

Public Document Pack



RUSHMOOR BOROUGH COUNCIL

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

*at the Council Offices, Farnborough on
Wednesday, 29th January, 2025 at 7.00 pm*

To:

Cllr A.H. Crawford (Chairman)
Cllr Bill O'Donovan (Vice-Chairman)

Cllr A. Adeola
Cllr Gaynor Austin
Cllr C.W. Card
Cllr Rhian Jones
Cllr M.J. Roberts
Cllr M.D. Smith
Cllr Sarah Spall
Cllr P.G. Taylor
Cllr Jacqui Vosper

Non-Voting Member:

Mr. Tom Davies – Independent Member (Audit)

Standing Deputies:

Cllr Leola Card, Cllr Lisa Greenway, Cllr Julie Hall, Cllr S.J. Masterson, Cllr T.W. Mitchell, Cllr M.J Tennant

Enquiries regarding this agenda should be referred to the Committee Administrator,
Lucy Bingham, Democratic Services, Tel. (01252 398128) or email
lucy.bingham@rushmoor.gov.uk.

A G E N D A

1. **MINUTES – (Pages 1 - 6)**

To confirm the Minutes of the Meeting held on 21st November, 2024 (copy attached).

2. **PAY POLICY STATEMENT, GENDER PAY GAP AND ETHNICITY PAY GAP REPORT – (Pages 7 - 22)**

To consider the Corporate Manager People's Report No. PEO2501 (copy attached), which seeks approval for the Pay Policy Statement for 2025/26 for recommendation to full Council and to note the Gender Pay Gap and Ethnicity Pay Gap Report.

3. **CONTRACT STANDING ORDERS - UPDATES – (Pages 23 - 66)**

To consider the Assistant Chief Executive's Report No. ACE2504 (copy attached), which sets out updates to Contract Standing Orders.

4. **ANNUAL CAPITAL STRATEGY 2025/26 – (Pages 67 - 80)**

To consider the Executive Head of Finance's Report (copy attached), which seeks approval of the Council's Annual Capital Strategy for the year 2025/26, for recommendation to full Council in February 2025.

5. **QUARTERLY REPORT OF TREASURY PRUDENTIAL INDICATORS (Q3) – (Pages 81 - 98)**

To consider the Executive Head of Finance's Report No. FIN2423 (copy attached), which sets out the activities of the Treasury Management and Non-Treasury Management Investment Operations for Quarter 3, 2024/25, and reports on compliance with Prudential Indicators, for recommendation to full Council in February 2025.

5a. **ANNUAL TREASURY MANAGEMENT AND NON TREASURY MANAGEMENT STRATEGY 2025/26 - (Pages 99 – 138)**

To consider the Executive Head of Finance's Report No. FIN2504 (copy attached), which seeks approval of the Annual Treasury Management and Annual Non-Treasury Management Strategy 2025/26.

6. **ANNUAL STATEMENT OF ACCOUNTS/EXTERNAL AUDIT OPINION - UPDATE – (Pages 139 - 250)**

To receive the Executive Head of Finance's Report No. FIN2422 (copy attached), which sets out the Annual Statement of Accounts and the External Audit Opinion (copy attached).

7. **INTERNAL AUDIT - AUDIT UPDATE – (Pages 251 - 258)**

To receive the Audit Manager's Report No. AUD25/01 (copy attached), which sets out an update on audit work completed to date and progress against the audit plan.

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.

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CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

Meeting held on Thursday, 21st November, 2024 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr A.H. Crawford (Chairman)
Cllr Bill O'Donovan (Vice-Chairman)

Cllr A. Adeola
Cllr Gaynor Austin
Cllr Rhian Jones
Cllr M.J. Roberts
Cllr M.D. Smith
Cllr Sarah Spall
Cllr Jacqui Vosper

Apologies for absence were submitted on behalf of Cllrs Craig Card and P. G. Taylor.

Non-Voting Member

Mr. Tom Davies (ex officio) watched proceedings virtually.

20. MINUTES

The minutes of the meeting held on 25th September 2024 were agreed and signed as a correct record of the proceedings.

21. EY AUDIT/STATEMENT OF ACCOUNTS UPDATE

The Chairman welcomed Simon Mathers, Director and Kalthiemah Abrahams, Audit Manager, from the Council's external auditors, Ernst and Young (EY), who joined the meeting remotely via Microsoft Teams.

The Committee received the Executive Head of Finance's Report No. FIN2418 which set out the latest position on the local audit delay backstop, and with recommendations to approve the outstanding years financial statements – 2020/21, 2021/22 and 2022/23.

The Committee was advised that three years of statutory annual accounts (as set out in Appendices 1-3 in the Report) needed to be disclaimed, to deal with the national backlog issues in local government audit as previously reported. The process of publishing the accounts, was to have the accounts open for public viewing for a statutory period of 20 days. Two of the sets of accounts, had not been held open for 20 days due to a Bank Holiday not being accounted for. The accounts therefore

needed to be republished with the public scrutiny period to end on the 13th December 2024.

Mr Mathers shared the draft Audit Completion Report from EY, reporting on the limited procedures that they needed to undertake to be able disclaim the historic audits for 2020/21, 2021/22 and 2022/23. The Committee needed to provide EY with letters of management representation for the accounts, with separate letters for each of the three open audit years.

The Executive Head of Finance also advised that the Council had been liaising with EY to arrange the external audit for the 2023/24 accounts. It was noted that the Statement of Accounts Audit for the 2023/24 Financial Year was on track and completion was expected in January 2025.

RESOLVED: That:

- (i) approval of the Statement of Accounts for 2020/21, 2021/22 and 2022/23 be delegated to the Chair of the Corporate Governance Standards and Audit Committee and the S151 Officer;
- (ii) the signing of the Letter of Representation for 2020/21, 2021/22 and 2022/23 be delegated to the Chair of the Corporate Governance, Standards and Audit Committee and the S151 Officer;
- (iii) the accounts be confirmed as having been prepared on a going concern basis;
- (iv) the Auditors Completion Report be noted; and
- (v) the Auditors Value for Money report be noted.

22. PROPOSALS FOR INTERNAL AUDIT

The Committee received the Executive Head of Finance's Report No. FIN2420 setting out proposals to use an external provider, Southern Internal Audit Partnership (SIAP) which was part of Hampshire County Council, to deliver the Council's full internal audit service.

The Committee heard from SIAP's Neil Pitman, who explained that they would act in partnership with the Council. The Council's S151 Officer would also sit on the Partnership Board. The benefits of using SIAP to undertake the work included increased independence from Council staff, increased resilience, a wider skill base including IT and systems expertise, as well as wider experience of other council's processes and procedures.

In response to a question about the effect of the current financial challenges faced by Hampshire County Council and how this could impact on the service provided, it was noted that an inter-authority arrangement with one of the region's largest providers of public sector internal audit would mean improved service resilience with adequate capacity and capability to enable strong internal audit.

RESOLVED: That the proposal to contract the Chief Internal Audit function to SIAP be agreed by the Committee.

23. **PROPOSALS FOR COUNCIL INSURANCE**

The Committee received the Executive Head of Finance's Report No. FIN2419 which set out options for the renewal of the Council's insurance. Neil Walker from London Borough of Sutton Insurance was in attendance to provide information on the self-insurance model.

The Committee heard from the Executive Head of Finance, Peter Vickers, that the Council's insurance contractual arrangements were due to expire on 31st March 2025. The Cabinet had previously considered Report No. FIN2414, which set out a proposal in relation to the process by which the Council would procure its insurance services in the future. The Cabinet had subsequently expressed support for the London Borough of Sutton (LBS) approach being progressed.

The Committee heard from Neil Walker and Emma Cotton from the LBS. It was noted that the Council would have increased policy cover and with jointly purchased insurance through a consortium of 9 other London Boroughs would afford significant purchasing power to achieve economies of scale and insurance premium stability well beyond the ability of individual councils to manage premiums through increased excess. LBS would put the council's insurance information out to tender or auto renewal and update information yearly. They would also give advice on events and contracts, as well as providing claims handling for the Council using an in-house dedicated team.

RESOLVED: That the Executive Head of Finance's Report No. FIN2419 be noted and the suitability of the London Borough of Sutton's insurance proposal to satisfy the Council's insurance requirements be confirmed.

24. **TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2024/25 QUARTERLY REPORT**

The Committee received the Executive Head of Finance Report No. FIN2417, which set out the main activities of the Treasury Management and Non-Treasury Investment Operations during Quarter 2 of the 2023/24 financial year. This was a statutory requirement under the CIPFA Code of Practice on Treasury Management.

The Committee was advised that all treasury activity had been conducted within the approved Treasury Management Practices. The majority of borrowing was short-term and would remain so until the Public Works Loan Board (PWLB) interest rate reduced to a level which would enable longer term affordable borrowing to be secured. The Committee noted that the Council had borrowed substantial sums of money and was therefore exposed to financial risks which included the loss of invested funds and the revenue effect of changing interest rates. The Authority's Treasury Management Strategy included the successful identification, monitoring and control of risks.

During discussion, Members raised questions regarding redeeming pooled funds. Pooled funds were being monitored monthly and consideration would be given to redeeming them as appropriate.

RESOLVED: That the Executive Head of Finance's report No. FIN2417 be noted.

25. **ANNUAL GOVERNANCE STATEMENT UPDATE**

The Committee received the Audit Manager's Report No. AUD24/08, which gave details of work carried out towards the implementation of the actions identified within the Annual Governance Statement, which had been considered by the Committee in May 2024.

The Committee heard that the new MS List System to support responses to Freedom of Information requests was fully functioning by July 2024.

It was noted that the Council had commissioned a review of some elements of its Committee and Governance arrangements as a result of the Corporate Peer Challenge and the Chartered Institute of Public Finance and Accountancy (CIPFA) Report. The findings of the review would be considered by the Committee in January 2025 with any agreed changes commencing in May 2025.

The Financial Resilience Plan had been agreed and was regularly reviewed by the Executive Leadership Team (ELT). The self-assessment against the CIPFA Financial Management Code was still to be carried out. It did, in part, form the wider review being carried out around Governance and the Financial Resilience Plan. The self-assessment had been reviewed with two high-priority actions being brought for review by ELT and the Corporate Governance Group.

The Committee noted that there had been a delay in the self-assessment against the CIPFA Financial Management Code due to higher priorities within the Finance Team taking precedence. It was advised that some areas of the self-assessment would be incorporated into the work of the wider service. The Financial Management Code reviewed all aspects of Governance, not only Finance.

RESOLVED: That the Audit Manager's Report No. AUD24/08 including the progress towards the implementation of the actions detailed within the Council's Annual Governance Statement be noted.

26. **INTERNAL AUDIT - OUTSTANDING AUDIT RECOMMENDATIONS UPDATE**

The Committee received the Audit Manager's Report No. AUD24/09, which provided an update on the approach taken to review outstanding audit recommendations (prior to 2022/23), given the changes since the recommendations were originally made and showed all outstanding recommendations to date.

The Committee noted that a review of all outstanding audit recommendations had been carried out to re-evaluate them given the evolution of processes and changes over time. The review ensured that resources were specifically utilised on improving areas of risk, governance and control weaknesses which would be most effective

given the current environment. This approach had been taken for the 2019/20, 2020/21 and 2021/22 outstanding audits. The Report set out the changes that were being proposed and the outstanding audit recommendations which would continue to be pursued with progress on their implementation communicated quarterly to the Committee for monitoring.

During discussion, Members raised questions regarding procurement cards and cyber-security.

RESOLVED: That:

- (i) the changes made to recommendations being pursued for implementation to ensure the most effective use of Council resources to improve the overall governance, risk management and control environment be noted:
- (ii) an updated report on cyber-security be presented at the next Committee Meeting;
- (iii) a schedule setting out the target dates for completing the outstanding audit recommendations be prepared for the next update report.
- (iv) the overall audit recommendation which remained outstanding, be noted.

27. **UPDATE ON GOVERNANCE REVIEW ACTIONS**

The Committee received a verbal update from Executive Director, Ian Harrison, regarding the Committee Structure Review being led by Ed Hammond from the Centre for Governance and Scrutiny (CfGS).

The Committee noted that the Review had begun with Mr Hammond inviting Members to join an online workshop with many of the Members of the CGAS Committee in attendance. He had a number of interviews scheduled with individual Members, senior officers, chairs and vice-chairs of committees and any Members who wished to discuss Governance with him, were invited to speak to him personally, on Microsoft Teams or by e-mail, which was to be arranged through Mr Harrison.

Following the Interview and Discovery Stage, which would conclude at the end of December, Mr Hammond would submit a draft report of findings in early January. The CGAS Committee would have significant input into the draft proposals of how to strengthen governance at the Council.

RESOLVED: That the update on the Governance Review be noted.

The meeting closed at 8.52 pm.

CLLR A.H. CRAWFORD (CHAIRMAN)

**PAY POLICY STATEMENT, GENDER PAY GAP AND ETHNICITY PAY GAP
REPORT**

SUMMARY AND RECOMMENDATIONS:

SUMMARY:

Under the Localism Act 2011, the Council is required to consider and approve a pay policy statement for the financial year. The statement requires a recommendation to Council for the statement covering 2025/26.

Under the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017, the council are also required to publish gender pay gap calculations annually based on a data as at 31 March 2024. This information is for noting by the Committee.

In addition, the Council is reporting on its ethnicity pay gap for the first time for noting by the Committee.

RECOMMENDATIONS:

- (1) The Council be recommended to agree the Pay Policy Statement for 2025/26 as set out in Appendix A.
- (2) The Gender Pay Gap calculations for 2023/24 be noted.
- (3) The Ethnicity Pay Gap calculations for 2023/24 be noted.

1. BACKGROUND & INTRODUCTION

- 1.1 Under the Localism Act 2011, the Council is required to consider and approve a pay policy statement for the financial year. The Council's pay policy statement for 2025/26 is set out in **Appendix A**.
- 1.2 The Act requires that taxpayers can access information about how public money is spent on their behalf. It translates this into a requirement for improved transparency over both senior council officer pay and that of the lowest paid employees. To support this, the Act requires publication of an annual pay policy statement.
- 1.3 The Act sets out specific information that must be included in the Pay Policy Statement as follows:
 - the pay framework, level and elements of remuneration for Chief Officers

- the pay framework and remuneration of the 'lowest paid' employees
- the relationship between the remuneration of the Chief Officer and other officers
- other policies relating to specific aspects and elements of remuneration such as pay increases, other allowances or payments, pension and termination payments.

1.4 Under the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017, the council are also required to publish gender pay gap calculations annually. The Council's Gender Pay Gap Report is set out in **Appendix B**.

1.5 Currently there is no legal requirement for organisations to calculate and publish an annual ethnicity pay gap report. However, the Council has decided to voluntarily publish an annual Ethnicity Pay Gap Report and develop an action plan to address any unjustifiable disparities between different ethnic groups which is set out in **Appendix C**.

2. THE PAY POLICY STATEMENT

2.1 The Pay Policy Statement contains two main components. It sets out the framework within which pay is determined in Rushmoor Borough Council and it provides an analysis comparing the remuneration of the Chief Executive with other employees of the authority.

2.2 The comparisons included within the paper look 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 2025/26 is 1:5.74.

2.3 The second ratio included within the analysis, looks at the relationship between the median remuneration of all staff compared to the Chief Executive. The ratio for 2025/26 is 1:3.3.

2.4 The recommendation of the Hutton Report (2010) is that public sector organisations should comply with a maximum multiple of 1:20. Rushmoor is well within this multiple.

2.5 The Pay Policy Statement is forward looking and based on pay as anticipated for the following financial year.

3. THE GENDER PAY GAP

3.1 The Equality Act requires the publication of the Council's Gender Pay Gap (mean and median values), Gender Bonus Gap (mean and median values), proportion of men and women receiving bonuses, proportion of men and woman in each quartile of the organisations pay structure. The council does not pay Bonus payments and therefore there is nothing to report in those categories.

- 3.2 The mean gender pay gap equates to 12.75 % with the female average salary being lower than the male average salary. The gap has increased from 12.69% in the previous year.
- 3.3 The median gender pay gap equates to 9.84% with the female median rate being lower than the male median rate. The gap has increased slightly from 9.52% reported in the previous year.
- 3.4 The proportion of men and women in each quartile has changed slightly with a notable increase in the number of women in the upper quartile.
- 3.5 The Gender Pay gap is reported retrospectively as at the 31 March in any year.
- 3.6 As the calculations are percentages and the number of senior employees at the Council relatively small, a change in gender of any senior role can have a significant impact on the gender pay gap calculation. A range of activities have been undertaken to encourage female employees to consider senior roles. Female members of ELT hosted a 'Women in Leadership session' which was well attended and provided insightful information for female colleagues in particular. In line with the People Strategy and Service Plan the Council will continue to promote secondments, cross council project working, encourage the personal development of employees, and those with the potential to progress into senior roles and continue to encourage flexible working, to facilitate positive shifts in the Council's gender pay gap.

4. THE ETHNICITY PAY GAP

- 4.1 Whilst it is currently not mandatory to provide a yearly ethnicity pay gap report we have decided this year to voluntarily provide a report to demonstrate our commitment to equality, diversity and inclusion in the Council and, as we have a gap, set a baseline for improvement.
- 4.2 The ethnicity pay gap is calculated by comparing the average pay of our White employees with that of our employees from the Black and Minority Ethnic groups (BAME).
- 4.3 The mean ethnicity pay gap equates to 12.7% with the non-white average salary being lower than the white average salary.
- 4.4 The median ethnicity pay gap equates to 5.3% with the non-white median rate being lower than the white median rate.
- 4.5 The Ethnicity Pay gap will be reported retrospectively as at the 31 March in any year.
- 4.6 Given the ethnicity pay gap the Council will now consider how we can address this as part of our commitment to be a more inclusive organisation. This could include looking at our culture, reviewing our recruitment and development

policies and considering the way we work to encourage a more diverse and inclusive workforce from the local community and beyond. In particular we will focus on how we advertise and promote roles at the Council, consider how we promote an in-house work experience programme as part of the Council's Young Peoples' Plan and review our secondment/development opportunities

CONTACT DETAILS:

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Corporate Manager – People, Belinda Tam (belinda.tam@rushmoor.gov.uk)

Executive Director:

Karen Edwards (karen.edwards@rushmoor.gov.uk)

APPENDICES

Appendix A: Pay Policy Statement 2025/26

Appendix B: Gender Pay Gap Report 2024

Appendix C: Ethnicity Pay Gap Report 2024

BACKGROUND DOCUMENTS:

Communities and Local Government Openness and Accountability in Local Pay: Guidance under Section 40 of the Localism Act

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/59562/091042.pdf

Communities and Local Government Openness and Accountability in Local Pay: Guidance under Section 40 of the Localism Act Supplementary Guidance

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/85886/Final_Supplementary_Pay_Accountability_Guidance_20_Feb.pdf

Rushmoor Borough Council
Pay Policy Statement for the Financial Year 2025-2026

1. Purpose and Definitions

- 1.1 The purpose of this pay policy statement is to set out Rushmoor Borough Council's (RBC's) policies relating to the pay of its workforce for the financial year 2025 - 26, in particular:
- a) the remuneration of its Chief Officers
 - b) the remuneration of its "lowest paid employees"
 - c) the relationship between
 - the remuneration of its Chief Officers
 - the remuneration of its employees who are not Chief Officers

Definitions

- 1.2 For the purpose of this pay policy statement, the following definitions will apply: -

"Chief Officer" refers to the following roles within RBC:

- Chief Executive, as Head of Paid Service
- Assistant Chief Executive
- Executive Directors
- Executive Heads of Service
- Heads of Service

The **"lowest paid employees"** refers to permanent or fixed-term staff employed at Grade 1 of the pay scale. Grade 1 is the lowest grade.

An **"employee who is not a Chief Officer"** refers to all permanent or fixed-term staff who are not within the "Chief Officer" group above, including the "lowest paid permanent employees" i.e., staff on Grade 1.

2. Remuneration of the "lowest paid employees" and "all other employees who are not Chief Officers"

Pay framework

- 2.1 Pay for the "lowest paid employees" and "all other employees who are not Chief Officers" is determined by the National Joint Council for Local Government Services and in line with the council's Pay and Reward Policy.

- 2.2 Not included in the definitions referred to above, there is a small and fluctuating number of 'casual' staff, some of whom receive lower salaries in accordance with minimum wage legislation.
- 2.3 The employment of casual staff recognises the need to have a small team of trained and available workers who can be deployed at short notice to assist with seasonal and emergency requirements. This approach enables the organisation to have an efficient and economic response to workload demands but without the need to incur unnecessary costs or to rely upon employment agencies. The use of casual contracts is regularly reviewed and staff engaged in this way are encouraged to apply for permanent roles when they become available.
- 2.4 The only other group employed by the Council who are excluded from the pay comparison data are apprentices. The apprentices are employed for a designated period during which time they are provided with on and off job training alongside the opportunity to gain valuable experience within a working environment. For this reason, the salary comparison would not be relevant.
- 2.5 The Pay and Reward Policy was last updated in 2023. The policy is in line with national guidance, with the grade for each role being determined by a consistent job evaluation process.
- 2.6 The Council's grading structure is based on the NJC terms and conditions using the national spinal column points with the addition of a number of spinal column points at the top of the scale. There are 9 Employee and Manager grades (1 – 7, Service Manager and Corporate Manager) and 4 Chief Officer grades (Head of Service, Executive Head of Service, Executive Director and Chief Executive) in the pay framework, grade 1 being the lowest and Chief Executive being the highest. Each employee is allocated a grade based on the job evaluation of their role.
- 2.7 Each grade has a number of incremental steps and employees can progress along the salary range to the maximum of their grade, subject to assessment of their performance.
- 2.8 Pay awards for those staff up to and including Corporate Manager are determined directly from the negotiations held between the Local Government Employers and the recognised Trades Unions under the NJC agreement. Pay Awards at Chief Officer level are determined by the negotiations held between Local Government Employers and recognised Trade Unions under the JNC for Chief Officers and similarly the pay awards for the Chief Executive is negotiated nationally with ALACE (Association of Local Authority Chief Executives).
- 2.9 The NJC negotiated pay award for 2024/25 was £1,290 for grades up to and including NJC SCP 43. For grades above, including Chief Officers and Chief Executive an increase of 2.5% was awarded.

