be subject to change as the scope is agreed with the auditee prior to the audit commencing.**

Consultancy

Planned consultancy will be provided in the following areas to assist with ensuring controls/ processes suggested appear to be appropriate:

- UK Shared Prosperity Fund
- Disposals Process