2.10 The analysis used for this report draws upon the pay rates as expected at 1st April 2025.

2.11 The remuneration of the “lowest paid employees” includes the following elements:

- Salary
- Any allowance or other contractual payments in connection with their role

Salary

2.12 Each “lowest paid permanent employee” is paid within the salary range for Grade 1. Details of the Council’s grades and salary ranges are available on the website. The normal starting salary for new employees will be at the entry point for the grade. However, at the appointing managers discretion, based on their assessment of skills and experience employees may commence at a higher-grade point.

Other payments and allowances

2.13 Any allowance or other payments will only be made to staff in connection with their role or the patterns of hours they work and must be in accordance with the Pay and Reward Policy. In a small number of roles where significant recruitment difficulties are experienced, a market supplement is paid. Market supplements are reviewed every three years to ensure they are still required. Further details of such allowances and payments are available on request.

Progression within the salary scale

2.14 The Council has a performance management and development review scheme in place. This embraces a number of elements including a joint review of performance, sharing organisational/team goals and agreeing future plans. Progression through the incremental scale appropriate to the grade is dependent upon performance being assessed as satisfactory by the staff member’s line manager.

2.15 In exceptional cases where staff members have consistently delivered exceptional performance, more than one incremental point may be awarded, with the approval of the relevant Chief Officer.

Pension

2.16 All Rushmoor Borough Council staff are eligible to join the Local Government Pension Scheme. There is automatic enrolment procedure in place to encourage membership of the scheme.

Severance Payments

- 2.17 Any severance payments will be in line with the Council's adopted policies on Organisational Change and MARS (Mutually Agreed Resignation Scheme). Further details are available on request.

3. Remuneration of Chief Officers

Pay framework

- 3.1 "Chief Officers" refers to the Chief Executive, Assistant Chief Executive, Executive Directors, Executive Head of Service and Heads of Service.
- 3.2 As set out above this group of "Chief Officers" are paid on locally determined pay scales outside of the NJC agreement. These pay scales were created by extending the NJC spinal column points, in the financial year 2024/25 the pay award for all Chief Officers was agreed at an increase of 2.5% on the base salary.

Progression within the salary scale

- 3.3 Progression through the incremental scale appropriate to the grade is dependent upon performance being judged as satisfactory or higher at the end of the review year.

Pension

- 3.4 All employees are eligible to join the Local Government Pension Scheme, but the value of these benefits has been excluded from the figures used for pay comparison purposes.

Severance Payments

- 3.5 Any severance payments will be in line with the Council's policy for Organisational Change or MARS scheme and further details are available on request.
- 3.6 Salaries of all the Council's Chief Officers are published on the council's website in line with statutory requirements. The Accounts and Audit Regulations 2015 (Statutory Instrument 2015/234) 2 3 (A&A regs) require local authorities to publish the following information about staff whose annual remuneration is at least £50,000:
- the number of employees whose remuneration in that year was at least £50,000 in brackets of £5,000
 - details of remuneration and job title of certain senior employees whose salary is at least £50,000, and
 - employees whose salaries are £150,000 or more must be identified by name.

4. Other allowances or payments

- 4.1 Any allowance or other payments will only be made to staff in connection with their role or the patterns of hours they work and must be in accordance with the Council's Pay and Reward policy.
- 4.2 The Chief Executive is appointed by the Council to act as the Returning Officer at the election of councillors for the Borough and as acting Returning Officer at Parliamentary Elections. The additional fees associated with these functions will be paid in accordance with those set nationally or locally through the Hampshire and Isle of Wight Elections Fees Working Party.
- 4.3 Within the fees structure for elections, provision is made for payments to staff for specific duties. These payments are also made in accordance with nationally set rates or locally through the Hampshire and Isle of Wight Election Fees Working Party. Details are available on request. Further details of such allowances and payments are available on request.

5. The relationship between remuneration of highest and lowest paid employees of the Council.

- 5.1 There are a number of different ways of presenting this information to provide a rounded picture of pay comparisons within the organisation. The lowest, median and highest FTE salaries as at 1st April 2025 are as follows:

Lowest: £23,656

Median £41,511

Highest £135,792

- 5.2 By taking the salary of those permanently appointed employees paid on the lowest grade of the council's pay structure and comparing this with the Chief Executive a pay ratio of **1:5.74** emerges. This is a slight reduction on the previous year's ratio which was 1:5.9
- 5.3 The Hutton Report (2010) that looked at the relationship between pay levels in the public sector recommended that organisations should comply with a maximum pay multiple of **1:20**. Rushmoor is well below that ratio.
- 5.4 An alternative approach is to compare the Chief Executive's salary against the median salary. This equates to a ratio of **1:3.3** which is a slight reduction on the previous years ratio which was 1:3.5.

6. Conclusion

- 6.1 There has been no significant movement over the last 12 months. These results indicate that there is no cause for concern regarding the ratio between the pay rates for staff and the Chief Executive.

BELINDA TAM
CORPORATE MANAGER - PEOPLE

APPENDIX B

Rushmoor Borough Council Gender Pay Gap Report 2024

1. BACKGROUND

- 1.1 The Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017, requires employers with 250 or more employees to publish statutory gender pay gap calculations annually. This includes the following:
- Gender pay gap (mean and median values)
 - Gender bonus gap (mean and median values)
 - Proportion of men and women receiving bonuses
 - Proportion of men and women in each quartile of the organisation's pay structure.
- 1.2 The Council is required to publish this data on its website and the governments dedicated page for Gender Pay Gap reporting - <https://gender-pay-gap.service.gov.uk>. The report must be published by 30th March 2025.
- 1.3 The legislation requires the organisation to choose a 'snapshot' date and base the Gender Pay Report on all relevant employees employed at that date. Rushmoor Borough Council's Gender Pay Gap is based on analysis of data as at 31st March in a year. This years calculations are based on data as at 31st March 2024.
- 1.4 Using a common calculation formula, organisations can determine whether there is a difference in pay for its male employees when considered against its female employees. The calculation takes account of all allowances paid to staff as recommended under the regulations, but excludes all overtime pay, whether at flat or enhanced rates.
- 1.5 This exercise provides organisations with an opportunity to consider whether they have a gap in the average pay rates for male and female employees and allows the organisation to consider how that has occurred and to put in place actions to address this. The difference between the pay rates for male and female employees is referred to as the 'Gender Pay Gap'.

2. RUSHMOOR DATA

- 2.1 Based on the data snapshot date of 31st March 2024, there were 258 permanent employees and 30 casual employees included in the data. Therefore, the total number of 288 employees has been used for the data source for this years calculation.

- 2.2 The gender breakdown of Rushmoor's workforce is 186 female employees (65%) and 102 male employees (35%).

Average Pay Calculations:

- 2.3 The average female hourly rate is £19.51 per hour. The average male hourly rate is £22.36 per hour. This means that on average male employees within Rushmoor Borough Council earn £2.85 per hour more than female employees. The calculation method that is used to calculate Gender Pay Gap is as follows:

$$\frac{(\text{£highest rate}) - (\text{£lowest rate})}{\text{£highest rate}} = x \times 100 = \text{Gender Pay Gap \%}$$

For Rushmoor Borough Council the following applies:

$$\frac{\text{£22.36 (male average)} - \text{£19.51 (female average)}}{\text{£22.36}} = \text{£2.85}$$
$$\text{£2.85} \times 100 = 12.75 \% \text{ difference between male salaries and female salaries}$$

This equates to a 12.75 % difference (or 'gap') in pay rates, with the female average salary being lower than the male average salary.

Comparison with 2023 data:

- 2.4 In 2023, the average female hourly rate was £18.43 per hour and the average male hourly rate was £21.11 per hour.

This equated to a percentage difference of 12.69%, with the average female salary being lower than the male average salary.

The difference / gap has increased from the previous year.

Median Pay Calculations:

- The female median hourly rate is £19.34 per hour.
- The male median hourly rate is also £21.45 per hour.
- Using the above method, the difference in median wages is:

$$\frac{\text{£21.45} - \text{£19.34}}{\text{£21.45}} = \text{£2.11}$$
$$\text{£2.11} \times 100 = 9.84 \%$$

Comparison with 2023 data:

- 2.5 In 2023, the median female hourly rate was £18.34 per hour and the median male hourly rate was £20.27. This year we see an increase in both of these figures. The gap has increased from 9.52% to 9.84%

2.6 **Distribution of male & female employees within Rushmoor Borough Council across 4 quartiles:**

	Total Count	Female Actual	Male Actual	Female %	Male %
Quartile 1 – Lower	72	51	21	71% <i>(69%)</i>	29% <i>(31%)</i>
Quartile 2 - Mid Lower	72	50	22	69% <i>(69%)</i>	31% <i>(31%)</i>
Quartile 3 - Mid Upper	72	49	23	68% <i>(61%)</i>	32% <i>(39%)</i>
Quartile – Upper	72	36	36	50% <i>(47%)</i>	50% <i>(53%)</i>
Total Workforce	288	186	102	65% <i>(62%)</i>	35% <i>(38%)</i>

*(*figures shown in italics are the % figures for 2023 to enable easier comparison).*

Bonus Pay:

- 2.7 Rushmoor Borough Council does not have payments such as performance related pay, one off incentive payments for recruitment and retention or monetary payments for long service awards, therefore within the guidelines for Gender Pay Gap reporting there are no payments within the “bonus” categorisation.
- 2.8 No bonuses were paid in Rushmoor Borough Council during this period, so there is no pay gap to report in relation to bonus payments.

3. CONCLUSION

- 3.1 At Rushmoor Borough Council the average difference (or ‘gap’) in pay rates between male and female salaries has increased from 12.69% to 12.75%. As last year both the median female hourly rate and the median male hourly rate has increased and the median gap has increased from 9.52% to 9.84%

How we are continuing to reduce the gender pay gap

- 3.2 The Council’s People Strategy sets out a range of actions that supports the ongoing reduction of the gap. This includes promoting secondments, cross council project working and the development of employees with the potential to progress into senior roles. The Council will continue to actively promote learning and development opportunities, including working with external partners, to encourage knowledge sharing and personal development. All staff have access to virtual, live and interactive learning and development modules. The Council will continue to actively support work/life balance including part time working, hybrid working, working compressed hours and job shares and there is the opportunity to purchase additional annual leave.

BELINDA TAM
CORPORATE MANAGER - PEOPLE

Rushmoor Borough Council Ethnicity Pay Gap Report 2024

1. BACKGROUND

1.1 Whilst there is currently no legal requirement for ethnicity pay gap reporting we have decided this year to voluntarily provide a report to demonstrate our commitment to equality, diversity and inclusion in the Council and provide measures to close the gap as appropriately.

1.2 The Ethnicity Pay Gap data includes the following:

- Ethnicity pay gap (mean and median values)
- Proportion of men and women in each quartile of the organisation’s pay structure

2. RUSHMOOR DATA

2.1 Based on the data snapshot date of 31st March 2024, a total number of 231 employees have been included in the data source (which includes permanent and casual employees) for this year’s calculation. ***Please note that there were 20 employees not included in this report as they chose not to share their ethnicity.***

Mean Ethnicity Pay Gap

2.2 To calculate the mean pay gap, we add together all the hourly pay rates that people from Black, Asian, mixed race or other ethnic (BAME) groups received. We divide the total by the number of people from these groups in our workforce. We then repeat this calculation for white people. The difference between these figures is the mean ethnicity pay gap.

	White	Black, Asian, mixed race, other	Pay Gap
Mean hourly rate	£22.31	£19.48	12.7%

Median Ethnicity Pay Gap

2.3 To calculate the median pay gap, we first rank all our people by their hourly pay. We identify what the person in the middle of the pay range for employees from Black, Asian, mixed race or other ethnic groups received. Then we compare it with what the person in the middle of our white population pay range received. The difference between these figures is the median ethnicity pay gap.

	White	Black, Asian, mixed race, other (BAME)	Pay Gap
Median hourly rate	£20.43	£19.34	5.3%

Pay Quartiles

Each pay quartile represents a quarter or 25% of our total workforce ranked by pay:

	Number		%	
	White	Black, Asian, mixed race, other (BAME)	White	Black, Asian, mixed race, other
Upper quartile	55	2	96.5%	3.5%
Upper – middle quartile	52	6	89.7%	10.3%
Lower – middle quartile	55	3	94.8%	5.2%
Lower quartile	51	7	87.9%	12.1%

3 CONCLUSION

- 3.1 At Rushmoor Borough Council the average difference (or 'gap') in pay rates between White and BAME groups is **12.7%** and the median gap between White and BAME groups is **5.3%**.
- 3.2 Given the pay gap we now need to consider how we can address this as part of our commitment to be a more inclusive organisation, including looking at our culture, recruitment and development policies and the way we work to encourage a more diverse and inclusive workforce from the local community and beyond. In particular we will focus on how we advertise and promote roles at the Council, consider how we promote an in-house work experience programme as part of the Council's Young Peoples' Plan and review our secondment/development opportunities.

BELINDA TAM
CORPORATE MANAGER - PEOPLE

CGAS
29 JANUARY 2025

ASSISTANT CHIEF EXECUTIVE
REPORT NO. ACE2504

KEY DECISION? NO

REVISED PROCUREMENT CONTRACT STANDING ORDERS (CSOs) 2025

SUMMARY

Procurement legislation in the UK is in the process of being significantly reformed, most notably with the introduction of the Procurement Act 2023 (due to come into force on 24th February 2025). As a result, the Council is required to review and update its Contract Standing Orders (CSOs) within its constitution.

Although driven primarily by legislative change, the revision of the Council's CSOs has been taken as the opportunity to more closely align them with the Council's Procurement Strategy. The revised Procurement Strategy 2025 – 2028 was approved by Cabinet on 26th Nov 2024.

The revision of the Council's CSOs also includes a more pragmatic view on the procurement methodology used for contracts valued under £100,000, where the burden on both the Council and those businesses tendering for contracts can now be more appropriate to the risk and the value rather than being prescribed on the basis of value alone.

RECOMMENDATION:

That the updated CSOs, as attached at Appendix 1 to the report, be recommended to the Council for adoption as part of the Council's Constitution;

and

Any additional minor amendments needed to finalise the CSOs be agreed by the Assistant Chief Executive and Corporate Manager – Legal Services in consultation with the Chairman of the Corporate Governance, Audit and Standards Committee.

1 BACKGROUND & HISTORY

- 1.1 Procurement is the process of acquiring goods, works and services. The process spans the whole life cycle, from identification of needs to the monitoring of performance, through to the end of a contract or the end of the useful life of an asset.
- 1.2 The importance of effective procurement has never been greater for local government. The demand for public services is increasing, while resources have reduced significantly in real terms. The pressure to find greater efficiencies and improve productivity is driving the Council to look for different ways to deliver better public services for its community.

- 1.3 Procurement legislation in the UK is in the process of being significantly reformed, most notably with the introduction of the Procurement Act 2023 (due to come into force on 24th February 2025). As a result, the Council is required to review and update its CSOs within its constitution, in addition to its Procurement Strategy.
- 1.4 The Council is legally required to have in place local rules, referred to as CSOs. This set of local rules describes how the Council meets its legislative obligations both under the Procurement Act and associated Regulations, but also the duty to deliver 'best value' under the Local Government Act 1999.
- 1.5 Although driven primarily by legislative change, the revision of the Council's CSOs has been taken as the opportunity to more closely align them with the Council's Procurement Strategy. The revised Procurement Strategy 2025 – 2028 was approved by Cabinet on 26th Nov 2024. This Strategy introduced aspirations to increase social value considerations during the procurement process, and are now embedded within the CSOs themselves.
- 1.6 The CSOs are closely linked with other parts of the Council's constitution, most notable the Financial Procedure Rules and Scheme of Delegation. It is within these associated rules that budgetary matters and governance are controlled.
- 1.7 This paper presents the Council's revised Contract Standing Orders (CSOs), attached as Appendix 1 to the report.

2.0 NEW ARRANGEMENTS

- 2.1 The revised CSOs have been written with the assistance of the specialist Legal Advisers at TLT PLP and the Council's current technical advisors at Portsmouth City Council, with whom the Council has an ongoing Service Level Agreement (SLA).
- 2.2 Given that the majority of the revisions made to Rushmoor's arrangements are in answer to new legislative requirements, these are not the focus of this report. What will be highlighted are those changes that are made specifically in the processes for procurement activity below the current statutory threshold of £214,904 (for supplies, services and design contracts). These lower value arrangements are a matter of local decision for the Council.
- 2.3 In defining these new local thresholds, the Council reviewed the arrangements of those in neighbouring authorities and consulted key stakeholders within the organisation throughout the process.
- 2.4 **Exemption Approvals.** A strong oversight of any deviation from the rules is being retained from the previous CSOs in section 6.1 of the revised CSOs, these are known as exemptions. During this process a justification must be made and the exemption request must be formally approved by both the Legal and Finance teams at the Council. In the new CSOs, deputies for this approval process have been introduced, as delays in process due to single authorised officers has been routinely noted.

2.5 **Local Thresholds.** The thresholds for procurement activity below statutory threshold and the procurement procedures to be followed are detailed in the following table, located within the CSOs as Table 1, section 2.8.4:

Estimated Contract Value	Procedure / Notes
MINOR VALUE Up to £10,000 (including VAT)	Contracting Officers must follow procedure for Minor Value transactions. (e.g. small or consumable items). <u>At least 1 quote or use a Framework.</u>
LOW VALUE £10,001 to £30,000 (including VAT)	Contracting Officers must follow the procedure for Low Value transactions. <u>At least 3 quotes or use a framework.</u>
MEDIUM VALUE £30,001 up to £99,999 (including VAT)	Contracting Officers must follow the Medium Value transactions. <u>At least 3 Quotes, or advertised tender, or use a framework.</u> In line with these rules (<u>subject to any exception being agreed</u>). Seek advice from the Procurement Team / complete a Gateway Assessment to determine the most appropriate procurement route.
HIGH VALUE Exceeding £100,000 (including VAT) for goods, services, and works. (This is also the key decision threshold)	Contracting Officers must follow the tender procedure for High Value transactions and seek advice from the Procurement Team . Appropriate frameworks may continue to be used. For <u>Regulated Below Threshold contracts</u> – an <u>advertised tender</u> in line with these rules (subject to any exemption being agreed in line with these Rules). For <u>Concession Contracts and Utilities Contract</u> that are below the relevant <u>Covered Procurement</u> threshold – <u>a quotes or competitive selection process</u> in line with these rules (subject to any exemption being agreed in line with these Rules). For <u>Public Contracts</u> – a procurement procedure in line with the <i>Relevant Procurement Legislation</i> .

2.6 The previous CSOs were not protected from the effects of inflation and other price increases, and therefore the Council increasingly found itself seeking exemptions from its own rules in order to apply a pragmatic way forwards with lower value / lower risk procurement activity.

2.7 Although not directly comparable due to changes in categorisation, the previous CSOs required Officers to apply full tender rules to all procurement activity over £50,000, with no accounting for any factors other than cost. This was found to be burdensome to all parties and introduced unnecessarily long procurement timescales.

2.8 The revised CSOs introduce a new pragmatic approach towards contracts up to the Council’s key decision threshold of £100,000 (including VAT), whereby the completion of a ‘Gateway Assessment’ and consultation with the Procurement Team will allow for the determination of the most suitable procurement procedure to be applied. This balances the legal requirements and risk mitigation with the burden on both the Officers of the Council and those businesses wishing to engage with the Council in order to provide goods and services.

- 2.9 **Social Value.** The revised CSOs incorporate the requirements of the new Procurement Strategy under section 1.10.
- 2.10 The inclusion of Social Value as a consideration will be the default position for all procurement activity unless it can be clearly demonstrated as being detrimental. Where Social Value is included within a procurement a weighting of at least 10% of the overall score will be applied.
- 2.11 The delivery of social value as a minimum weighting of 10% will be monitored for all new procurement activity over the value of £5,000 that takes place from 1st April 2025, reported in the quarterly performance Monitoring report to Cabinet. In addition, the percentage of new contracts over £5,000 provided to organisations based within the Southeast Region and to SMEs or VCSEs will also be recorded and reported.
- 2.12 **Working with Local Suppliers.** As part of the new Strategy, the Procurement Team has committed to working with local businesses to give general advice and guidance outside of any specific procurement activity in order to assist interested parties in what a 'good' bid might look like. The procurement team will also ensure that documents such as specifications are written in a manner that make them more accessible to local SMEs etc.
- 2.13 The Procurement Team has also committed to include local business engagement in its annual work plans/Service Plan, working with the economy and growth team to encourage local bids and give general guidance and increase uptake of the opportunity to register on the Council's digital procurement portal for notifications.

3.0 IMPLEMENTATION AND EMBEDDING NEW RULES

- 3.1 The revised CSOs, once approved, would come into force on 28th February 2025, following Full Council on 27th February 2025.
- 3.2 The revised CSOs incorporate additional practical guidance for Officers, including on estimated timescales to deliver procurement projects
- 3.3 Advice and guidance for all procurement activity will continue to be made available to Officers of the Council via the current arrangements; the Council's Procurement Team and Portsmouth City Council.
- 3.4 In order to raise awareness and effectively implement and embed the requirements of the new rules, a suite of guidance documents including aide memoirs and process maps are being prepared by the Procurement Team. These will be made available prior to 27th February 2024 via the Council's SharePoint site.
- 3.5 In addition to this written information and guidance, Officers will be provided appropriate procurement training as required for their role. The Procurement Team is preparing this training material and will identify those Officers requiring this enhanced awareness training. Basic procurement information will also be provided via the Council's induction training programme.

4.0 RECOMMENDATIONS

4.1 That the updated Contract Standing Orders, as attached at Appendix 1 to the report, be recommended to the Council for adoption as part of the Council's Constitution;

And

4.2 Any additional minor amendments needed to finalise the Contract Standing Orders be agreed by the Assistant Chief Executive and Corporate Manager – Legal Services in consultation with the Chairman of the Corporate Governance, Audit and Standards Committee.

BACKGROUND DOCUMENTS:

Appendix 1 – Contract Standing Orders (v1.0 15/01/25)

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CONTRACT STANDING ORDERS

(v1.0 15/01/25)

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1 Procurement Overview

1.1 Background

- 1.1.1 In these rules, **Council** means Rushmoor Borough Council
- 1.1.2 These rules set out how the **Council** will contract their various requirements and how **Suppliers** wishing to work for the **Council** can access those opportunities; including how the Council is removing barriers for small and medium-sized enterprises (SMEs).
- 1.1.3 Public sector procurement is the process of acquiring goods, services and works as needed to deliver our services.
- 1.1.4 Depending on the nature of the procurement, the value, and any specific social interests that the contract may attract, the procurement process must be proportionate, and designed to facilitate competition, optimise quality, and deliver value for money across the whole life cycle of the contract.
- 1.1.5 Furthermore, the **Council** has an obligation to deliver **Best Value** and secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.
- 1.1.6 To ensure delivery of the above, all procurements must be carried out within a specific legal framework and based on principles of equal treatment, transparency, and non-discrimination.

1.2 Governing Legislation

- 1.2.1 The **Local Government Act 1972 section 135** requires Public Bodies to have standing orders for how they enter into contracts. These **Contract Standing Orders** (“Rules”), which form part of Rushmoor Borough Council’s Constitution, set out how the **Council** will deliver against this obligation.
- 1.2.2 All Procurements for Contracts, by **Council Officers** or members (including where managed by an external organisation or another public body on the **Council**’s behalf), **MUST** comply with these **Rules**, the **Council**’s Financial Regulations, **Relevant Procurement Legislation** and all other relevant UK Legislation; with *‘relevant’ relating to the date on which the procurement is commenced/ advertised, the framework/ DPS/ Dynamic Market was established or where no competitive process is required, a purchase order is raised.*
- 1.2.3 Where there is a discrepancy between these rules and the **Relevant Procurement Legislation, Officers** are to comply with the legislation.
- 1.2.4 Where there is a conflict between the **Relevant Procurement Legislation** and any other **Relevant Public Sector Legislation** (as identified during procurement planning) the **Corporate Manager (Legal Services)/ Executive Head of Finance** must be consulted immediately to carry out a legal, project risk assessment.
- 1.2.5 Central government guidance should be considered when designing a procurement; specifically, [Procurement Policy Notes](#) (PPNs), [Procurement Act 2023 - Guidance documents](#) and the [National Procurement Policy Statement](#) (NPPS); however, they are generally not mandatory other than where specifically identified as such or where included in the **Council**’s **Relevant Procurement Policy Notes** list.
- 1.2.6 Guidance on when and how to apply current PPNs and the NPPS should be sought from procurement.
- 1.2.7 Non-compliance with any of these rules may constitute grounds for disciplinary action.

1.3 Application of the Rules (Regulated Procurements)

- 1.3.1 These rules govern:
 - (a) any contract for the supply, of goods, services or works, (not exempt/ excluded under 1.4 below) (for pecuniary interest) regardless of value,

- (b) using Frameworks or Dynamic Purchasing Systems, or Dynamic Markets.
- (c) collaborative procurements,
- (d) consultancy requirements,
- (e) equipment hires or lease through rental agreements,
- (f) disposal of assets.

1.4 Excluded/ Exempted Contracts (Not Regulated)

- 1.4.1 These rules do not apply to contracts that are classified as excluded/ exempted, as defined by the **Relevant Procurement Legislation**; including but not limited to:
- (a) **Council to Council** (Subsidiary) arrangements, vertical or horizontal – subject to approval by the **Procurement Team**. e.g.
 - (i) **Vertical** - The **Council's** exercises a parent or similar control or joint control with other **Contracting Authorities** on the entity as it does with its own departments, the entity carries out more than 80% of its activities for the controlling **Councils** and there is no private sector money in the entity.
 - (ii) **Horizontal** - **Council's** to **Council's** co-operation – to achieve objectives which the **Contracting Authorities** have in common, through an arrangement that is solely for the public interest, and the parties perform less than 20% of the services covered by the arrangement on the open market.
 - (b) Subject matter exemptions:
 - (i) Certain types of legal advice e.g., relating to judicial proceedings and/ or dispute resolution
 - (ii) Certain types of financial advice e.g., funding or financing arrangements, investment services
 - (iii) Employment contracts
 - (iv) Purchases made at public auction or of goods sold due to insolvency.
 - (v) Land contracts (including leases, licences, and transfers)
 - (vi) Grants of money, these cannot be contracts as there is no consideration and they are not services required to be delivered by the Authority.
 - (c) Any other arrangements excluded by the **Relevant Procurement Legislation**.
- 1.4.2 If unclear whether something is captured by these rules, **Contracting Officers** should seek advice from the **Procurement Team** or **Executive Head of Finance**.

1.5 Procurement Objectives

- 1.5.1 Procurement aims and objectives cover not only those objectives set out in the **Relevant Procurement Legislation**, but also those set out in the **NPPS** and the **Council's** own **Procurement Strategy**; these objectives should be used to determine the contract specific outcomes to be achieved by a specific procurement during the planning process.
- 1.5.2 These objectives may include, but are not limited to, all or any of the following: and their inclusion should be informed by and tailored to the subject matter of the contract (legal, technical, and commercial requirements).
- (a) Delivering Value for Money
 - (b) Maximising public benefit (such as delivering Social Value)
 - (c) Sharing Information

- (d) Equal Treatment (non-discrimination), unless justified.
 - (e) Removing Barriers for Small and Medium Enterprises (SMEs)
 - (f) Acting (and being seen to act with) Integrity (inc. accountability)
 - (g) Fair and transparent (effective) competition
- 1.5.3 Further Guidance on what these mean and how to include them within a procurement is available in the **National Procurement Policy Statement** and **Public Policy Notices (PPNs)**.

1.6 Roles & Responsibilities

- 1.6.1 **Corporate Management Team (CMT)/Heads of Service** are responsible for.
- (a) Overseeing the arrangements for resourcing procurements and managing contracts within their team.
 - (b) Ensuring every **Officer** within their teams/ service areas are aware of these Rules and that all procurements for works, goods, and services where the estimated contract value is £30,000 or above go through the **Procurement Team**.
 - (c) Ensuring those **Officers** that are authorised as **Contracting Officers** are appropriately skilled, trained, and supervised in the application of these **Rules**.
 - (d) Ensuring that a procurement has the relevant delegated authority or approval inline with the budget requirements; including putting it on the Forward Plan in time to deliver the contract requirements.
 - (e) Overseeing that all **Contracts** are delivered in line with the relevant documents and that this includes collecting the data needed to comply with the transparency/ reporting obligations of the **Relevant Procurement Legislation**.
- 1.6.2 **Contracting Officers** are responsible for.
- (a) Complying with these **Rules**, all relevant statutory obligations, the **Council's** decision-making processes and the **Council's** Constitution as a whole.
 - (b) Ensuring that before commencing a procurement, that there is appropriate analysis of the requirement, timescales, delivery constraints, and documentation to be used, that any procurement process is proportionate and that rules relating to advertising are applied in line with these **Rules**.
 - (c) Advising the **Procurement Team** of all contracts with a value of more than **£5,000**, for inclusion on the contracts register.
 - (d) Ensuring that proper records of all contract award procedures, waivers, exemptions, and extensions are maintained with separate files for each purchase of a value of **£5,000** or more.
 - (e) Ensuring that any contract includes the mandatory conditions of contract.
 - (f) Manage the performance of the contract throughout its term, and any reporting required by the **Relevant Procurement Legislation**.
 - (g) Seek appropriate advice from the **Procurement Team**, **Executive Head of Finance**, and/ or the **Corporate Manager (Legal Services)**
 - (h) Have regard to all relevant corporate procurement guidance, government procurement guidance and best practice as identified by these **Rules**.
 - (i) Ensure that any third party organisation managing a procurement process on behalf of the council, is provided with copies of these **Rules** and that they are adhered to.
- 1.6.3 **All Officers shall**

- (a) Report breaches (whether actual or suspected) of these **Rules** to the **Corporate Manager (Legal Services)** and the **Executive Head of Finance**.

1.7 Separation of Duties

- 1.7.1 As part of the commitment to transparency, accountability, and service integrity, an individual that conducts a procurement, raises a purchase order, or requests a waiver cannot also approve one.
- 1.7.2 All requests and approvals/ awards therefore should be raised by one individual and approved by a different individual and in accordance with the decision value and these **Rules**.

1.8 Conflicts of Interest

- 1.8.1 As part of ensuring that all processes are managed fairly and with integrity, all individuals (**Officers** and members) and suppliers involved in any stage of the contract life cycle, are required to both identify/ disclose and mitigate any perceived, potential and/ or actual conflicts of interest.
- 1.8.2 Compliance with this requirement will include carrying out a conflict-of-interest assessments whenever anyone new gets involved in the procurement, approval and/ or contract management.
- 1.8.3 All conflict-of-interest assessments must be recorded on conflicts of interest register and kept under review during the whole life cycle of the contract. The assessment must also include details of any mitigations taken/ to be undertaken to mitigate potentially unfair outcomes, e.g., use of Ethical Wall agreements, use of alternative evaluators, etc.
- 1.8.4 The **Procurement Team** will own the register and in conjunction with the **Corporate Manager (Legal Services) and Executive Head of Finance**, advise on appropriate mitigations and risks.

1.9 Procurement Strategy

- 1.9.1 The **Council** has established a **Procurement Strategy** that sets out the agreed approach and standard for designing and delivering procurement procedures in consideration of the **National Procurement Policy Statement**. Wherever possible (and permitted by the **Relevant Procurement Legislation**) the **Contracting Officer** should include for the following.
- (a) Appointing contractors that employ local staff/will create local jobs.
 - (b) Using trainees and apprentices
 - (c) The use of sustainable practices/reducing CO2 emissions and contributing towards the Council's Net Zero objectives
 - (d) Appointing SMEs and local organisations (including in the supply chain/sub-contractors)
 - (e) Promotion of health and wellbeing initiatives
 - (f) Where possible appointing local charitable and voluntary sector organisations
- 1.9.2 **Officers** are required to align their procurements to this Strategy, with guidance available from the **Procurement Team**.

1.10 Procurement Policy & Social Value

- 1.10.1 The **Council** has created a **Procurement Strategy** which details their commitment to delivering social value through their procurements, this being in consideration of the **Relevant Procurement Legislation**, the **Public Sector (Social Value) Act 2012** and associated **Procurement Policy Notes** relating to delivering social value, and the **Social Value Model** (PPN 06/20).

- 1.10.2 The **Council's** commitments relate to *creating opportunities to support the local economy, local jobs, training opportunities, as well as ensuring the wellbeing of both the staff and the communities in which we work.*
- 1.10.3 The inclusion of Social Value as a consideration will be the default position for all procurement activity unless it can be clearly demonstrated as being detrimental to do so. Where Social Value is included within a procurement, it should be allocated at least 10% of the overall score whenever possible, must be related to the subject matter of the contract and its inclusion must not increase costs. **Contracting Officers** should seek guidance from the **Procurement Team** if there is a concern that this is not possible.

1.11 Partnership Arrangements

- 1.11.1 The **Council** has entered into a number of arrangements with partner **Councils** for the purchase of various back-office services; **Contracting Officers** must therefore liaise with the **Procurement Team** before commencing a new procurement for similar/ additional requirements to ensure that those arrangements are not breached or cause relationship problems across the partners.

1.12 Corporate Contracts

- 1.12.1 The **Council** has established a number of corporate contracts, including but not limited to; stationery, treasury, insurance, and ICT services. **Officers** must therefore liaise with procurement before carrying out a separate/ an additional procurement for such requirements.

1.13 Contractor Quality

- 1.13.1 In appointing a **Suitable Supplier** to provide goods, services or works, a **Contracting Officer** must ensure, in accordance with these rules, and the **Relevant Procurement Legislation**, that they have the requisite experience, qualifications and standing to contract with the **Council** for those requirements, and that they will contract on a basis acceptable to the **Council** and will provide the required insurance and assurances in line with these rules and the **Constitution** more broadly.

1.14 Use of Consultants

- 1.14.1 Where the **Council** requires the technical input of industry experts/ consultants to either resource and/or manage a procurement or inform a specification, or deliver a particular process, **Officers** are required to ensure the following is applied:
- (a) The service is for a discrete (or multiple discrete) piece of work and/or is not backfilling a **Council** post.
 - (b) The consultants are procured in accordance with these Rules.
 - (c) The consultant is experienced in and fully understands all **Relevant Procurement Legislations** and agrees to be bound by them.
 - (d) There is a clear specification of requirements and responsibilities set out in their appointment, including adherence to these rules and relevant legislation and that this is documented in the form of contract used.

1.15 Working with SMEs

- 1.15.1 The **Council** is committed to making contracting opportunities accessible to all interested suppliers; and where appropriate (and not disproportionate to do so) remove barriers to SMEs participating in the procurement.
- 1.15.2 **Contracting Officers**, when designing a procurement, must consider the use of Lots, encourage consortia bids, structuring the documents to be SME friendly, and set financial participation thresholds to the minimum needed to manage performance risk/ failure.

1.16 Excluding Suppliers & Subcontractors

- 1.16.1 The **Council** may exclude a supplier where they or one of their proposed subcontractors have exhibited behaviours that are unacceptable to the **Council**.
- 1.16.2 Details of when and for what (mandatory and discretionary grounds) a supplier may/ must be excluded is available in the **Relevant Procurement Legislation**; this may include (but is not limited to) breaches of law and/ or improper behaviour (failing to comply with the rules of the procurement).
- 1.16.3 As a minimum, the **Council** will not award a contract to any Supplier included on the **Debarment List**, be that either for **Public Contract** or **Regulated Below Threshold Contract**.

1.17 Identifying Opportunities

- 1.17.1 All advertised procurements must be advertised initially on the **Central Digital Platform** in line with the contract value the **Relevant Procurement Legislations**. It will also be advertised on and managed through the **Council's** e-tendering Portal.
- 1.17.2 Suppliers wishing to bid for **Council** contracts should register on both the **Central Digital Platform** and the referenced e-tendering portal. Details of which are published on the Council's website.

1.18 Contracts Register

- 1.18.1 The **Council** is required to keep a record of all contracts with a value in excess of £5,000 on an **Online Contract Register**. This requirement includes providing details of all current supplier(s), contract value, and the current contract expiry date along with details of any options to extend as a minimum.
- 1.18.2 **Contracting Officers** must advise the **Procurement Team** of all new awards over £5,000 (regardless of how they were procured) so they can be added to the **Online Contract Register**.

2 Procurement – Planning, Design, Timings & Documentation.

2.1 Overview

- 2.1.1 The activities detailed in this section applies where the spend is not exempted from these rules under Section 1.4 above.
- 2.1.2 **Officers**, members, and others responsible for spending public funds must consider all of the following legal and best practice obligations when designing a procurement.
- 2.1.3 No procurement may proceed without an **Officer** having properly completed the **appropriate record forms (as made available by the Procurement Team)** and evidencing that they have considered all of the planning, documentation and process considerations detailed in this document) and that they have all the required approvals in place, (e.g., value, duration, lots, budget, risk, authority to procure/ award) all in accordance with the **Council's Procurement Strategy**.

2.2 Contract Types and Regimes

- 2.2.1 All spend must be classified by type and regime before a procurement process can be designed; this is due to different types and regimes having different financial thresholds and obligations. The types and regimes include.
- 2.2.2 **Types - Goods** (goods or products), **Services** (labour, consultants, or technical resources); or **Works** (Construction Projects);
- 2.2.3 **Regimes - Utilities** (Gas, electric, Water, transport e.g., Buses on a fixed network), **Light Touch** (social Care, legal services, education), **Concession** (Supplier risk/ paid by service users), **Exempt/ Excluded** (Not covered).

2.3 Defining the Need

- 2.3.1 **Contracting Officers** are required, before commencing a procurement to identify and specify the size, scope and quantity of the goods, services, or works required clearly and carefully; this to include not just any initial requirements, but also any optional extras or variations that may be required during the life of the contract.

2.4 Contract Durations

- 2.4.1 Before a procurement process can be commenced, **Contracting Officers** need to decide both the initial and maximum contract durations (including any optional extension) and what might be the justification to apply those extensions; noting the obligation to comply with these **Rules**, deliver against the **Council's** policy aims and achieve **Best Value**. The duration should not be set with the intention of circumventing these Rules or the **Relevant Procurement Legislation**.
- 2.4.2 Depending on the value and nature of the contract being procured, the duration may be limited by the **Relevant Procurement Legislation**. **Contracting Officers** must check the proposed duration with the **Procurement Team**, the **Corporate Manager (Legal Services)** and the **Executive Head of Finance** (budget checks) before finalising this decision.

2.5 Estimating Contract Values

- 2.5.1 The estimated contract value must include ALL monies that could be paid over the maximum life span of the contract (or Framework/ Dynamic Market), to the successful tenderer(s) regardless of the source; e.g., all planned and potential costs, additional requirements, fees/ commissions, contract extensions and/ or prizes/ participation costs plus any contingencies, whether funded by the authority, other grants or paid by service users. The total must also include VAT.
- 2.5.2 This value must not be artificially inflated or disaggregated as it will feed into various decisions, including route to market, and assessing whether a supplier has the capacity and capability to deliver the contract.
- 2.5.3 The above calculated value, calculations and assumptions must be documented in the appropriate record form provided by the Procurement team and where it exceeds the Authority threshold for a **Key Decision**, this must be reported in accordance with the **Key Decision** rules. The value must also be included in the relevant Notice.

2.6 Budgets

2.6.1 **Revenue Budget**

- (a) The **Head of Service** may approve the procurement of any contract for the supply of services, goods or works that will incur any revenue expenditure contained within an approved budget in accordance with these Rules.

2.6.2 **Capital Budget**

- (a) For any contract that will incur capital expenditure from an approved budget, the Head of Service shall consult with the relevant portfolio holder prior to proceeding with the procurement process in accordance with these Rules.

2.7 Duty to Consider Lots

- 2.7.1 When considering the above, **Officers** must consider the use of Lots and the potential benefit of working with (local) SMEs (e.g., reduce overhead costs, local knowledge, public benefit) with the opportunity to achieve economy of scale discounts, manage market uncertainty, and the potential contract management benefits of appointing a single supplier.
- 2.7.2 In considering how to make opportunities accessible to SMEs, **Officers** MUST ensure that they do NOT disaggregate, or sub-divide like of similar requirements purely for the sole purpose of avoiding the rules for above threshold/ public contracts. They must also ensure that the process for removing barriers for SMEs, does not unfairly advantage them.

2.8 Thresholds

- 2.8.1 Procurement Thresholds are determined by category and sector (regime); they determine which routes to market are available and what rules must be followed.
- 2.8.2 The Thresholds come from the *Relevant Procurement Legislation* (and updated by **Procurement Policy Notes**) and are based on the **Government Procurement Agreement** (GPA); these values being updated every other year.
- 2.8.3 The rules and available routes to market are determined by whether the estimated contract value is deemed to be 'Above Threshold' (Covered Procurements/ Public Contracts) or 'Below Threshold.' See [Procurement policy notes](#).
- 2.8.4 The follow table sets out the procedures to be applied by Contracting Officers.

Table 1 – Thresholds

Estimated Contract Value	Procedure / Notes
MINOR VALUE Up to £10,000 (including VAT)	Contracting Officers must follow procedure for Minor Value transactions. (e.g. small or consumable items). <u>At least 1 quote or use a Framework.</u>
LOW VALUE £10,001 to £30,000 (including VAT)	Contracting Officers must follow the procedure for Low Value transactions. <u>At least 3 quotes or use a framework.</u>
MEDIUM VALUE £30,001 up to £99,999 (including VAT)	Contracting Officers must follow the Medium Value transactions. <u>At least 3 Quotes, or advertised tender, or use a framework.</u> In line with these rules (<u>subject to any exception being agreed</u>). Seek advice from the Procurement Team / complete a Gateway Assessment to determine the most appropriate procurement route.
HIGH VALUE Exceeding £100,000 (including VAT) for goods, services, and works. (This is also the key decision threshold)	Contracting Officers must follow the tender procedure for High Value transactions and seek advice from the Procurement Team . Appropriate frameworks may continue to be used. For <u>Regulated Below Threshold contracts</u> – an <u>advertised tender</u> in line with these rules (subject to any exemption being agreed in line with these Rules). For <u>Concession Contracts and Utilities Contract</u> that are below the relevant Covered Procurement threshold – <u>a quotes or competitive selection process</u> in line with these rules (subject to any exemption being agreed in line with these Rules). For <u>Public Contracts</u> – a procurement procedure in line with the <i>Relevant Procurement Legislation</i> .

- 2.8.5 Regardless of the minimum obligations, **Contracting Officers** may choose (or may be instructed by the **Procurement Team**) to conduct a procedure in line with a higher value, including one which is for Above Threshold/ Covered Procurement; including issuing a **Tender Notice** to invite interested suppliers to submit a tender/ participate in the procurement.
- 2.8.6 **The Procurement Team** may also mandate such a process where the estimate contract value is very close to the relevant £GPA Threshold, or the contract is high profile/ of public interest, or where it is a condition of the funding that a specific process must be applied.
- 2.8.7 An explanation of what is required for each procurement process/ values is provided below.

2.9 Risk Assessments

- 2.9.1 **Officers** are required to carry out a risk assessment as part of the project initiation and planning process, and at the very least, in the following situations:
- (a) where the procurement is both a Key Decision and Above Threshold (a Covered Procurement) AND/ OR
 - (b) is establishing a new Framework or Dynamic Market with multiple suppliers.
 - (c) includes a Special Purpose Vehicle,
 - (d) is for a contract duration in excess of five years,
 - (e) includes design liabilities and/ or collateral warranties,
 - (f) involves intellectual property,
 - (g) involves a significant Health & Safety consideration,
 - (h) is likely to be subject to significant inflation risks, or
 - (i) where the spend relates to substantial direct awards or contract extensions that carry risks under the **Relevant Procurement Legislation**.
- 2.9.2 The outcome of the risk assessment must both be:
- (a) documented in the **Procurement Instruction Document** as it will feed into the process design and governance/ approval process; and
 - (b) added to the **relevant Risk Register** for appropriate monitoring.

2.10 Preliminary Market Engagement

- 2.10.1 **Officers** are required as part of designing both the **Competitive Tendering Procedure** and the **Associated Tender Documentation** to consider running a **Preliminary Market Engagement Event**. Such events should be used where a contract has been assessed as high value, high profile, complex or specialist in nature, the market is saturated, made up of SMEs, or is suitable for a consortia delivery model; or as otherwise directed by Procurement. This decision and reason are to be recorded in the **Procurement Instruction Document** and the **Tender Record**.
- 2.10.2 Where a **Preliminary Market Engagement Event** is to be used, it must be advertised using an appropriate notice, and the **Council** must take reasonable steps to ensure that participants at an event do not have an unfair advantage in the subsequent procurement; this to be assessed using the **Conflict-of-Interest Assessments** and documented in the **Tender Record**.
- 2.10.3 All information shared before, during or after a **Preliminary Market Engagement Event** must also be included within the subsequent Associated Tender Documents (tender pack).

2.11 Legal Considerations

- 2.11.1 **Purchase Orders**
- (a) A **Purchase Order** is required for all purchases, and must specify the the goods, services, or works to be provided, the price to be paid, the terms of payment and the terms and conditions that apply to the delivery of the purchase.
 - (b) For purchases with a value of less than £30,000 incl. VAT, the standard **Purchase Order** terms and conditions (available on the **Council's** website) are likely to be sufficient; however, should the **Contracting Officer** (in conjunction with the **Corporate Manager (Legal Services)**) determine that there are obligations or risks which are not sufficiently addressed within the **Purchase Order** terms and conditions, then an alternative contract may be selected.

2.11.2 **Contracts**

- (a) For purchases with a value equal to or in excess of £30,000, the standard **Purchase Order** terms and conditions are unlikely to be sufficient; for these purchases, the **Contracting Officer** is required to liaise with the **Corporate Manager (Legal Services)** to agree the most appropriate form of contracting.
- (b) All contracts must clearly detail the goods, services, or works to be provided, the price to be paid, the terms of payment, the terms and conditions that apply to the delivery of the purchase, the insurance requirements and any assurance required.
- (c) All contracts must be completed either in hardcopy or electronically and signed by authorised individual within both parties.
- (d) The contract may be a standard form, an amended standard form, a bespoke/ project specific contract, or a set of Heads of Terms; and these may be provided either in a finalised or draft form (depending on the value and procurement process being applied).
- (e) The agreed form of contract must be made available to suppliers as part of the **Procurement/ Associated Tender Documents** before they are required to submit a price/ tender.
- (f) Where the **Council** may require a limitation period of more than six years, e.g., works or construction consultancy, the **Corporate Manager (Legal Services)** must be consulted to determine whether the contract should be made under seal to extend the limitation period to 12 years.

2.11.3 **Bonds & Guarantees**

- (a) All contracts over £100k will include an option for the **Council** to request a **Performance Bond** and/ or a **Parent Company Guarantee**; or retain funds to protect the **Council** from **Supplier** failure. The adoption and value of which are at the discretion of the **Head of Service/ Corporate Manager (Legal Services)**. The requirement is likely to be applied where the project or a contractor is deemed as a high risk for failure (likelihood and/or impacts). Advice is available from the **Procurement Team, Corporate Manager (Legal Services)** and **Executive Head of Finance**.
- (b) Where a bond or guarantee is deemed necessary – this should be in a form acceptable to the **Council** and in consideration of the form of contract being used.

2.11.4 **Service Credits and Liquidated Damages**

- (a) **Contracting Officers** should, as part of designing the requirement, determine whether there is a requirement to include **Service Credits** and/ or **Liquidated Damages** as a means of managing the quality and timely delivery of the required performance. These should be proportionate to the complexity and risks inherent in the contract.

2.11.5 **Insurance**

- (a) Insurance levels must be set at level that is as appropriate to the nature and complexity of the contract and should be agreed with the **Executive Head of Finance**.

2.11.6 **Non-Procurement Legislation**

- (a) The design of any procurement must take into account all relevant legislation; as applies to the **Council**, the project, and the supply chain.
- (b) In the event that there is an incompatibility identified between two or more relevant pieces of legislation; this must be escalated to the **Corporate Manager (Legal Services)/ Executive Head of Finance** for advice and a decision on how to manage the conflict.

2.12 **Routes to Market, Document Requirement & Timescales**

- 2.12.1 The minimum process/ route to market is determined by the category and value.

- 2.12.2 The **Council** has decided that procurements should be let following the following hierarchy.
- (a) Where permitted by table 1 above, a single quote is permitted, this should be obtained from a suitable supplier.
 - (b) Where a competitive process is required by the above table, Contracting Officers should procure those requirements using one of the following options.
 - (i) Corporate contracts or own frameworks, Dynamic Markets or Dynamic Purchasing Systems
 - (ii) CCS frameworks, Dynamic Markets or Dynamic Purchasing Systems
 - (iii) Other frameworks, Dynamic Markets or Dynamic Purchasing Systems as permitted by Procurement Team.
 - (iv) A process in line with the following.
- 2.12.3 **Minor value transactions**
- (a) This level of transaction requires at least **ONE** written quotation to be obtained from a **Suitable Supplier**, be this directly or from a suitable **Framework**.
 - (b) Whilst a single quote is the minimum requirement, **Contracting Officers** are encouraged to obtain multiple quotes (at least two) to help demonstrate value for money.
 - (c) Emailed quotations/screen-prints are acceptable and copies must be retained.
 - (d) Further guidance can be provided by the **Procurement Team** on request.
- 2.12.4 **Low value transactions**
- (a) This level of transaction requires at least **THREE** written quotations to be obtained from **Suitable Suppliers** **OR** a **Competitive Selection Process** ran under a suitable **Framework**.
 - (b) If less than three quotations are received, the **Contracting Officer** must obtain an exemption in accordance with **Rule 22** of these Rules.
 - (c) Emailed quotations are acceptable but copies **must** be retained.
 - (d) Further guidance can be provided by the Procurement Team on request.
- 2.12.5 **Medium value transactions**
- (a) **Contracting Officers** must seek advice from the **Procurement Team** and where instructed, complete a **Gateway Assessment** prior to commencing any procurement activity to determine the most appropriate route to market. At this value range flexibility is required on a case-by-case basis to ensure that the procurement process followed is not too onerous for businesses, particularly **SMEs**, and that best value is achieved. This could be delivered by obtaining three or more written quotations, an advertised tender, or the use of a **Framework** as appropriate.
 - (b) Where a relevant Framework exists and is to be used then a **Competitive Selection Process** must be applied in line with the terms of the **Framework** (unless a direct award is agreed in line with these **Rules**).
 - (c) If quotations are deemed appropriate, and if less than three quotations are received, the **Contracting Officer** must obtain an exemption in accordance with these **Rules**.
 - (d) Emailed quotations are acceptable but copies must be retained in accordance with the Council's document retention policy.
 - (e) If the opportunity is being advertised, and the contract value exceeds £30,000 then an advert must be placed in line with the **Relevant Procurement Legislation**.

2.12.6 **High value transactions**

- (a) For all high value transactions, the tender process **must** be agreed by the appropriate **Head of Service** following receipt of advice from the **Procurement Team** and managed/supported either by the **Procurement Team** or such other person as the **Procurement Team** agrees.
- (b) A **Gateway Assessment Form** **must** be completed and submitted to **Procurement Team** unless otherwise agreed by the **Procurement Team**. The assistance of the **Procurement Team** is available to assist **Contracting Officers** in completing this document. This start-up document will require evidence of budgetary provision from the **Head of Service**.
- (c) Where the opportunity is being advertised, the process must be in line with the following.
 - (i) For Goods & Services *below threshold* – this must be a single-stage process.
 - (ii) For Works *below the Goods and Services threshold* - this must be a single-stage process.
 - (iii) For Works *above the Goods and Services threshold* – **Contracting Officers** may use a single-stage or a two-stage process.
 - (iv) For all Above Threshold/ covered procurements – **Contracting Officers** may use an **Open Procedure** or a **Competitive Flexible Procedure**.

In these cases, the advert will be placed, and the Procurement/ Associated Tender Documents will be published by the Procurement Team.

- (d) Where a relevant **Framework** exists and is to be used then a **Competitive Selection Process** must be applied in line with the terms of the **Framework** (unless a direct award is agreed in line with these rules).
- (e) Where the contract to be awarded is for works, and the value is *above the Goods and Services threshold*, and a suitable **Dynamic Market** or **Dynamic Purchasing System** is available, a procurement may be conducted in line with that arrangement and the **Relevant Procurement Legislation**.

2.12.7 **Direct Award**

- (a) **Contracting Officers** may directly award under a Framework if.
 - (i) This approach is agreed with by **Procurement Team**.
 - (ii) The **Framework** expressly permits direct awards for the value, duration, and technical requirements of the contract to be awarded.
 - (iii) A desk top evaluation is carried out in line with the **Framework** rules to identify the **Most Advantageous Tender**, and
 - (iv) The identified **Supplier** is a **Suitable Supplier** (in line with these **Rules**).
- (b) Alternatively, **Contracting Officers** may directly award a contract without advertisement or a competitive process with a **Suitable Supplier** if permitted by these **Rules** and the **Relevant Procurement Legislation**; specifically.
 - (i) Urgency
 - (ii) Single suppliers/ monopoly
 - (iii) Additional goods and services.

2.13 **Procedural Requirements**

- 2.13.1 Depending on the procedure selected to identify the **Most Advantageous Tender**, **Contracting Officers** will be required to complete a number of activities/ produce specific documents in line with the following tables.

2.13.2 Any deviation from the requirements in the following tables will require approval from the Procurement Team by way of an **Exemption Request**.

2.13.3 Timescales are indicative only.

Table 2a – below threshold procedures

Stages	Activities/ Documents	Single quote	Three Quotes	Advertised Below Threshold Tender G&S	Advertised Below Threshold Tender Works (above G&S threshold)
Process for identifying/ inviting suppliers to quote/ tender	Identify suitable supplier (s)	✓	✓	X	X
	Include at least 1 local supplier where possible	✓	✓	X	X
	Invite all interested/ listed Suppliers to tender	X	X	X	X
	Advert on Find a Tender Service/ Central Digital Platform	X	X	✓	✓
Communication methodology	Manage by email	✓	✓	X	X
	Manage on portal	X	X	✓	✓
Documentation to be provided	Specification created collaboratively with Supplier	✓	X	X	X
	Specification created by Council	X	✓	✓	✓
	Contract	✓	✓	✓	✓
	Tender Response Document	X	✓	✓	✓
	Form of Tender	X	X	✓	✓
	Tender Instruction inc. timescales	X	X	✓	✓
	RFQ Instructions	X	✓	X	X
Evaluation Methodology	Price Only Evaluation model	✓	✓	X	X
	Quality & Price Evaluation model	X	✓	✓	✓
	Quality, Social Value & Price Evaluation model	X	✓	✓	✓
Suitability assessment	Due Diligence Form - Capacity & Capability - part of tender	X	✓	✓	✓
	SSQ/ CAS- Conditions of Participation/ Capacity & Capability - discrete stage	X	X	X	✓
	SSQ/CAS- Conditions of Participation/ Exclusion as part of Tender submission	X	X	X	X
Review/ negotiation opportunity	Acceptability Review	✓	X	X	X
	Opportunity for a Presentation to Suppliers round	X	X	X	X
	Opportunity for a Presentation from Suppliers round	X	X	X	X
	Opportunity for Negotiation rounds	✓	✓	X	X
	Opportunity for product testing, site visits etc.	X	X	X	X
	Opportunity to Limit Suppliers	X	X	X	✓
process considerations	Min Number of evaluators	2	3	3	3
	Estimated timescales	2-4 weeks	4-6 weeks	6-10 weeks	6-10 weeks
Outcome notifications	Selection stage Outcome Letters	X	X	X	X
	Award Outcome Letters to all suppliers	X	✓	✓	✓
	Standstill Period (notice) – Find a Tender Services	X		Optional	
	Award Notice – Find a Tender Service – Over £30k	Over £30k incl. VAT			
	Modification Notice - Find a Tender Service	N/A			

Table 2b – Above Threshold Procedures

Stages	Activities/ Documents	Covered Procurement - Open Procedure	Covered Procurement - Competitive Flexible Process	Covered Procurement - Direct Award
Process for identifying/ inviting suppliers to quote/ tender	Identify suitable supplier (s)	X	X	✓
	Include at least 1 local supplier where possible	X	X	X
	Invite all interested/ listed Suppliers to tender	✓	X	X
	Advert on Find a Tender Service/ Central Digital Platform	✓	✓	X
Communication methodology	Manage by email	X	X	X
	Manage on portal	✓	✓	✓
Documentation to be provided	Specification created collaboratively with Supplier	X	✓	✓
	Specification created by Council	✓	✓	✓
	Contract	✓	✓	✓
	Tender Response Document	✓	✓	X
	Form of Tender	✓	✓	X
	Tender Instruction inc. timescales	✓	✓	X
	RFQ Instructions	X	X	X
Evaluation Methodology	Price Only Evaluation model	X	X	X
	Quality & Price Evaluation model	X	X	✓
	Quality, Social Value & Price Evaluation model	✓	✓	✓
Suitability assessment	Due Diligence Form - Capacity & Capability - part of tender	X	X	X
	SSQ/ CAS- Conditions of Participation/ Capacity & Capability - discrete stage	X	✓	✓
	SSQ/CAS- Conditions of Participation/ Exclusion as part of Tender submission	✓	✓	X
Review/ negotiation opportunity	Acceptability Review	X	X	✓
	Opportunity for a Presentation to Suppliers round	X	✓	X
	Opportunity for a Presentation from Suppliers round	X	✓	X
	Opportunity for Negotiation rounds	X	✓	✓
	Opportunity for product testing, site visits etc.	X	✓	X
	Opportunity to Limit Suppliers	X	✓	X
process considerations	Min Number of evaluators	3	4	2
	Estimated timescales	12-14 weeks	over 26 weeks	2 weeks
Outcome notifications	Selection stage Outcome Letters	X	✓	X
	Intermediate outcome letters	X	✓	X
	Award Outcome Letters to all Suppliers	✓	✓	X
	Standstill Period (notice) – Find a Tender Services	Mandatory		
	Award Notice – Find a Tender Services	✓	✓	✓
	Modification Notice - Find a Tender Service	In accordance with Legislation		

Table 2c – Frameworks & DPS

Stages	Activities/ Documents	Direct Award under a Framework	Competitive Selection Process Under a Framework	Competitive Process under a Dynamic Market	Competitive Process under a Dynamic Purchasing System
Process for identifying/ inviting suppliers to quote/ tender	Identify suitable supplier (s)	X	X	X	X
	Include at least 1 local supplier where possible	X	X	X	X
	Invite all interested/ listed Suppliers to tender	✓	✓	✓	✓
	Advert on Find a Tender Service/ Central Digital Platform	X	X	✓	X
Communication methodology	Manage by email	X	X	X	X
	Manage on portal	X	✓	✓	✓
Documentation to be provided	Specification created collaboratively with Supplier	✓	X	X	X
	Specification created by Council	✓	✓	✓	✓
	Contract	✓	✓	✓	✓
	Tender Response Document	X	✓	✓	✓
	Form of Tender	X	✓	✓	✓
	Tender Instruction inc. timescales	X	✓	✓	✓
	RFQ Instructions	X	X	X	X
Evaluation Methodology	Price Only Evaluation model	✓	X	X	X
	Quality & Price Evaluation model	✓	✓	✓	✓
	Quality, Social Value & Price Evaluation model	✓	✓	✓	✓
Suitability assessment	Due Diligence Form - Capacity & Capability - part of tender	✓	X	✓	✓
	SSQ/ CAS- Conditions of Participation/ Capacity & Capability - discrete stage	X	X	X	X
	SSQ/CAS- Conditions of Participation/ Exclusion as part of Tender submission	X	X	X	X
Review/ negotiation opportunity	Acceptability Review	✓	X	X	X
	Opportunity for a Presentation to Suppliers round	X	X	✓	X
	Opportunity for a Presentation from Suppliers round	X	X	✓	X
	Opportunity for Negotiation rounds	X	X	✓	X
	Opportunity for product testing, site visits etc.	X	X	✓	X
	Opportunity to Limit Suppliers	X	X	✓	X
process considerations	Min Number of evaluators	2	3	3	3
	Estimated timescales	4-12 weeks	4-12 weeks	over 20 weeks	over 20 weeks
Outcome notifications	Selection stage Outcome Letters	N/A			
	Award Outcome Letters to all suppliers	✓	✓	✓	✓
	Standstill Period (notice) – Find a Tender Services	Optional			
	Award Notice- Find a Tender Service	✓	✓	✓	✓
	Modification Notice - Find a Tender Service	In accordance with Legislation			

2.14 Procurement Programme

2.14.1 In addition to the indicative timescales included in Tables 2a, 2b and 2c above, **Officers** will also need to plan for and include time allowances for complying with the **Council's** approvals and reporting requirements. This being particularly significant where a procurement is classified as a **Key Decision** and/ or is to be monitored through the **Gateway Process**.

2.14.2 **Officers** should work with the **Procurement Team** to agree this programme.

3 Procurement Documentation

3.1 Overview

- 3.1.1 The **Procurement/ Associated Tender Documents** required will depend on the selected route to market, the stages, and the activities to be completed; **Table 1** above set out the minimum process and **Table 2** the minimum notifications required.
- 3.1.2 Where the procurement is a **Medium Value** or **High Value** procurement and is being advertised, it must be managed through the **Council's** e-procurement system.

3.2 Notices

- 3.2.1 The publication of the various notices is a legal requirement both to create effective competition and ensure transparency in the spending of public funds, the most commonly used notices and reasons for use are detailed below:
- 3.2.2 Notices must be published in line with the following.

Table 3 - notices

Type of Notice	Regulated Below Threshold Contract Advertised Competition	Above Threshold/ Covered Procurement Advertised Competition	Award under a Framework
Preliminary Market Engagement Notice	Optional, to be used where determining the appropriate route to market, approach to delivering the contract		
Tender Notice (in line with the procedure design)	If advertising anywhere, then must also advertise on the Central Digital Platform	must be advertised on the Central Digital Platform	Not required
Procurement Termination Notice	Not required	Required	Required

- 3.2.3 The **Council** may also be required to be published other notices in relation to their plans, events, and/ or other decisions depending on the **Relevant Procurement Legislation**, **Contracting Officers** should liaise with the **Procurement Team** for all **Medium** and **High Value** contracts.

3.3 Invitation to Tender

- 3.3.1 **Contracting Officers** must ensure that they effectively and transparently communicate with all **Suppliers** being invited to submit a quote/ tender.
- 3.3.2 This document must detail.
 - (a) The exclusion grounds to apply, the conditions of participation, the award criteria, and the assessment methodology.
 - (b) The design of the procurement,
 - (i) Where under a Framework – this document will set out the process in line with the framework requirements.

- (ii) Where tendered openly - whether there will be a discrete **Conditions of Participation** stage, the number of **Tender Rounds**, whether **Suppliers** will be limited between stages/ rounds and whether there will be any **Supplier** interactions such as negotiations/ Dialogue/ presentations (subject to such being permitted by the **Relevant Procurement Legislation**). It must also detail what is required from the supplier at each stage to enable them to progress/ have a chance to be awarded the contract.
 - (c) The procedural rules including providing detail as to how the **Council** will manage clarification, incomplete tenders or other issues, the breach of which could amount to their being excluded from the procurement process.
 - (d) The deadline/ time allowed for **Suppliers** to submit a **Quote/ Tender**, this to be proportionate with the complexity of the requirements and in line with the minimum timescales set out in the **Relevant Procurement Legislation**.
 - (e) The means in which the tender must be submitted.
 - (f) It must also make clear whether there is scope to refine the award criteria/ modify the procurement after the **Tender Notice** has been published (this also needing to have been stated in the Tender Notice).
 - (g) It must also detail how suppliers should communicate with the **Council** during the procurement process and the various rounds/ activities.
- 3.3.3 This document must be accompanied by a specification document, a set of terms and conditions and any other information as may be needed to allow interested **Supplier** to submit a compliant tender. Support and guidance is available from the **Procurement Team** and the **Corporate Manager (Legal Services)** where needed.

3.4 Specification

- 3.4.1 In collating details of the **Council's** requirements, **Contracting Officers** must detail their requirements by reference to "performance or functional requirements", and must not make reference to standards or product without accepting equivalence. Equally, in setting these requirements, the **Council** must not seek to artificially narrow competition or favour/ disadvantage a **Supplier**.

3.5 Due Diligence / Standard Selection Questionnaire/ Conditions of Participation

- 3.5.1 It is essential that the **Council** only appoint **Suitable Suppliers** to deliver public sector contracts; to that end, the following apply.
- (a) **Contracting Officers** must check that **Suppliers** have the technical, legal, and financial capability, capacity, and experience needed to deliver the specified requirements; how this is to be tested will depend on the value of the contract.
 - (i) **Regulated Below Threshold Contracts** - a basic "suitability" check as part of the single stage assessment
 - (ii) **Above threshold/ Covered Procurements** – in line with the government template [PPN 03/24: Standard Selection Questionnaire \(SQ\)](#)
 - (b) When procuring works, this technical, legal, and financial capability, capacity, and experience assessment should be based on the **Common Assessment Standard** either in full for above threshold or a modified version where below threshold.

3.6 Award Criteria

- 3.6.1 **Contracting Officers** are required to design the **Award Criteria** and **Assessment Methodology** to identify the **Most Advantageous Tender**; this to be in line with these Rules and the **Relevant Procurement Legislation**.

- 3.6.2 This must include detailing whether the Assessment Methodology will be based on lowest price, Price per Quality Point, or a price: quality ratio.
- 3.6.3 In all case, the following will apply.
 - (a) **For technical/ quality, social value and/ or Value for Money considerations** - the detailed questions (award criteria) should include specific response guidance, the importance/ weighting to be applied to each question and the assessment methodology/ scoring matrix.
 - (b) For **Price consideration** – details on how the value will be calculated and then how it will be evaluated (e.g., the weighting allocated to the price as a whole or parts therein or divided by the quality score).
- 3.6.4 For **Public Contracts**, once the **Tender Notice** has been published, this **Award Criteria** cannot be amended (refined); unless specifically allowed for in the **Tender Notice**, the amendment is not substantial, and the change is implemented before the last chance to submit tenders as per the **Relevant Procurement Legislation**.
- 3.6.5 Further guidance on designing the award criteria and **Assessment Methodology** is available from the **Procurement Team**.

3.7 Form of Tender

- 3.7.1 All Suppliers will be required to sign a disclaimer when submitting their tender; specifically relating to their conduct during the procurement, their adherence to the condition of tendering, the acceptance of the contract terms and their agreement to hold their price open for a specific amount of time.

3.8 Document Format

- 3.8.1 All documentation and communication will be issued and returned electronically, the documents may, therefore, be issued as attachment in Microsoft or Adobe formats (unless otherwise explicitly stated) or built into and answered in the e-tendering portal.

4 Procurement Process & Contract Management

4.1 Procurement Launch

- 4.1.1 The Council's is required to publish a full set of procurement/ Associated Tender Documents when they publish the Tender Notice. Table 2a & b above state when a notice is required and where it must be published.
- 4.1.2 Suppliers can access these opportunities from the following links:
 - 4.1.3 E-tendering portal – via the Council's web site
 - 4.1.4 Find a Tender Service (find-tender.service.gov.uk)

4.2 Process Management

- 4.2.1 All competitive procedures (level 2 and above) must be managed through the **Council's** e-tendering Portal, including all of the following activities.
 - (a) Communication with Suppliers
 - (i) All communication with suppliers should be, as far as practicable, be via electronic means, e.g., the e-tendering portal.
 - (b) Clarifications
 - (i) The Council reserves the right to clarify any omissions, ambiguities, or errors as part of its procurement procedure.

- (ii) All clarifications (by suppliers and the Council) must be raised and managed through the e-tendering portal.
- (iii) Where a supplier asks a question, the questions and responses must be shared with all suppliers; an exception being where the supplier specifies that the question is commercially sensitive, and the Council accepts this.
- (iv) Where, as part of the evaluation process, the Council identifies something that appears erroneous, needs to be clarified or was omitted, this must also be raised through the e-tendering portal.
- (v) A record of all clarifications must be maintained.

4.3 Evaluation Process

- 4.3.1 The **Council** will identify **Suitably Qualified and Experience Persons (SQEP)** to carry out the evaluations of the various requirements/ question(s) in accordance with the **Conditions of Participation/ Award Criteria** and **Assessment Methodology**. All evaluators will then be required to attend a moderation session (even where there is only one evaluator) with moderation being led by a member of the **Procurement Team**.
- 4.3.2 At some/ multiple points in the procurement, the **Council** will/ must check a Supplier (and their supply chain's) suitability to deliver the contract. Where a supplier is assessed as **Excluded or Excludable** (mandatory or discretionary exclusion grounds) the supplier will/ may not be permitted to continue within the process.
- 4.3.3 At **Conditions of Participation** stage, depending on the route to market, the **Council** may limit the number of suppliers to invite through to the next round, depending on how the Competitive Tendering Procedure has been designed.
- 4.3.4 Additionally, at intermitted tender stages, the **Council** may, through evaluation, limit the number of suppliers to invite through to the next round.
- 4.3.5 The evaluation of the quality and social value award criteria, and the price will be conducted separately to ensure independence and integrity.
- 4.3.6 Where, as part of the evaluation process, evaluators identify any information is incomplete, inaccurate, or misleading, the Council may seek clarifications from Suppliers, where it would not be unfair to do so; this to be conducted in line with the **Relevant Procurement Legislation**.
- 4.3.7 The outcome of this process to be recorded in the **Tender Report**.

4.4 Negotiations

- 4.4.1 Negotiations will only be permitted where this is expressly stated in the procurement documentation, and this will be carried out in compliance with the stated process.
- 4.4.2 If a supplier attempts to negotiate a contract post award, where this is not permitted, the **Council** may disregard the **Supplier** and award the contract to the next ranked compliant **Supplier**.

4.5 Receiving and Opening Tenders

- 4.5.1 **Suppliers** must submit tenders in line with the **Invitation to Tender**, and these will be open in line with said document. Where tenders are submitted in hard copy, these tenders will only be opened after the published deadline has passed and details of who opened them (a minimum of two people) and when will be recorded and witnessed; these to then be stored securely (before and after) and in line with the **Council's Retention Policy**. Where a **High Value** contract, the witnesses must include a member of the **Procurement Team**.
- 4.5.2 Any tenders received late may be recorded as such and excluded as non-compliant, except in exceptional circumstances which will be at the sole discretion of the **Council**. This to be noted in the Tender Record.

4.6 Preferred Supplier Identification & Assurance

- 4.6.1 Once a preferred supplier has been identified, the supplier suitability checks referenced above must be refreshed to ensure that they are still a **Suitable Supplier** (have not become an **Excluded Supplier**).

4.7 Award Decisions and Approvals

- 4.7.1 Tender Record (Audit Trail)
- (a) Throughout the life of the procurement, all decisions must be documented in a Tender Record, including the recommendation to award.
- (b) This record is also required where a Direct Award is made.

4.8 Award Governance

- 4.8.1 Before **Suppliers** can be notified of the recommendation, the decision to award must be approved in accordance with the **Council's Scheme of Delegation** (and depending on value/ risk, in accordance with a **Gateway process**)

4.9 Supplier Notifications

- 4.9.1 Once the recommendation is approved, and depending on the contract value, Suppliers must be notified of the outcome at the same time.
- 4.9.2 For **Public Contracts**, **Suppliers** must be issued with an **Assessment Summary BEFORE**, a **Contract Award Notice** is published.
- 4.9.3 For **Regulated Below Threshold Contract**, **Suppliers** should be provided with the same information (as best practice) but there is no requirement to publish a **Contract Award Notice**.
- 4.9.4 This summary must include the scores and the reason for those scores, for each of the award criteria, in consideration of the **Assessment Methodology** as set out in the procurement/ associated tender documents. Unsuccessful **Suppliers** must also be provided with the same information relating to the successful supplier.

4.10 Standstill Period & Contract Notices.

- 4.10.1 For all **Above Threshold/ Covered Procurements**, the **Council** must apply a **Standstill Period** before entering into the contract. (Excluding Utilities, Light Touch or contracts awarded under a framework, in which cases a standstill period is optional)
- 4.10.2 A Contract Award Notice must be published in accordance with **Relevant Procurement Legislation**.
- 4.10.3 Additionally, where required under the **Relevant Procurement Legislation**, the **Council** must publish a **Contract Details Notice** within 30 days on entering into the contract: (generally, for contract with a value in excess of £30k inc. VAT).
- 4.10.4 Further guidance on Notices is available from the **Procurement Team**.

4.11 Contract Execution (Thresholds/ Approval)

- 4.11.1 All contracts must be signed or executed in accordance with the following rules:

Table 4 – Contract approval

Corporate Manager (Legal Services)	Works – executed as a Deed, regardless of Value
	Goods & Services – signed underhand
Contracting Officers	In line with Financial Regulations Scheme of Delegation
Head of Service	In line with Financial Regulations Scheme of Delegation
Executive Head of Finance	In line with Financial Regulations Scheme of Delegation
Key Decisions	In line with Financial Regulations Scheme of Delegation

- 4.11.2 A contract must only be awarded and signed by a person authorised to do so in the Scheme of Delegation subject to receipt of confirmation from a Head of Service or Procurement Service (or finance officer) that the appropriate budget holder has the funds in place to sustain the contract prior to award.
- 4.11.3 For all contracts where the contract value exceeds £100,000 the contract must either:
- (i) Be made under the authority’s seal in accordance with these rules; or
 - (ii) Signed by at least two officers authorised by the Corporate Manager (Legal Services).
- 4.11.4 The decision as to whether to sign or to seal a contract shall rest with the Corporate Manager (Legal Services). For the avoidance of doubt, no contract shall be either be attested by or signed by any member.
- 4.11.5 For contracts where the contract value is up to £100,000, the contract may be signed by a single officer with delegated authority unless the Corporate Manager (Legal Services) requires it to be made under the authority’s seal
- 4.11.6 A full and complete audit trail of all procurement activity resulting in the award of a contract must be retained in electronic or hard-copy format as appropriate.
- 4.11.7 A record of the contract and a copy of all executed contracts must be retained in electronic or hard-copy format as appropriate. Physical copies of contracts executed as a deed must be stored securely.
- 4.11.8 When acting under a general delegation in awarding a contract, Contract Officers must make an appropriate record of the decision and notify democratic services.

5 Contract Management

5.1 Overview

- 5.1.1 Contracts must be managed in accordance with the **Relevant Procurement Legislation** and the **Council’s** own processes. To ensure this takes place, for every contract the Head of Service must designate an appropriate lead officer as primary contact and Contract Manager.
- 5.1.2 Contracts deemed as large/ strategically important must have a dedicated project manager to ensure compliance with these Rules.

5.2 Meetings & Performance Management

- 5.2.1 The **Contracting Officer/ Manager** will set up a series of meetings to kick off, administer and manage delivery of the contract. These meeting will as a minimum monitor and report on.

- (i) **Supplier & Supply Chain Suitability** – ensure the **Council** is not contracting directly or indirectly with unsuitable (Excluded/ Excludable) suppliers.
- (ii) **Key Performance Indicators** – delivery against the agreed levels.
- (iii) **Contract Performance** – e.g., satisfactory delivery of the contract.
- (iv) **Council Payment Performance** –the **Council** is required to pay the Supplier within 30 days of receiving a valid/ undisputed invoice.
- (v) **Supplier Payment Performance** - the Supplier is required to pay their supply chain within 30 days of receiving a valid/ undisputed invoice.
- (vi) **Supplier Contracts** – the supplier is required to enter into a legally binding agreement with suppliers on whom they are relying on to meet the technical, legal, or financial **conditions of participation**.
- (vii) **Modifications** – all modifications to a contract must be documented, along with their value and justification.

5.3 Contract Modifications

- 5.3.1 All modifications must be managed in accordance with the contract, the contract value, and the **Relevant Procurement Legislation**. Where required by said legislation, a **Contract Change Notice** must be published.
- 5.3.2 All contract modifications explicitly included for within the original contract may be approved in line with the value of the modification and the thresholds in Table 3.
- 5.3.3 Any modification not explicitly included for within the original contract must be approved in accordance with the cumulative value and Table 3; where such a modification means the contract becomes subject to the Key Decision process, approval must be in line with that process.

5.4 Termination

- 5.4.1 In the event that any performance requirements are not being met, or there is some other breach of the **Relevant Procurement Legislation**, the **Council** may terminate the contract in accordance with either the stated contract clauses and/ or the **Relevant Procurement Legislation**. Where a contract is terminated, any relevant notifications will be published in line with the said legislation.

5.5 Notices

- 5.5.1 Where required under the **Relevant Procurement Legislation**, the **Council** will publish the following notices. These notices include.
 - (a) **Contract Performance Notice** – used to report on KPIs and whether the contract is being delivered to the required standards (on **Public Contracts** over £5m inc. VAT).
 - (b) **Payment Compliance Notice** – used to publish the **Contracting Authorities** payment performance against all Public Contracts as a minimum.
 - (c) **Contract Modification Notice** – used to publish detail of a proposed modification to a contract where there is an increase of decrease in the estimated contract value over a specific value/ percentage.
 - (d) **Contract Termination Notice** – used where the **Council** terminates a contract in full.
- 5.5.2 Further Guidance is available from the **Procurement Team**.

6 Other Procurement Considerations

6.1 Exemption Requests & Approvals

- 6.1.1 Where a **Contracting Officer** seeks to deviate from these Rules, an **Exemption Request** must be made in accordance with the following.
- 6.1.2 An **Exemption Request** must be submitted in writing to the **Procurement Team** and must include the following information as a minimum.
- (a) A description of the required goods, services, or works, along with details of the contract value and duration, plus and any other pertinent information that may impact the decision to approve the **Exemption Request**.
- (b) A reason/ justification for requesting the exemption, e.g.
- (i) **Single supplier** – competition is absent for technical reasons (for which evidence of testing the market/ market knowledge will be required).
 - (ii) **Urgency** – the need is immediate and does not allow for any form of competitive process (and there are no Frameworks or Corporate Contracts that can be used).
 - (iii) **Protection of life/ risk of harm to property** – potentially in response to adverse weather or other health and safety risks being identified and for which an advertised process is not possible.
 - (iv) **Legal Advice/ Counsel** – the nature of the requirement prevents a competitive process – either due to time or the technical nature of the requirements.
 - (v) **Contract extension/ variation** – where it is proposed to extend a contract where this was not included as an express provision in the contract and subject to such a modification demonstrating Best Value and not breaching the Relevant Procurement Legislation.
 - (vi) **New, additions requirements or partial replacement** – where a direct award is recommended to a Supplier who has delivered previous goods, services or works and there is a benefit to the **Council** to instruct the same **Supplier** to deliver the additional requirements.
 - (vii) **Social Value** – where it has been identified that it is not in the best interest of the **Council** to mandate a requirement for **Suppliers** to deliver **Social Value** as part of the contract.
 - (viii) **Legislative compliance** – where it is determined that statute or subordinate legislation requires an exemption of these Rules.
- 6.1.3 Properly completed forms will be sent to the appropriate persons for approval, in line with **Table 5** below. They will then complete the form with the following.
- (a) Details of whether the request is approved or declined.
- (b) The reason for the decision
- (c) The names and signature of those making the decision and the date on which the decision is made.
- 6.1.4 An **Exemption Request** will never be agreed where it seeks to.
- (a) Override a **Conflict-of-Interest**, the **Code of Conduct** relating to **Hospitality** or **Gifts**.
- (b) Breach the **Relevant Procurement Legislation**.
- 6.1.5 A retrospective **Exemption Request** is unlikely to be agreed other than where the emergency/ risk of harm to person or property occurs outside normal working hours and any delay could exacerbate the harm.

- 6.1.6 A contract may only be executed after the Exemption Request has been approved (signed and dated).

Table 5 – Exemption Approvals

Estimated Contract Value	Authorisation / Notes
MINOR VALUE Up to £10,000 (including VAT)	Corporate Manager (Legal Services) OR Executive Director AND Executive Head of Finance / S151 officer OR Deputy S151 Officer
LOW VALUE £10,001 to £30,000 (including VAT)	Corporate Manager (Legal Services) OR Executive Director AND Executive Head of Finance / S151 officer OR Deputy S151 Officer
MEDIUM VALUE £30,001 up to £99,999 (including VAT)	Corporate Manager (Legal Services) OR Executive Director AND Executive Head of Finance / S151 officer OR Deputy S151 Officer
HIGH VALUE Exceeding £100,000 (including VAT)	Advice must be sought from the Corporate Manager (Legal Services) to determine whether the decision to make the exemption would amount to a Key Decision . Key Decision procedures must be applied if a key decision. Exemptions shall be authorised by: Corporate Manager (Legal Services) OR Executive Director AND Executive Head of Finance / S151 officer OR Deputy S151 Officer N.B exemption approvals only relate to the exemption and is not an approval for a contract.

- 6.1.7 Where a contract is awarded under an **Exemption Request** and is over £30k Inc. VAT, a Notice must be published on in accordance with **Relevant Procurement Legislation**.

6.2 Collaborative Procurements

- 6.2.1 Where the **Council** is required under its own powers or at the request of a partner authority to procure on its behalf, those procurements must comply with **Relevant Procurement Legislation**, and other relevant legislation more generally,
- 6.2.2 Each **Council** must comply with their own rules with regards Financial, Procurement and delegated authority requirements; and then equally, their own scheme of delegation for contract signature.

6.3 Purchase Cards

- 6.3.1 The **Council** operates a purchase card facility; these are used for low value or one-off incidental spend where it is not efficient to add a supplier to the finance system and carry out a competitive procurement process. They may not be used as a means to disaggregate or bypass these rules.

6.4 Community Right of Challenge

- 6.4.1 Section 81 of the Localism Act 2011 permits relevant bodies (charities, community bodies, town and parish Authority Services and Staff) to submit Expressions of Interest to provide Authority Services. Corporate Services shall maintain and publish a timetable for the submission of interest. Any such expressions shall be forwarded to the Transformation Team.

6.5 Disposal of Goods & Assets

- 6.5.1 Where the **Council** has goods or assets that are no-longer required these are to be disposed of through an objective process such as a closed-bid auction process.

6.6 Grants

6.6.1 Application Process

- (a) The **Council** is the recipient and administrator of substantial funding from central government and potentially, other funders.
- (b) Where this funding is to be granted to organisation to deliver specific aims and objectives for the **Council's** community, this will be administered through a formal process.
- (c) Further guidance and support can be found at [Grants for community organisations - Rushmoor Borough Council](#)

6.6.2 Grant Agreements

- (a) Where a grant is issued, it must be awarded in accordance with the **Council's** process for advertising, selecting, and awarding grants.
- (b) All grants must include:
- (i) Details of what the applicant has committed to provide for the funding.
 - (ii) Payment details including any payment conditions and frequency; and
 - (iii) Any flow-down requirements relating to obligations that apply to the **Council**, including where relevant, reporting and clawback options.
 - (iv) All grants which include clawback options **MUST** be executed as a Deed.

6.6.3 Monitoring & Reporting

- (i) A register of all grants issued must be maintained, this to include details of the recipient, the value, the funder, and the purpose.
- (ii) Where the funding including reporting or other delivery/ payment obligations, this information must also be included in the register, e.g., conditions, monies paid, and delivery against the funding.
- (iii) Where the grant includes reporting obligations, periodic meetings (as agreed as part of the grant agreement) must be held between the recipient and the **Council** to ensure the recipient is both delivering as per their application and providing the required information. Notes and data from these meetings must be stored against the Grant Register.

7 Glossary of Terms

For the purpose of these Rules the following terms have the meanings set out below:

Term	Meaning of Term
Approved Dynamic Market or DPS	A Dynamic Market approved for use by the Corporate Procurement Team
Approved Framework	A Framework (including Open Frameworks) approved for use by the Corporate Procurement Team
Assessment Summary	<p>A letter detailing the outcome of the assessment of any Tenders received. For the winning Supplier it will include their scores and reasons for those scores against each of the published Award Criteria.</p> <p>For all losing Suppliers, the letter will include their scores and the reason for those scores against each of the published Award Criteria and the same information for the winning Supplier</p>
Award Criteria/ Assessment Methodology	<p>criteria set in accordance with section 23 of PA23 against which Tenders may be assessed for the purpose of awarding a Public Contract; these criteria must.</p> <ul style="list-style-type: none"> • Relate to the subject-matter of the Contract, • Be sufficiently clear, measurable, and specific, • Not break the rules on technical specifications in section 56, and • Be a proportionate means of assessing Tenders, having regard to the nature, complexity, and cost of the Contract. <p>And where there are more than one, their weighting or relative importance must be stated.</p> <p>Officers are also required to describe how the Tenders will be assessed (a scoring matrix), and the document must state whether failing to meet a specific score could amount to a Supplier being excluded from the procurement</p>
(Regulated/ nominated) Below Threshold Procurement	A procurement which is below the Covered Procurement threshold and not exempt from the PA23. PPN-11_23-New-Thresholds.pdf (publishing.service.gov.uk) These values apply for 2024 and 2025.
Best Value	The Best Value Duty relates to the statutory requirement for local authorities and other public bodies defined as best value authorities in Part 1 of the Local Government Act 1999 (“the 1999 Act”) to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness ”
Breach of Contract	Failure to meet any of the conditions of the Contract
Capital Expenditure	Expenditure involves acquiring or enhancing fixed assets with a long-term value to the authority, such as land, buildings, and major items of plant, equipment, or vehicles.
Capital Programme	The programme of Capital expenditure agreed by Cabinet.

Categories	Where establishing a dynamic market, the Council may divide the DM into categories (Lots/ specialism) to facilitate access by SMEs and effective competition
Code of Conduct	The code of conduct binding on all Officers of the Council and being within Officer Code of Conduct - Part 5 Section 8 of the Council's Constitution and viewable on the Council's website.
Competitive Flexible Procedure	This is a multi-staged procurement which can include a discrete Conditions Of Participation stage, limiting Suppliers (following the SQ or other assessments), one or more Tender rounds (and intermediate assessments), refinement of the Award Criteria , modification of the Tender procedure, interaction with the Suppliers (e.g., negotiations, presentations, site visits) and then following a final submission, there is a potential to finesse the submission and subsequent staged awards – all this being subject to what was specified in the Invitation to Tender document.
Competitive Selection Process	A procurement process where all of the Suppliers on the Framework (or a specific Lot) are invited to submit a Tender in line with the Framework rules and in line with the Specification for the Contract to be let, and the Specification of the Framework .
Competitive Tendering Procedures	This includes the Open Procedure and the Competitive Flexible Procedure
Concession Contracts	a Contract for the supply, for pecuniary interest, of works or services to a Council where— a) at least part of the consideration for that supply is a right to exploit, and b) under the Contract the Supplier is exposed to a real operating risk. (it may also be paid for by service users rather than the Council).
Conditions Of Participation	this is a condition that a Supplier must satisfy if the Supplier is to be awarded the public Contract . These conditions must be a proportionate means of assuring that a Supplier has. <ul style="list-style-type: none"> the legal and financial capacity to perform the Contract, or the technical ability to perform the Contract.
Conditions of Tendering	The rules/ conditions by which a competitive procurement process will be conducted, and with which a Supplier must comply if they are not to be excluded from the procurement process.
Conflict Assessments	Means an assessment that has been carried out by the Council and in which, it identifies all and any potential or actual conflicts and the actions taken/ to be taken to mitigate them to ensure equal treatment.
Conflict of Interest	There is a Conflict of Interest in relation to a Covered Procurement if— A person acting for or on behalf of the Council in relation to the Procurement has a Conflict of Interest, or <ul style="list-style-type: none"> A Minister acting in relation to the Procurement has Conflict of Interest
Contract	an agreement to be made/ concluded in writing between the Council and a Supplier for a specific set of requirements. For a low value contract, this may be made by way of raising a Purchase Order (PO) and attaching the Council's standard PO terms and conditions.

Contract Award Notice	<p>A notice that is published on the Central Digital Platform and that informs the market of and intent to award and where a Mandatory Standstill Period (or Voluntary Standstill Period) is required, this notice initiates that Standstill Period.</p> <p>There is a different form of notice for below and above threshold procurements.</p>
Contract Change Notice	<p>For Contracts let under the Procurement Act 2023 (after 24th February 2025)</p> <p>A notice that must be published before a Contract modification is applied, where that modification increases or decreases the estimated value of the Contract by—</p> <ul style="list-style-type: none"> in the case of a Contract for goods or services, 10 per cent or less, • in the case of a Contract for works, 15 per cent or less, or • the modification increases or decreases the term of the Contract by 10 per cent or less of the <p>Issued in accordance with section 75.</p> <p>For Contracts let under the Public Contracts Regulations 2015</p> <p>A modification notice must be published where a modification is made under Regulation 72(b) or 72(c).</p>
Contract Details Notice	<p>A notice that confirms that the Contract has been entered into within the previous 30 days. There is a different form of notice for below and above threshold procurements.</p>
Contract Management	<p>Contract Management is the active management of the relationship between the Council and the Supplier over the term of the Contract for the provision of services, goods and works to a set of agreed standards.</p>
Contract Management Notices	<p>For Contracts let under the Procurement Act 2023 (PA23) (after 24th February 2025)</p> <p>The Council will be required to publish the following in line with the PA23.</p> <p>Contract Performance Notice – required for all Public Contracts over £5m and used to report on KPIs and whether the Contract is being delivered to the Council's required standards e.g., satisfactory performance against the KPIs, and/ or a breach of Contract which resulted in, partial termination, and/ or damages.</p> <ul style="list-style-type: none"> • Payment Compliance Notice – used to publish the Contracting Authorities payment performance. • Contract Termination Notice – used where the Council terminates a Contract in full.
Contract Managers/ Contracting Officer	<p>An Officer with responsibility for conducting the purchasing processes for the purchase of works, goods (goods) or services on behalf of the Council and that manages the resultant Contract and ensure day to day activities are conducted in accordance with its terms and conditions.</p>
Contract Modification	<p>For Contracts let under the Procurement Act 2023 (PA23) (after 24th February 2025)</p> <p>A modification permitted under section 74 and schedule eight of the PA2023 or is not a substantial modification or is a below-threshold modification.</p> <p>For Contracts let under the Public Contracts Regulations 2015 (PCR2015)</p> <p>A modification permitted under Regulation 72.</p>

Contracts Procedure Rules (Rules)	This document setting out the principles of procurement, roles and responsibilities, Contract Standing Orders and processes involved in purchasing services, goods, and works Contracts .
Contract Register	A register of Council Contracts that exceed £5k held by The Corporate Procurement Team and made publicly available via the Council website.
Contract Value	The estimated total monetary value of a Contract over its full duration and any extensions or potential variations. (N.B. not just the annual value.) Where the duration of a Contract is indeterminate, this will be taken to be the estimated value of the Contract over a period of four years.
Council	Rushmoor Borough Council.
Council Amendments	The amendments/ additional contract requirements identified by the Council as being needed to make an industry standard contract suitable for their and a specific project/ contract requirement.
Councillor/ Member	An elected Member of the Council .
Covered Procurement	Means an above threshold procurement that is intended to result in a Public Contract . PPN-11_23-New-Thresholds.pdf (publishing.service.gov.uk) These values apply for 2024 and 2025.
Data Protection Act 2018	Means the legislation that controls how personal information is used by organisations, businesses, and/ or the government.
Contract	A legally binding agreement between the Council and a Supplier for the provision of goods, services or works against specific terms and conditions.
Contract Managers	These are Officers within service areas across the Council that manage and oversee Contracts and would consult with The Corporate Procurement Team when re- Tendering or procuring new Contracts .
Corporate Manager (Legal Services)	
Corporate Management Team	
Dialogue	Means a discussion between the Council and Suppliers about any aspect of the procurement.
Direct Award	Means the award of a Contract without a competitive process.
Discretionary Exclusion Grounds	<p>Schedule 7</p> <p>Labour market misconduct</p> <ul style="list-style-type: none"> • Environmental misconduct • Insolvency, bankruptcy, etc

	<ul style="list-style-type: none"> • Potential competition infringements • Professional misconduct • Breach of Contract and poor performance • Acting improperly in procurement • Threat to national security
Dynamic Market	a list of Suppliers who have met the published Conditions of Membership and are eligible to submit a Tender against a competition let under the market. These markets can be set up to purchase any requirements that a Council may wish to purchase and require the use of the competitive flexible procedure to award a Contract .
Dynamic Purchasing System (DPS)	A completely electronic system used by a Council (buyer) to purchase commonly used goods, works or services. Unlike a traditional framework, Suppliers can apply to join at any time.
E-Procurement System	A system for the end-to-end Tendering process, both Suppliers and buyers submit and respond to Tenders electronically removing the need for paper submissions.
Equalities Act 2010	Protects individuals from various forms of discrimination and harassment relating to disability, age, gender, religion / belief, and sexuality.
Estimated Contract Value	Means the value being estimated by the Council for the entire possible scope (including any optional extras) and duration (including any possible extensions) of the potential Contract requirements including all other options, premiums, fees etc as may become due under the contract.
Excludable Supplier	<p>An Excludable Supplier is a Supplier.</p> <p>To whom a discretionary exclusion ground applies, and such exclusion ground circumstances are continuing/ likely to occur again; or</p> <ul style="list-style-type: none"> • They are on the debarment list by virtue of a discretionary exclusion ground. <p>Tenders from excludable Suppliers may be disregarded in any Competitive Tendering Process (s.26(2)) and Contracting Authorities may exclude an Excludable Supplier from participating in a Competitive Flexible Procedure (s.27(1)(b)).</p> <p>The Council may also terminate a Contract with a Supplier who becomes an excluded Supplier after the award of the Contract or where one of their sub-Contractors is an excludable Supplier and they fail to replace them when instructed.</p>
Excluded Supplier	<p>An excluded Supplier is a Supplier.</p> <p>To whom a Mandatory Exclusion Ground applies to, and such exclusion ground is continuing/ likely to occur again; or</p> <ul style="list-style-type: none"> • They are on the Debarment List by virtue of a Mandatory Exclusion Ground. <p>Tenders from excluded Suppliers must be disregarded in any competitive Tendering process and Contracting Authorities must exclude an Excluded Supplier from participating in a Competitive Flexible Procedure.</p> <p>Supplier must be removed from a Dynamic Market if it is on the Debarment List by virtue of a Mandatory Exclusion Ground and may be removed if otherwise an Excluded Supplier or an Excludable Supplier.</p> <p>The Council may also terminate a Contract with a Supplier who becomes an Excluded Supplier after the award of the Contract or where one of their Sub-Contractors is an Excluded Supplier and they fail to replace them when instructed.</p>

Executive Head of Finance	
Exempt Contracts	The kind of Contract listed in Schedule 2 of the Procurement Act 2023 , and for which the rules of the PA23 do not apply.
Financial Procedure Rules	The Council's rules relating to financial procedures in Part 4 Section 9 of the council's constitution and available on the council's website.
Framework	An agreement with Suppliers which sets out terms and conditions under which specific purchases can be made throughout the term of the agreement and which has been Tendered in accordance with UK Directives.
Freedom of Information Act	Freedom of Information Act 2000 is an act defining the ways in which the public may obtain access to government-held information.
Grant	the payment of money to a supplier to deliver against a policy aim or objective and for which there is no consideration to the Council .
Head of Service	An officer of the Council employed above grade 7 and where an Executive Director has service responsibilities then they shall be deemed to be a Head of Service for the purposes of these CSOs.
Invitation to Tender (IIT)	The document that invites Suppliers to submit a Request to Participate or a Tender in response to a Tender Notice . It must include clear instructions of what is required, a description of the procurement process, the Conditions of Tendering , and the Award Criteria/ Assessment Methodology as a minimum.
Key Performance Indicator (KPIs)	a factor or measure against which a Supplier's performance of a Contract can be assessed during the life cycle of the Contract .
Key Decision	A decision as defined within Part 2 (3.12) of the Constitution. Includes transactions above £100,000 in value.
Light Touch Regime	These are Contracts /procurements which cover Health, Social Care, legal and Education related requirements.
Limit Suppliers	Means the reduction of the number of Suppliers to progress from one stage to the next in a procurement process, based on the evaluation of the submission of a response to Conditions of Participation and/ or Tender Rounds
Local Supplier	A supplier with a Rushmoor postcode.
Lots.	Means splitting the goods, services or works to be supplied into more than one Contract to make them accessible to SME and facilitate effective competition. This is not to be done to circumvent the PA23 .
Mandatory Exclusion Grounds	Schedule 6 - Part 1 Corporate manslaughter or corporate homicide <ul style="list-style-type: none"> • Terrorism

	<ul style="list-style-type: none"> • Theft, fraud, bribery, etc • Labour market, slavery, and trafficking offences • Organised crime • Tax offences. • Cartel offences • Ancillary offences <p>Schedule 6 - Part 2</p> <ul style="list-style-type: none"> • National Security, • Tax Misconduct, • Competition Law Infringements, Or the Equivalent for Conduct Outside The UK, • Failure To Cooperate with An Investigation
MAT	<p>Most Advantageous Tender –</p> <p>Is the Tender that the Council considers—</p> <p>a) Satisfies the Council's requirements, and</p> <p>b) Best satisfies the Award Criteria when assessed against them</p>
Notifiable Below Threshold Contract	A contract with a value in excess of £30k inc. VAT but less than the threshold for Covered Procurements .
Negotiation	Means a discussion between the Council and a Supplier with a view to improving the content of Tenders
Open Framework	A scheme of Frameworks where the initial Framework is open for 3 years or less, and the subsequent Frameworks cannot last for more than 5 years before it must be re-opened. The maximum overall term being 8 years and how Suppliers are appointed onto the Framework will depend on how the Open Framework is established.
Open Procedure	This is a single stage procedure where any interested Supplier can submit a Tender ; and a Supplier's suitability, capacity and capability and their Tender response are all evaluated together.
Performance Bond	A performance bond is issued to by a Supplier to the Council as a guarantee against the failure of the other party to meet the obligations of the Contract . A performance bond is usually issued by a bank or an insurance company.
Pipeline Notice	Means the annual notice to be published by the Council to inform the market of the Contracts to be procured/ awarded in the coming reporting period. This to include all Contracts with a value of £2m or above.
Preliminary Market Engagement	Analysis of the market prior to formal Tender .
Preliminary Market Engagement	<p>This can be used for the purpose of—</p> <p>developing the authority's requirements and approach to the procurement.</p> <ul style="list-style-type: none"> • designing a procedure, Conditions of Participation or Award Criteria.

	<ul style="list-style-type: none"> • preparing the Tender notice and Associated Tender Documents. • identifying Suppliers that may be able to supply the goods, services or works required. • identifying likely Contractual terms. • building capacity among Suppliers in relation to the Contract being awarded.
Presentation, Demonstration	Mean a meeting with a Supplier where they present their proposed delivery methodology or demonstrate a specific element/ product within their proposal to aid the Council in understanding the proposed solution and how it meets the Specification . These may be scored and may also lead to the Council limiting the number of Suppliers to participate in the next Tender Round .
Procurement Card	Corporate credit card used for low value procurements
Procurement Legislation Guidance	Means the guidance issued by the Cabinet Office that is to be considered in the development and delivery of the procurement process. Procurement Act 2023 - Guidance documents - GOV.UK (www.gov.uk) Procurement policy notes - GOV.UK (www.gov.uk)
Procurement Objectives	Value for Money (a) Sharing information <ul style="list-style-type: none"> • Public Benefit • Acting with integrity • Removing barriers to SMEs • Equal treatment
Procurement Thresholds	the values that determine which route to market to use
Public Contract	All Contract Values which are Covered Procurement (above threshold) under the Relevant Procurement Legislation (this value to be inclusive of VAT)
Public Services (Social Value) Act 2012	Act places a requirement on procurers to consider the economic, environmental, and social benefits. Please refer to the Corporate Social Value Policy and toolkit
Purchase Order	An instruction issued by the Council to a Supplier to provide specific goods, services or works.
Quotation	The provision of a price to deliver the Council's requirements (may include a method statement too), without the conduct of a formal (advertised) procurement process.
Regulated Below Threshold Contract	Means a contract that is below the threshold of a Covered Procurement , and which is not an Exempt , a Concession Contract , or a Utilities Contract .
Relevant Public Sector Legislation	Including but not limited to

	<ul style="list-style-type: none"> • Local Government Act 1988 Part II, • Local government Act 1999, • Local Government Act 2000, • Local Government (Contracts) Act 1997 • Equalities Act 2010 • TUPE 2006 • Localism Act 2011 • Small Business, Enterprise, and Employment Act 2015 • Modern Slavery Act 2015 • The Public Services (Social Value) Act 2012 • Local Government Transparency Code 2015 • The Health and Safety at Work etc. Act 1974
Relevant Procurement Legislation	<p>Public Contracts Regulations 2015 or Concession Contracts Regulations 2016 – the legislation that applies to Contracts let under one of these regimes where the Contract continues to be used/ delivers post 24th February 2025</p> <p>Procurement Act 2023, Procurement Regulations 2024 – for Contract that are to be or were procured post 24th February 2025</p> <p>Provider Services Regime 2023 where the procurement relates to health care services.</p>
Relevant Procurement Policy Notes	<p>Procurement policy notes - GOV.UK</p> <p>Insert list.</p>
Request to Participate	<p>The submission of a response to the Conditions of Participation published with a Tender Notice where this Conditions of Participation are a discrete stage in a Competitive Flexible Procedure.</p>
Sensitive Commercial Information	<p>Means information which.</p> <p>Constitutes a trade secret, or</p> <p>(a) Would be likely to prejudice the commercial interests of any person if it were published or otherwise disclosed.</p>
Site Visit	<p>Means a visit to an office, or project location to aid a Supplier in understanding the Contract requirements/ Specification and to aid in putting in an effective and compliant Tender.</p>
Specification	<p>Means the document that sets out the Councils specific requirements for a specific contract/ project.</p>
SME	<p>Small to Medium Enterprise – fewer than 250 employees; and annual turnover not exceeding approximately £50 million</p>
Scheme of Delegation	<p>The rules as to who has the authority to make which decisions, as Part 3 Section 3 for Executive Matters, Part 3 Section 4 for Non-Executive Matters of the council's constitution and being available on the council's website.</p>

Standstill Period	<p>Means period of eight working days commencing on the day that the Contract Award Notice was published on the Central Digital Platform.</p> <p>Mandatory for all Covered Procurement other than for the following exception, for which a Voluntary Standstill Period of eight working days may still be applied.</p> <ul style="list-style-type: none"> ▪ Direct Award under sections 41 or 43 ▪ Award under a Framework. ▪ Award by reference to a Dynamic Market ▪ A light touch Contract
Suppliers	<p>Means all or any of economic operators, tenderers, bidders, contractors (or subcontractors), third party organisations supplying goods, services or works to the Council</p>
Tender Notices	<p>Regulated Below Threshold Tender Notice - A call for competition (advert) where a Below Threshold Contract which is published on the Central Digital Platform/ FTS.</p> <p>Tender Notice (separate forms for Open Procedure, Competitive Flexible Procedure, Frameworks and Dynamic Markets) - A call for competition (advert) for a Public Contract which is published on the Central Digital Platform/ FTS.</p>
Tender Record	<p>Means a record of all decisions made during the life of a Covered Procurement</p>
Tender Rounds	<p>Means an initial, intermediate, and/ or final Tender stage, in a Competitive Flexible Procedure.</p>
Treaty State Supplier	<p>Means a Supplier that is entitled to the benefits of an international agreement (part of the WTO or other formal arrangement)</p>
Utilities Contracts	<p>a Contract for the supply of goods, services or works wholly or mainly for the purpose of a utility activity. (Gas, electric, Water, transport e.g., buses on a fixed network).</p>
Value for Money	<p>Means the balance of quality and price deemed representative of the Most Advantageous Tender</p>

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**CORPORATE GOVERNANCE, AUDIT
AND STANDARDS COMMITTEE**

**EXECUTIVE HEAD OF FINANCE
REPORT NO. FIN2506**

29 JANUARY 2025

KEY DECISION? NO

ANNUAL CAPITAL STRATEGY 2025/26

SUMMARY AND RECOMMENDATIONS:

SUMMARY:

The Council is required to approve a Capital Strategy for 2025/26 before 1 April 2025.

The Capital Strategy 2025/26 (Appendix 1) is in accordance with CIPFA's "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.

RECOMMENDATION:

Members are requested to recommend to Council:

- (i) Approval of the Capital Strategy for 2025/26 to 2027/28 and Prudential Indicators for 2025/26.

1 INTRODUCTION

- 1.1 This report sets out the proposed Capital Strategy for the year 2025/26 to 2027/28, including the Prudential indicators for capital finance for 2025/26.
- 1.2 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.3 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

- 1.4 The Council follows best practice by adhering to the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017* (the CIPFA Code), incorporating any subsequent revised guidance. Subsequently the Council approves both a Capital Strategy and the related Treasury Management Strategy before the start of each financial year.

2 PURPOSE

- 2.1 The purpose of the Capital Strategy is to give an overview of how capital expenditure; capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 2.2 The purpose of investment management operations is to ensure that all investment decisions that are made primarily to generate a profit have a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.
- 2.3 The second main function of the Capital Strategy is to set the Prudential indicators for affordable, prudent and sustainable capital investment.
- 2.4 Appendix 1 sets out the Capital Strategy for 2025/26 to 2027/28 and fulfil key legislative requirements as follows:
- The **Capital Strategy** sets out a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in accordance with CIPFA's Code of Practice on Treasury Management, the CIPFA Prudential Code and MHCLG guidance on local government investments.
- 2.5 These policies and parameters provide an approved framework within which officers undertake the day-to-day capital, treasury and non-treasury investment activities.

3 SCOPE

- 3.1 This report covers the Council's capital management activities as set out in paragraphs 2.1 to 2.3 above. A summary of Treasury Management and commercial investments and the Council's borrowing requirements to fund the Capital strategy are set out. Prudential indicators are identified to set measures for affordability, prudent and sustainable.
- 3.2 Where a material change occurs to the attached strategies during the year a revised strategy will be presented to full council before the change is implemented.

BACKGROUND DOCUMENTS:

1. *Treasury Management in the Public Services (CIPFA) 2021 Edition*
2. *Treasury Management in the Public Services Guidance Notes for Local Authorities (CIPFA) 2021 Edition*
3. *The Prudential Code for Capital Finance (CIPFA) 2021 Edition*
4. *Guidance Notes for Practitioners: The Prudential Code (CIPFA) 2021 Edition*
5. *DLUHC Statutory Guidance on Local Government Investments (3rd Edition)*
6. *SI 2003/3146 - Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended)*
7. *Prudential Property Investment (CIPFA) 2019*

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CAPITAL STRATEGY 2025/26

1 INTRODUCTION

- 1.1 This capital strategy is a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed, and the implications for future financial sustainability.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

2 CAPITAL EXPENDITURE AND FINANCING

- 2.1 Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £20,000 (land and buildings) and £10,000 (plant, vehicles and equipment) are not capitalised and are charged to revenue in year. 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.
- 2.2 In 2025/26, the Council is planning capital expenditure of £10.1m as summarised below:

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

	2023/24 Actual	2024/25 Forecast *	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Expenditure	34.6	16.2	10.1	2.2	2.0

** The forecast for 2024/25 is based the revised capital programme for 2024/25 and reflects the estimated out turn on all projects.*

- 2.3 The main capital projects in 2025/26 include the completion of the crematorium upgrade and regeneration activity at Union Yard (Aldershot). The full capital programme can be found in the MTFs 2025-26 to 2028-29 budget report.

- 2.4 In November 2020 the PWLB lending facility issued lending terms that were subject to further clarification in August 2021. This makes it a condition of access to the PWLB funding that local authorities have no intention to buy investment assets primarily for yield in the current and following two financial years. No expenditure has been incurred on the acquisition of such assets since November 2020 and the Council does not plan to incur expenditure on investment assets primarily for yield within the capital programme.
- 2.5 The Council's capital programme has historically been financed primarily through prudential borrowing. The Council has adopted a strategy to generate capital receipts to as far as possible mitigate the currently high borrowing levels and cost of interest.
- 2.6 The Council is currently reviewing its entire asset base to identify assets for disposal to generate capital receipts. The key criteria are to focus on non-income generating assets and assets that require significant future capital expenditure (i.e. liability) without a commensurate uplift in income. Progress to date is included in the 2025-26 to 2028-29 MTFS. The Council's ambition to build a leisure centre at Farnborough is dependent upon securing additional funding beyond the current Levelling Up Funding allocated by government funding and developing an affordable scheme within the funding available, including the ongoing revenue implications on the Council.
- 2.8 **Governance:** non treasury management investment. Variation to capital bids and new capital bids can be received during the year, usually on the basis of a business case or in relation to urgent and unforeseen works. All projects to be recommended for inclusion in the Capital programme are appraised by the Executive Leadership Team before being proposed to Cabinet. Cabinet and Full Council is responsible for approving capital investment decisions and monitoring progress on the delivery of the capital strategy. Larger property and regeneration projects are managed through the Council's regeneration and Property and Major Works programmes. These projects undergo scrutiny and review by the Project Board at different stages (e.g. feasibility, design, planning, due diligence) and costs and financing are reviewed by the finance service. A revised capital programme is presented to Cabinet early February and to Full Council in late February each year.
- 2.9 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External sources	4.8	4.6	1.5	1.1	1.1
Capital Receipts	-	2.7	0.8	0.8	-
Revenue Resources	0.3	-	-	-	-
Debt	29.5	9.0	7.8	0.2	0.9
TOTAL	34.6	16.3	10.1	2.1	2.0

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

Table 3: Replacement of debt finance in £ millions

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
MRP	1.6	1.8	2.1	1.6	1.5
Capital receipts	-	3.3	8.6	2.1	-

2.11 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase to £170.5m during 2024/25. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

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

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
CFR	167.4	170.5	160.9	157.2	155.7

2.12 **Asset management:** The Council uses experienced asset managers (currently Lambert Smith Hampton Investment Management (LSHIM)) to provide services to support the Council's property portfolio.

2.13 **Asset disposals:** When a capital asset is sold the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is permitted to spend capital receipts on service transformation projects until 2030. Repayments of capital grants, loans and investments also generate capital receipts. The Council is forecasting to receive the following capital receipts over the medium term. In addition, depending on the outcome of the due diligence on Union Yard sale of the 82 private rental units, there will be a capital receipt or a deferred capital receipt, due to the uncertainty this has not been include in the CFR at this point. There is also an assumption in the MTFs of the sale of some of the Civic Quarter land by 2028-29 to the value of Circa £12m. due to the uncertainty of the amount and timing this has been excluded from the CFR.

Table 5: Capital receipts in £ millions

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Receipts	-	6.0	9.4	2.9	-

3 TREASURY MANAGEMENT

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

3.2 Due to decisions taken in the past, at 31st December 2024 the Council had £125.0m borrowing at an average interest rate of 5.1% and £28.5m treasury investments at an average rate of 6.0%.

3.3 It should be noted that the average rate received on investments of 6.0% is higher than usual. It is due to a steep improvement in the value of the Council's strategic pooled fund portfolio over the last year. This improvement was preceded by a fall in these funds' values and is not representative of the Council's long term expected return on investments. Historical average returns on strategic pooled funds are 2.8% as opposed to the 6.7% seen on these funds over the past year.

3.4 **Borrowing strategy:** The Council has to date adopted an approach of borrowing on a short-term basis to take advantage of historically low short-term interest rates. Since late 2021 however interest rates, and corresponding the Council's cost of borrowing, have risen dramatically.

Bank of England Base Rate was 0.1% in December 2021 and rose to a high of 5.25% in August 2023. It has now experienced modest falls and is currently 4.75%.

- 3.4 In the medium term the Council aims to have a higher proportion of debt in longer-term loans, enabling greater long-term certainty in costs. Short term interest rates are expected to reduce whilst longer term rates are expected to remain near current levels. The current strategy is to attempt to replace maturing debt with longer term debt (i.e. more than one year) at rates as close as possible to or less than the MTFS projections. The situation is kept under constant review.
- 3.5 Projected levels of the Council’s total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (table 6).

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

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt (incl. leases)	163.0	141.7	19.4	5.1	5.1
Capital Financing Requirement	167.4	170.5	160.9	157.2	155.7

- 3.3 This table only shows loans which the Council has or is contractually committed to, most of these loans will be repaid within the short term which is why the debt figures for future years reduce significantly. The forecasted figures for loans which expect to be undertaken in future, as opposed to loans currently held, is shown in table 7.
- 3.4 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.
- 3.7 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. It is desirable that investment balances are kept to a minimum of £21m. This incorporates the Council’s strategic pooled funds of approximately £16m and a further liquidity buffer of £5m. This investment balance also meets the minimum £10m that is required to maintain a desired professional status under the Markets in Financial Instruments Directive II (MiFID II).
- 3.8 The liability benchmark was £146.0m on 31st March 2024 and is forecast to rise to £150.0m by 31st March 2025, before falling to £139.3m over the

next three years.

Table 7: Borrowing and Liability Benchmark in £ millions.

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Existing borrowing	162.0	141.0	19.0	5.0	5.0
Forecast borrowing	162.0	150.0	143.3	141.3	139.3
Liability benchmark	146.0	150.0	143.3	141.3	139.3

3.9 The Council borrowed £16m more than the liability benchmark on 31st March 2024. This figure is not excessive and borrowing at a slightly different level to the liability benchmark is common as a result of day to day cashflow variations. As the table shows in future the Council expect borrowing to be at the liability benchmark.

3.10 **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.

Table 8: Prudential Indicators: Authorised limit and Operational Boundary for External Debt in £ millions

	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit
Authorised limit – borrowing	200.0	200.0	180.0	180.0	180.0
Authorised limit – leases	2.0	2.0	2.0	2.0	2.0
Authorised limit – total external debt	202.0	202.0	182.0	182.0	182.0
Operational boundary – borrowing	170.0	170.0	150.0	150.0	150.0
Operational boundary – leases	1.8	1.8	1.8	1.8	1.8
Operational boundary – total external debt	171.8	171.8	151.8	151.8	151.8

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

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

3.13 The table below estimated future levels of investments for the Council. The £16.0m in long term investments represents the estimated value of strategic pooled funds. The £5.0m represents a suitable liquidity buffer to be held in shorter-term investment products.

Table 9: Treasury Management Investments in £ millions

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Near-term investments	21.6	5.0	5.0	5.0	5.0
Longer-term investments	15.4	15.4	16.0	16.0	16.0
TOTAL	36.9	20.4	21.0	21.0	21.0

3.14 **Risk management:** The effective management and control of risk are prime objectives of the Council’s treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses.

3.15 **Governance:** Treasury Management Investments. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Executive Head of Finance and staff, who must act in line with the treasury management strategy approved by full council. Quarterly reports on treasury management activity will be presented to Corporate Governance, Audit and Standards Committee. CGAS committee is responsible for scrutinising treasury management decisions.

4 NON-TREASURY INVESTMENTS FOR SERVICE PURPOSES

4.1 The Council lends money to its subsidiary (Rushmoor Homes Limited) and is a funding partner of Farnborough International Limited. Considering the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break-

even / generate a profit after all costs.

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

5 COMMERCIAL ACTIVITIES

- 5.1 Between 2016 and 2021 in the context of central government financial support for local public services declining, the Council undertook some investment in commercial properties purely or mainly for financial gain. These investments were acquired and managed in line with the Council's Commercial Property Strategy. Total commercial investments for 2025/26 are forecast to be £122.5m, the portfolio providing a net return after all costs of 6.5%.

- 5.2 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures for commercial investments include level of competition, barriers to entry/exit, and future market prospects. For commercial properties, risks include quality and financial security of tenants, building quality and relevance.

For the existing portfolio of investments these risks are managed by:

- Assessment of the relevant market sector(s) including the level of competition, barriers to entry/exit, future market prospects
 - Assessment of exposure to particular market segments to ensure adequate diversification
 - Appointment of external advisor to manage designated commercial property investments
 - Use of further external advisors if considered appropriate by the Executive Head of Finance
 - Continual monitoring of risk across the whole portfolio and specific assets
- 5.3 With the introduction of revised PWLB lending terms the Council can confirm it has no intention to acquire investment assets primarily for yield in the current and following two financial years.
- 5.4 The Council will have due regard to the potential sale of commercial investments where this would be an appropriate option. This will be done as part of an ongoing process assessing the relative risks of and return from these investments to the Council.
- 5.5 **Governance:** Decisions on the day-to-day management of commercial

investments are made by the Head of Service responsible for the Council's Property and Estates functions in line with the criteria and limits as set out in the Council's constitution.

Table 10: Prudential Indicator: Net Income from Commercial and Service Investments to Net Revenue Stream

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total Net Income from Service and Commercial Investments	8.3	7.1	6.89	7.02	6.6
Proportion of Revenue Stream	64.1%	50.1%	49.3%	50.9%	48.99%

6 OTHER LIABILITIES

- 6.1 In addition to debt detailed above, the Council also set aside funds to cover risks of Business Rate Appeals.
- 6.2 **Governance:** Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the Executive Head of Finance. The risk of liabilities crystallising and requiring payment is monitored by Finance and reported quarterly to committee. New liabilities exceeding £2m are reported to full council for approval/notification as appropriate.

7 REVENUE BUDGET IMPLICATIONS

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

Table 11: Prudential Indicator: Proportion of Financing Costs to Net Core Revenue Stream in £ million.

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Financing Costs	8.5	10.1	8.9	8.1	7.9

Proportion of Net Core Revenue Stream	65.5%	70.1%	62.1%	57.8%	55.7%
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Note: The indicator above shows that the proportion of financing costs to the net core revenue stream increases significantly from 2023/24. This is due to increase borrowing levels and higher interest rates. The sale of assets will reduce debts and therefore costs from 2025/26.

7.2 **Sustainability:** The current high levels of borrowing are not considered to be affordable on a long term, sustainable basis. For this reason, asset sales (and FIL loan repayment) of a minimum of £18.7m in over the next three years are expected to reduce borrowing to a more affordable level. Future capital expenditure and borrowing decision will consider their long-term sustainability and affordability and will be reviewed considering the Council’s risk appetite and tolerances.

7.3 It should be noted that there are uncertainties around the timing of asset sales and the amount that assets can be sold for. The expectations shown in table 3 are that £3.3m of capital receipts will be received in 2024/25 with £8.6m being received in 2025/26. There is the possibility that these amounts may be different or be received in different years.

8 KNOWLEDGE AND SKILLS

8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Executive Head of Finance is a qualified accountant (Institute of Chartered Accountants England and Wales) with 24 years’ experience of local government finance, the Property and Estates Service and Regeneration teams include permanent and contract resources who are appropriately qualified and including a number of Chartered Surveyors). The Council pays for staff to study towards relevant professional qualifications including CIPFA, ACT and RICS.

8.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and Lambert Smith Hampton Investment Management Ltd (LSHIM) as commercial property consultants as required depending on the nature of the professional advice sought. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk

appetite.

**QUARTERLY REPORT OF TREASURY PRUDENTIAL INDICATORS 2024/25 –
QUARTER 3**

SUMMARY:

This report sets out the activities of the Treasury Management and non-Treasury Investment Operations for quarter 3 in the financial year 2024/25, and reports on compliance with Prudential Indicators.

RECOMMENDATIONS:

Members are requested to:

- (i) Make any recommendations, as appropriate, to the Cabinet on the contents of this report in relation to the treasury management and non-treasury investment operations carried out during 2024/25.

1. INTRODUCTION

- 1.1 This report sets out the Treasury Management and Non-Treasury Investment operation performance for Quarter 3 2024/25. This report is a statutory requirement under the CIPFA Code of Practice on Treasury Management.
- 1.2 Full Council approved the Annual Treasury Management Strategy and Non-Treasury Investment Strategy for the financial year 2024/25 in February 2024. 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 September 2024/25 within appendices (1-4):

Appendix 1

- The **Treasury Management operations** which sets out how the Council's treasury service operated during the period to December 2024;
- The **Treasury Management Borrowing** which sets out the Council's borrowing during the period to December 2024, and;
- The **Treasury Management Investments** which sets out the Council's Treasury Management investment operations for the period to December 2024.

Appendix 2

- the **Prudential indicators** performance is compared to the indicators set out in the Annual Capital Strategy for the year 2024/25.

Appendix 3

- The list of borrowing counterparties as at end of December 2024.

Appendix 4

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

3 BACKGROUND

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on the aims and requirements of a Capital Strategy focusing on a whole organisation approach to prudent, sustainable, and resilient local government investment.
- 3.2 CIPFA have also issued two professional Codes of Practice to which the Council is required to "have regard to". These Codes provide frameworks that are designed to support local strategic planning, local asset management planning and proper option appraisal:
- The Prudential Code – developed to support local authorities in taking decisions around their capital investment programmes. The objectives of the Prudential Code are to ensure, within a clear reporting framework, that a local authority's capital expenditure plans and investment plans are affordable and proportionate; that all external borrowing and other long-term liabilities are within prudent and sustainable levels; that the risks associated with investments for commercial purposes are proportionate to their financial capacity; and that treasury management decisions are taken in accordance with good professional practice.
 - The Treasury Management Code - Treasury Management is defined as 'The management of the organisation's borrowing, investments, and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.
- 3.3 The primary purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed to deliver the Councils services. The secondary function of the treasury management operation is the funding of the Council's capital programme and manage cashflow requirements over a longer-term period.
- 3.4 Non-treasury investment operations should ensure that all investments made primarily for service reasons. Then, second to this, the function of investment management is to generate returns.
- 3.5 This quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators.

4 POOLED FUNDS

- 4.1 Accounting Standard IFRS9 impact – 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. The long-term pooled funds investment is currently valued below cost, i.e. at a loss if they were to be redeemed. The council must make a revenue provision for the change in value each year from 2025-26. At current valuation this will be £1.1m.

Fund:	Cash Invested	Value December	Unrealised loss
Threadneedle Investments	2,000	1,891	(109)
M&G Investments Strategic Corporate Bond Fund	4,000	3,429	(571)
Schroders Income Maximiser	5,000	4,672	(328)
Aegon Diversified Monthly Income Fund	2,000	1,873	(127)
	13,000	11,865	(1,135)

- 4.2 In quarter 1 it was decided to give notice on the CCLA fund to mitigate some of the losses incurred from the UBS fund. Due to the 6 months' notice period required there is an element of risk that remains as the final value could go up or down by the end of the 6-month period (March 2025).

5 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS DURING 2024/25

- 5.1 All treasury activity was conducted within the approved Treasury Management Practices (TMP's).
- 5.2 The majority of borrowing is currently short-term Local Authority (LA), although this quarter the Public Works Loan Board (PWLB) interest rate was lower than LA rates and therefore some borrowing was secured with PWLB for 18 months. This diversifies the borrowing the Council holds.

6 KEY RISKS

- 6.1 The Council has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 6.2 The key risks to the Councils delivery of successful treasury and non-treasury investment options include:
- Inflation levels
Inflation rates are now reducing after a prolonged period of increased levels
 - Bank of England Base rate

Base rate has reduced to 4.75%. Expectations are that this will reduce further, however a slow reduction is anticipated

- Delivery of Capital Programme
Will impact borrowing requirements and timing will impact rates achievable for both borrowing and investments during the years
- Changes in Valuation of Pooled Funds
From 2025/26 will impact bottom line of General Fund

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Treasury Management Report Q3 2024/25

Introduction

The Council applies the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code). This quarterly report provides an update of the treasury management prudential indicators. The non-treasury prudential indicators are included in Appendix 2.

The Council's treasury management strategy for 2024/25 was approved at the Council meeting on 22 February 2024. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

Local Context

On 31st March 2024, the Council had net borrowing of £140.8m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	2024-25 Estimate	31.3.24 Actual £m	31.3.25 Forecast £m
General Fund CFR	167.9	167.6	171.2
Less: Other debt liabilities (leases)	0.8	1.0	0.7
Borrowing CFR	167.1	166.6	170.5
Less: Internal borrowing (surplus cashflow timing difference)	5.0	4.6	34.5
External borrowing	162.1	162.0	136.0
Less: Balance sheet resources (mostly pooled funds)	26.7	43.2	17.0
Net borrowing	135.4	118.8	119.0

The treasury management position at 31st December and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	Movement £m	31.12.24 Balance £m	31.12.24 Rate %
Long-term borrowing				
- Other (local authorities)	5.0	(3.0)	2.0	5.10
- PWLB	0.0	20.0	20.0	5.01
Short-term borrowing	157.0	(34.0)	123.0	5.11
Total borrowing	162.0	(17.0)	145.0	
Long-term investments	21.9	(5.9)	16.0	5.36
Short-term investments	15.0	(10.0)	5.0	5.20

Cash and cash equivalents	6.3	2	8.3	5.21
Total investments	43.2	(13.9)	29.3	
Net borrowing	118.8	(3.1)	115.7	

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. During the period short term interest rates have been higher than long term interest rates.

After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.

The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.40% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.44%. Rates for 20-year maturity loans ranged from 5.01% to 5.87% during the period, and 50-year maturity loans from 4.88% to 5.69%.

Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a lack of LA-LA lending/borrowing activity during that month, as expected shorter-term rates reverted to a more market-consistent range and were generally around 5.00% - 5.5%. Rising rates were seen towards the end of the period in the LA-LA market.

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

The Council currently holds £148m in commercial property investments of which the majority were primarily for financial return and were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Council will review the options for exiting these investments.

Loans Portfolio

At 31st December the Council held £145m of loans, (a decrease of £17m on 31st March 2024), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st December 2024 are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.24 Balance £m	Net Movement £m	31.12.24 Balance £m	31.12.24 Weighted Average Rate %	31.12.24 Weighted Average Maturity (years)

Local authorities (long-term)	5.0	(3.0)	2.0	5.10	2.00
Local authorities (short-term)	157.0	(34.0)	123.0	5.96	1.00
PWLB Maturity Loan	0.0	20.0	20.0	5.01	1.50
Total borrowing	162.0	(17.0)	145.0		

The average rate on the Council's short-term loans at 31st December 2024 on £123m was 6.14%, this compares with 5.16% on £140.5m loans 3 months ago.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (Years)
Horsham District Council	2.0	5.10	2
PWLB Maturity Loan	20.0	5.01	1.5
Total borrowing	22.0		

The Council's new borrowing decisions to replace existing borrowing as current loans mature are determined by a cashflow projection.

Forward starting loans

To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Council arranged £12m of forward starting loans with fixed interest rates of 5.10% for the delivery of cash in the following months' time, details of which are below.

Table 3C: Forward starting loans

	Amount £m	Rate %	Loan Period (Years)	Forward Period (Months)
PWLB	12	5.10	1.5	1
Total borrowing	12	5.10		

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below PWLB rates. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

Other Debt Activity (not applicable for Q3)

Treasury Investment Activity

The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (revised in 2021) defines treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Council holds some invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.24 Balance £m	Net Movement £m	31.12.24 Balance £m	31.12.24 Income Return %
Banks & building societies	(0.3)	0.4	0.1	5.14
Local authorities	15	(10)	5	5.20
Money Market Funds	6.6	1.6	8.2	4.62-4.75
Other Pooled Funds				
- <i>Strategic bond funds</i>	6		6	6.58
- <i>Equity income funds</i>	5		5	8.62
- <i>Property funds</i>	3.9	(0.9)	3	5.28
- <i>Multi asset income funds</i>	7	(5)	2	4.72
Total investments	43.2	(13.9)	29.3	

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

Bank Rate reduced from 5.25% to 5.00% in August and again to 4.75% in November 2024 with short term interest rates largely being around these levels. The rates on money market were between 4.62% and 4.75%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure %	Weighted Average Maturity (days)	Rate of Return %
31.03.2024	5.34	A+	30	16	5.69
31.12.2024	4.99	A+	62	18	5.12
Similar LAs	4.62	A+	62	52	4.78
All LAs	4.59	A+	61	10	4.78

Externally Managed Pooled Funds

£16m of the Council's investments is invested in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

The first six months of 2024/25 were marked by ongoing market volatility and had a marginal negative effect on the combined value of the Council's strategic funds since March 2024. The change in the Council's funds' capital values and income return over the 6-month period is shown in Table 4.

The Council has budgeted £1.24m income from these investments in 2024/25. Income due up to 31st December was £744k. UBS fund, last quarter, had a realised loss of £1.37m. A portion of the CCLA fund was sold to mitigate some of these losses which reduced the realised loss to £1.27m. We have given notice on the remaining CCLA funds which is currently forecast to provide a further gain of £339k in this financial year. This will leave us with a forecast loss, realised in this financial year, of £931k.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year minimum period total returns will exceed cash interest rates.

Statutory override

In April 2023 the Ministry for Housing, Communities and Local Government (MHCLG) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. A further consultation on the override was included in MHCLG's annual consultation on the provisional local government finance settlement published in December 2024: the consultation closes on 15th January 2025 with the outcome expecting to be published in February 2025. So far the override has been extended until 31st March 2025; whether the override will be extended beyond this date is unknown but commentary from both consultations suggests an extension is unlikely.

The long-term pooled funds investment is currently valued below cost, i.e. at a loss if they were to be redeemed. The council must make a revenue provision for the change in value each year from 2025-26. At current valuation this will be £1.1m.

The Council has included £1m within the 2025/26 MTFS for the impact of requiring unrealised losses to be recognised within the accounts when the statutory override ends.

Fund:	Cash Invested	Value December	Unrealised loss
Threadneedle Investments	2,000	1,891	(109)
M&G Investments Strategic Corporate Bond Fund	4,000	3,429	(571)
Schroders Income Maximiser	5,000	4,672	(328)
Aegon Diversified Monthly Income Fund	2,000	1,873	(127)
	13,000	11,865	(1,135)

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

The Council also held £155.9m of such investments in:

- directly owned property £148m
- loans to local businesses and landlords £6.5m
- subsidiaries £1.4m

A full list of the Council's non-treasury investments is available.

Treasury Performance

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.

MRP Regulations

On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding Capital Financing Requirement (CFR) in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

Compliance

The S151 Officer reports that all treasury management activities undertaken during the half year complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	31.12.24 Actual	2024/25 Limit	Complied?
Any group of pooled funds under the same management	3.3	15	Yes
Negotiable instruments held in a broker's nominee account	0	15	Yes
Limit per foreign countries	0	6	Yes

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	31.12.24 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied?

Borrowing	145	170	200	Yes
Leases	1	1.8	2	Yes
Total debt	146	171.8	202	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Prudential Indicators

As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark

This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £21m. This incorporates £16m invested in strategic pooled funds, that cannot be sold at short notice, and an additional £5m liquidity buffer to manage short-term cashflow requirements. The minimum cash levels at 31st March 2024 were higher at £25m as the strategic pooled fund balance was higher at this date, it is now lower as some funds have been sold during 2024/25.

	31.3.24 Actual	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast
Loans CFR	166.4	167.7	143.2	141.1
Less: Balance sheet resources	-45.4	-40.1	-35.4	-30.7
Net loans requirement	121	127.6	107.8	110.5
Plus: Liquidity allowance	25	21	21	21
Liability benchmark	146	148.6	128.8	131.5
Existing borrowing	162	109	7	5

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on variable year asset lives and income, expenditure and reserves all increasing by inflation. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.

Rushmoor BC												
	Actual		Forecasts									£m
Position at 31 March	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
Loans CFR	166.4	167.7	143.2	141.1	138.7	137.1	137.1	136.3	135.5	134.6	133.7	
External borrowing	-162.0	-109.0	-7.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	
Internal (over) borrowing	4.4	58.7	136.2	136.1	133.7	132.1	132.1	131.3	130.5	129.6	128.7	
Balance sheet resources	-45.4	-40.1	-35.4	-30.7	-30.7	-31.4	-32.2	-32.9	-33.7	-34.5	-35.4	
Investments (new borrowin	41.0	-18.6	-100.8	-105.5	-103.1	-100.7	-99.9	-98.4	-96.8	-95.1	-93.4	
Treasury investments	41.0	21.0	21.0	21.0	21.0	21.5	22.1	22.6	23.2	23.8	24.4	
New borrowing	0.0	39.6	121.8	126.5	124.1	122.2	122.0	121.0	119.9	118.9	117.7	
Net loans requirement	121.0	127.6	107.8	110.5	108.1	105.7	104.9	103.4	101.8	100.1	98.4	
Liquidity allowance	25.0	21.0	21.0	21.0	21.0	21.5	22.1	22.6	23.2	23.8	24.4	
Liability benchmark	146.0	148.6	128.8	131.5	129.1	127.2	127.0	126.0	124.9	123.9	122.7	

Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

2. Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	31.12.24 Actual	Complied?
Under 12 months	100%	0%	92.6%	Yes
12 months and within 24 months	100%	0%	7.4%	Yes
24 months and within 5 years	100%	0%	0%	Yes
5 years and within 10 years	100%	0%	0%	Yes
10 years and above	100%	0%	0%	Yes

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.

3. Long-term Treasury Management Investments

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 prudential limits on the long-term treasury management limits are:

	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£40m	£40m	£30m
Actual principal invested beyond year end	£13m	£13m	£13m
Complied?	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score 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.

	2024/25 Target	31.12.24 Actual	Complied?
Portfolio average credit rating	A+	A+	Yes
Portfolio average credit score	5.0	4.99	Yes

Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31.12.24 Actual	2024/25 Target	Complied?
Total cash available within 3 months	£12.3m	£5m	Yes

Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk.

Although important information for the Council to consider, the Council is currently unable to influence performance against this measure. The Council requires the higher level of borrowing for cashflow and committed capital expenditure. Once the council is in a position to pay the current level of debt down, more options will be available to the council regarding its treasury management function.

Interest rate risk indicator	2024/25 Target	31.12.24 Actual	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£2.0m	£1.4m	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£2.0m	£1.4m	Yes

For context, the changes in interest rates during the quarter were:

	31/3/24	31/12/24
Bank Rate	5.25%	4.75%
1-year PWLB certainty rate, maturity loans	5.36%	5.19%
5-year PWLB certainty rate, maturity loans	4.68%	5.10%
10-year PWLB certainty rate, maturity loans	4.74%	5.40%
20-year PWLB certainty rate, maturity loans	5.18%	5.84%
50-year PWLB certainty rate, maturity loans	5.01%	5.66%

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

Prudential Indicators Q3 2024/25

The Authority measures and manages its capital expenditure, borrowing with references to the following indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

Capital Expenditure

The Authority has undertaken and is planning capital expenditure as summarised below:

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget
Capital expenditure	34.6	15.7	16.0	2.2

The main General Fund capital projects to date have included Union Yard, and Aldershot Crematorium.

Capital Financing Requirement

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast
CFR	167.6	143.2	141.1	138.7

Gross Debt and the Capital Financing Requirement: Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast	Debt at 31.12.2024
Debt (incl. PFI & leases)	162.0	136.7	113.9	105.2	145
Capital Financing Requirement	167.6	143.2	141.1	138.7	

Debt and the Authorised Limit and Operational Boundary: The Authority 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.

	Debt at 31.12.24	2024/25 Authorised Limit	2024/25 Operational Boundary	Complied?
Borrowing	145	200.0	170.0	Yes
Leases	1.0	2.0	1.8	Yes
Total debt	146	202.0	171.8	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Net Income from Commercial and Service Investments to Net Revenue Stream: The Authority’s income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2023/24 actual	2024/25 forecast	2025/26 forecast	2026/27 forecast
Total net income from service and commercial investments	7.1	7.3	6.5	6.7
Proportion of net revenue stream	57.2%	55.3%	47.83%	46.19%

Proportion of Financing Costs to Net Revenue Stream: Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue.

The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2023/24 actual	2024/25 forecast	2025/26 forecast	2026/27 forecast
Financing costs (£m)	6.9	7.4	6.6	6.4
Proportion of net revenue stream	55.55%	52.59%	47.34%	46.35%

Treasury Management Indicators: These indicators (Liability Benchmark, Maturity Structure of Borrowing, Long-Term Treasury Management Investments) are within the Treasury Management Report Q3 2024/25 at Appendix 1.

LIST OF DEBT COUNTERPARTIES AS AT 31 DECEMBER 2024

	Amount
Vale of White Horse District Council	5,000,000
North Ayrshire Council	5,000,000
West of England Combined Authority	10,000,000
Hyndburn District Council	2,000,000
South Oxfordshire District Council	5,000,000
West Yorkshire Combined Authority	5,000,000
Furness Building Society	5,000,000
Lancashire Combined Fire Authority	5,000,000
PWLB	20,000,000
Havant Borough Council	5,000,000
West Midlands Combined Authority	5,000,000
Crawley Borough Council	3,000,000
Northern Ireland Housing Executive	3,000,000
Test Valley Borough Council	5,000,000
South Oxfordshire District Council	5,000,000
Rushcliffe Borough Council	5,000,000
Bolton Metropolitan Borough Council	5,000,000
Oxfordshire County Council	5,000,000
Oxfordshire County Council	5,000,000
Oxfordshire County Council	5,000,000
West Yorkshire Combined Authority	7,000,000
Northern Ireland Housing Executive	5,000,000
East Lindsey District Council	3,000,000
Gloucestershire County Council	5,000,000
Test Valley Borough Council	5,000,000
Thames Valley PCC	5,000,000
Horsham District Council	2,000,000
	<u>145,000,000</u>

External Context

Economic background: The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.

UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.

UK economy GDP registered no growth (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September.

The labour market continued to loosen, but the ONS data still require treating with some caution. Recent figures reported the unemployment rate rose to 4.3% (3mth/year) in the three months to October 2024 and economic inactivity fell to 21.7%. The ONS reported pay growth over the same three-month period at 5.2% for both regular earnings (excluding bonuses) and for total earnings.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting (5-4 vote to cut). At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.

The November Monetary Policy Report (MPR) showed the BoE expected GDP growth to pick up to around 1.75% (four-quarter GDP) in the early period of the forecast horizon before falling back. The impact from the government's Autumn Budget pushed GDP higher in 2025 than was expected in the August MPR, before becoming weaker. The outlook for CPI inflation showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. Over the medium-term, once the near-term pressures eased, inflation was expected to stabilise around the 2% target. The unemployment rate was expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, February 2025 is deemed the likely month for the next reduction, with other cuts following steadily in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve continued cutting interest rates during the period, reducing the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected into 2025, but uncertainties around the potential inflationary impact of President-elect Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues

to expand at a decent pace, suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

The European Central Bank (ECB) also continued its rate cutting cycle, reducing its three key policy rates by 0.25% in December. Euro zone inflation rose above the ECB 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Financial markets: Financial market sentiment was generally positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility very much remained. In the last few months of the period, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels to where they began.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at a high of 4.57%, having reached a low of 3.76% in mid-September. While the 20-year gilt started at 4.40%, ended at a high of at 5.08% and hit a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.01% over the period to 31st December.

Credit review: In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days.

Fitch revised the outlooks on Royal Bank of Scotland, NatWest Markets PLC, and National Westminster Bank to positive from stable, while affirming their long-term ratings at A+.

Moody's upgraded the ratings on National Bank of Canada to Aa2 from Aa3, having previously had the entity on Rating Watch for a possible upgrade. Moody's also upgraded the ratings on The Co-operative Bank to A3 (from Baa3) and downgraded the ratings on Coventry Building Society to A3 (from A2) and Canada's Toronto-Dominion Bank to Aa2 (from Aa1).

S&P also downgraded Toronto-Dominion Bank, to A+ from AA-, but kept the outlook at stable.

Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period also remained generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

**CORPORATE GOVERNANCE, AUDIT
AND STANDARDS COMMITTEE**

**EXECUTIVE HEAD OF FINANCE
REPORT NO. FIN2504**

29 January 2025

KEY DECISION? NO

**ANNUAL TREASURY MANAGEMENT STRATEGY AND ANNUAL NON-
TREASURY INVESTMENT STRATEGY 2025-26**

SUMMARY AND RECOMMENDATIONS:

SUMMARY:

The Council is required to approve a Treasury Management Strategy and Non-Treasury Investment Strategy (Investment Strategy) for 2025-26 before 1 April 2024.

The attached Treasury Management Strategy Statement (TMSS) for 2025-26 (Appendix 1) and Non-Treasury Investment Strategy (Appendix 2) is prepared in accordance with the “Prudential Code” and the “Treasury Management Code of Practice” in 2017, and the Ministry of Housing, Communities and Local Government (MHCLG) revised guidance on Local Government Investment.

RECOMMENDATIONS:

Members are requested to recommend to Council:

- (i) Approval of the Treasury Management Strategy 2025-26, Annual Borrowing Strategy 2025-26 attached at Appendix 1, and
- (ii) Approve Annual Non-Treasury Investment Strategy attached 2025-26 at Appendix 2; and
- (iii) Approval of the Minimum Revenue Provision (MRP) Statement set out in Appendix 3.

1 INTRODUCTION

- 1.1 This report sets out the proposed Treasury Management Strategy and Non-Treasury Investment Strategy for the year 2025-26, including the borrowing and investment strategies and treasury management

indicators for capital finance for 2025-26 and the Minimum Revenue Provision Statement.

- 1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires approval of a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.3 The CIPFA Treasury Management Code of Practice 2021 Edition, requires the Authority to have a separate Non-Treasury Investment Strategy (Appendix 2) which must be approved before April 2025.
- 1.4 Local authorities are also required by regulation to 'have regard to' the provisions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) 2021.

2 PURPOSE

- 2.1 The primary purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.
- 2.2 The secondary function of the treasury management operation is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).
- 2.3 Accordingly, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: *"The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"*.

- 2.4 The primary purpose of non-treasury investment management operations is to ensure that all investments made primarily for service reasons or primarily to generate a profit have a suitable level of security and liquidity. This strategy also ensures that the risks and rewards of these investments are monitored regularly.
- 2.5 The secondary function of investment management is to generate returns. These returns are monitored on a regular basis.
- 2.6 The purpose of the treasury management indicators is to set a framework for affordable, prudent and sustainable capital investment.
- 2.7 The appendices (1 to 3) set out the Treasury Management Strategy, Investment Strategy and Minimal Revenue Provision Statement for 2025-26 and fulfil key legislative requirements as follows:

Appendix 1

- The **Treasury Management Strategy** which sets out how the Council's treasury operation will support capital decisions taken during the period, the day-to-day treasury management and the limitations on activity through treasury prudential indicators, in accordance with CIPFA's Code of Practice on Treasury Management and Prudential Code;
- The **Annual Borrowing Strategy** which sets out the Council's objectives for borrowing together with the approved sources of long and short-term borrowing and;
- **Annual Treasury Management Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss, in accordance with CIPFA's Code of Practice on Treasury Management.

Appendix 2

- The **Non-Treasury Investment Strategy** sets out the Council's investment decisions taken during the period and monitors performance and security, in accordance with MHCLG (Ministry of Housing, Communities and Local Government) Investment Guidance.

Appendix 3

- The Council's **Minimum Revenue Provision (MRP) Statement**, which sets out how the Council will pay for capital assets through revenue each year, as required by the Local Government Act

2003 (Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

- 2.8 These policies and parameters provide an approved framework within which officers undertake the day-to-day capital, treasury and non-treasury investment activities.

3 SCOPE

- 3.1 This report covers the Council's treasury management and investment activities as set out in paragraphs 2.1 to 2.8 above. The funds invested consist of short-term cash available due to timing of income and expenditure, prudential borrowing and the Council's capital receipts.
- 3.2 The Council's treasury management advisors Arlingclose continue to advise diversification in investments (spreading small amounts over a few counterparties) wherever possible.
- 3.3 Prudential borrowing of £162.0m was incurred by 31st March 2024 in relation to capital expenditure. As this was all borrowed on a short-term basis a proportion of it will need to be refinanced on an ongoing basis as it matures. The Council also plan to reduce this borrowing need by generating approximately £11.9m in asset sales over the next three years, excluding the potential sale of Civic Quarter land and private residential rental units on the Union Yard development.
- 3.4 Careful observation of the "gross debt v capital financing requirement" indicator will need to be undertaken progressively throughout the financial year.
- 3.5 Where a material change to the attached strategies occurs during the year a revised strategy will be presented to Full Council before the change is implemented.

TREASURY MANAGEMENT STRATEGY 2025-26

1 INTRODUCTION

- 1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code. The Corporate Governance Audit and Strategy Committee is the nominated Committee responsible for the effective scrutiny of the Treasury Management Strategy and policies.
- 1.3 Investments held for service purposes or for commercial profit are considered in a separate part of this report, the Annual Non Treasury Investment Strategy at Appendix 2.
- 1.4 This Strategy covers:
- External Context
 - Local Context
 - Annual Borrowing Strategy
 - Annual Investment Strategy
 - Treasury Management Prudential Indicators
 - Related Matters

2 EXTERNAL CONTEXT

Economic background (January 2025):

- 2.1 Economic background: The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but modestly weaker economic growth over the medium term,

together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.

- 2.2 The Bank of England (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.
- 2.3 The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).
- 2.4 Office for National Statistics (ONS) figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.
- 2.5 The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

- 2.6 The US Federal Reserve has continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an (upwardly revised) annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.
- 2.7 Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Credit Outlook:

- 2.9 Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.
- 2.10 Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.
- 2.11 Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the

authority's treasury adviser.

- 2.12 Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest Rate Forecast (December 2024):

- 2.15 The Authority's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.
- 2.16 Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.
- 2.17 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

3 LOCAL CONTEXT

- 3.1 On 31st December 2024, the Council held £125.0m of short-term borrowing and £28.5m of investments. This is set out in further detail in Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below. To date the Council has relied upon its own cashflow (internal borrowing) to fund capital expenditure, supplemented by short-term external borrowing to provide liquidity. A significant element of the external borrowing will be replaced during the year with renewed short-term borrowing based upon the Council's projected cashflow requirements. The objective is to minimise the need for external borrowing and enable the CFR to be reduced by replacing capital receipts from asset sales as these are achieved.

Table 1: Balance Sheet Summary and Forecast in £ millions.

APPENDIX 1

	2023-24 Actual	2024-25 Forecast	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate
Capital Financing Requirement	167.4	170.5	160.9	157.2	155.7
Less: Other Debt Liabilities	1.0	0.7	0.4	0.1	0.1
Loans CFR	166.4	169.8	160.5	157.1	155.6
Less: External Borrowing	162.0	141.0	19.0	5.0	5.0
Internal Borrowing	4.4	28.8	141.5	152.1	150.6
Less: Balance Sheet Resources	45.4	40.8	38.2	36.8	37.3
Treasury Investments / (New Borrowing)	41.0	12.0	(103.3)	(115.3)	(113.3)

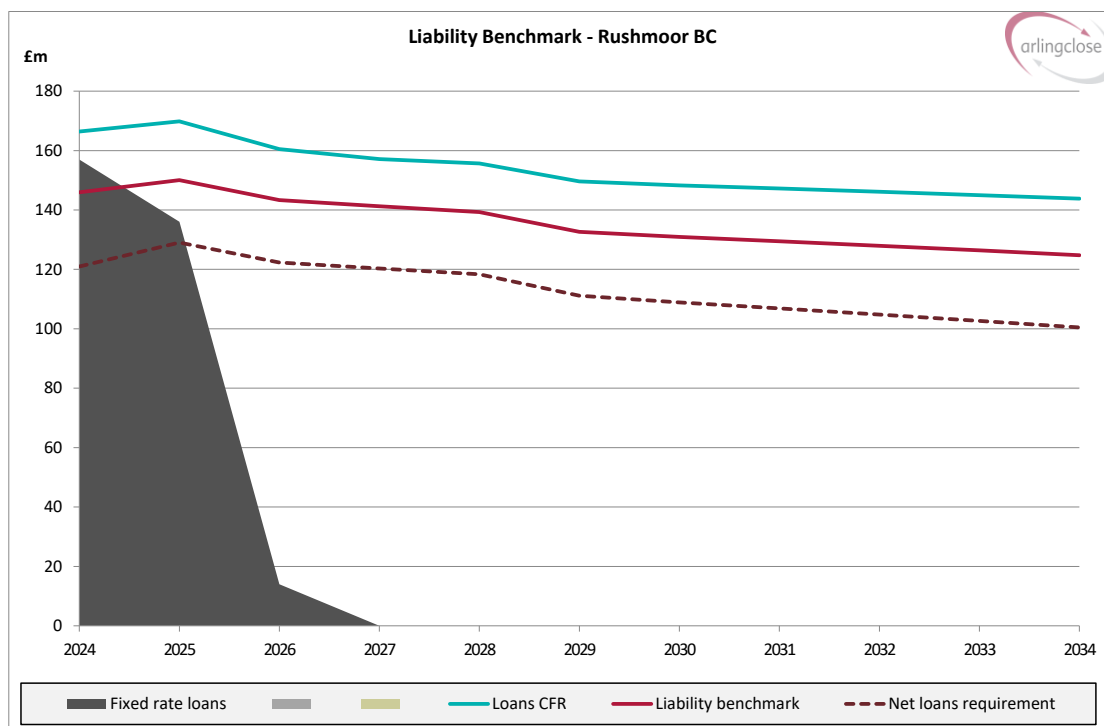
- 3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Council will not have sufficient working capital to fund the required level of borrowing and will borrow funds from other local authorities' and Publics Works Loan Board (PWLB) short term to provide liquidity and manage cash requirement during year.
- 3.3 The Council's CFR is projected to increase to £170.5m in 2024/25 before reducing. The majority of currently held loans are due to mature within the next year and will need to be replaced, meaning the Council can expect to have an ongoing borrowing need in future. Over the forecast period above it is expected that £113.3m of additional borrowing will be needed by 2027/28.
- 3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table above shows that the Council expects to comply with this recommendation during 2025-26 and following two financial years.

- 3.5 **Liability benchmark:** To compare the Council’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as in the table above, but that cash and investment balances are kept to a minimum level of £21m at each year-end. This incorporates £16m invested in strategic pooled funds that cannot be sold at short notice and an additional £5m liquidity buffer to manage short-term cashflow requirements. The minimum cash levels at 31st March 2024 are higher at £25m as the strategic pooled fund balance was higher at this date, it is now lower as some funds have been sold during 2024/25.
- 3.6 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability Benchmark in £ millions

	2023-24 Actual	2024-25 Forecast	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate
Loans CFR	166.4	169.8	160.5	157.1	155.6
Less: Balance Sheet Resources	45.4	40.8	38.2	36.8	37.3
Net Loans Requirement	121.0	129.0	122.3	120.3	118.3
Plus: Liquidity Allowance	25.0	21.0	21.0	21.0	21.0
Liability Benchmark	146.0	150.0	143.3	141.3	139.3

- 3.7 Following on from the medium-term forecast in table 2 above, the 10-year liability benchmark assumes no capital expenditure funded by borrowing after 2029/30. This is shown below together with the maturity profile of the Council’s existing borrowing:



- 3.8 This shows that the Council has a significant borrowing need for a number of years into the future as the CFR and liability benchmark remain high. The majority of the need to borrow is to replace existing short-term loans that will mature.

4 ANNUAL BORROWING STRATEGY 2025-26

- 4.1 The Council held £145.0m in loans at 31st December 2024 as part of its previous strategy for funding prior years' capital programmes. This represents a decrease in borrowing from the previous year end. The majority of current debt is due to mature with in next 12 months.
- 4.2 The balance sheet forecast in table 1 (above) shows that the Council expects to need to borrow £103.3m by the end of 2025/26 to fund the capital programme. However, incorporating minimum cash requirements of £21.0m increases this borrowing requirement to £124.3m This borrowing need stems predominantly from the need to replace existing short-term loans as they mature.
- 4.4 **Objectives:** The Council's chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 4.5 **Strategy:** The Council has to date adopted an approach of borrowing on

a short-term basis to take advantage of historically low short-term interest rates. Since late 2021 however interest rates, and correspondingly the Council's cost of borrowing, have risen dramatically. Bank of England Base Rate was 0.1% in December 2021 and rose to a high of 5.35% in August 2023. It has now experienced modest falls and is currently 4.75%.

- 4.6 In the medium term the Council aims to have a higher proportion of debt in longer-term loans, enabling greater long-term certainty in costs. As current interest rates are expected to fall the intention is to wait until rates are lower before beginning this process. The situation is kept under constant review.
- 4.7 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 4.8 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity to retain its access to PWLB loans.
- 4.9 In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.
- 4.10 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are summarised below:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
 - National Wealth Fund Ltd
 - Any institution approved for investments
 - Money market loans (long term & temporary)
 - Any other bank or building society authorised to operate in the UK
 - UK Local Authorities
 - UK public and private sector pension funds (except the Local Government Pension Scheme administered by Hampshire County Council)
 - Capital market bond investors
 - Retail investors via a regulated peer-to-peer platform
 - UK Municipal Bond Agency plc and other special purpose companies created to enable local authority bond issues.
 - Lottery monies

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

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback
- Similar asset based finance

4.12 The Council has previously raised all of its borrowing on a short-term basis from Local Authorities. In future the Council expects to continue to utilise this source and is also likely to utilise the PWLB for longer-term loans as appropriate. The Council continues to investigate other sources of finance, that may be available at more favourable rates.

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

5 ANNUAL TREASURY MANAGEMENT INVESTMENT STRATEGY 2025-26

5.1 The Guidance on Local Government Investments in England gives priority to security and liquidity, and the Council's aim has been to achieve a yield commensurate with these principles.

5.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. As at 31st December 2024 the Council's investment balance stood at £28.5m. In future years the Council expects to hold a minimum of £21m in investments. Further detail on current investments is given in Appendix 2.

5.3 During 2024 the Council has generated returns from existing long-term pooled fund investments together with diversification within the Council's

investment portfolio. The Council held the following investments on 31st December 2024:

- £15.3m in pooled funds (providing a balance across a range of 5 different types of funds).
- £8.1m held in money market funds with next day access
- £5.0m invested with Cornwall Council for 45 days
- £0.1m deposited with Lloyds Bank plc with next day access

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

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

5.6 The CIPFA Code does not permit local authorities to borrow to invest purely of financial gain. Borrowing and investing for day-to-day treasury management is permitted.

5.7 Long-term investments are also permitted for treasury management purposes. Investments in strategic pooled funds which invest in products such as bonds, property and equity will in the longer term produce higher returns than cash investments. In the long term they are much more likely to protect the value of investments by gaining a return greater than inflation. This is the reason for the Council's current portfolio of strategic pooled funds.

- 5.8 The Council will give due consideration to the potential sale of strategic pooled funds in future as part of an ongoing review of their risk and return to the Council. A sale at the present time is not a suitable option due as to the current economic climate this would be realising a loss in these investments. The funds are considered long-term products that are unsuitable for sale at short notice.
- 5.9 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
- 5.10 **Business models:** Under the IFRS 9 standard on financial instruments, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 5.11 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown. The schedule of approved counterparties is underpinned by a detailed list of named counterparties. This list is maintained within Financial Services for treasury management operational purposes.

Table 3: Treasury Management Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit (£m)	Sector Limit (£m)
The UK Government	50 years	Unlimited	N/A
Local authorities and other government agencies	25 years	6	Unlimited
Money market funds*	N/A	6	Unlimited
Secured investments*	25 years	6	Unlimited
Banks (unsecured) *	13 months	3	30
Building societies (unsecured) *	13 months	3	6
Strategic pooled funds	N/A	6	30

* **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise, the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

- 5.12 **UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
- 5.13 **Local Authorities and other government entities:** Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.
- 5.14 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision.

Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

- 5.15 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- 5.16 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 5.17 **Strategic pooled funds:** Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold or exchanged, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
- 5.18 **Operational bank accounts:** These may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.
- 5.19 Investments may be made with banks or any public or private sector

organisations that meet the above credit rating criteria. The Council may also invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Council's treasury management adviser.

- 5.20 **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.
- 5.21 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify the Council of changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made with that entity
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 5.22 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 5.23 **Other Information on the Security of Investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

- 5.24 **Reputational aspects:** The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be considered when making investment decisions.
- 5.25 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not reflected in general credit-ratings. In these circumstances, where the Council feels the whole market has been affected, it will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
- 5.26 **Investment limits:** The maximum that will be lent to any one organisation (other than the UK Government) will be £6 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries, and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries. Detail of investment limits are given in table 4 below.

Table 4: Prudential Indicator: Liability Benchmark in £ millions

	Cash Limit
Any group of pooled fund under the same management	15
Investments held in a broker’s nominee account	15
Foreign countries	6

- 5.27 **Liquidity management:** The Council reviews cash flow daily to determine the maximum period for which funds may prudently be

committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast. The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), of which at least two will be UK domiciled, to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6 TREASURY MANAGEMENT PRUDENTIAL INDICATORS

6.1 The Treasury Management Code requires that local authorities set several indicators for treasury management performance, which have been set as below. A voluntary measure for credit risk as set out in paragraph 7.2.

6.2 **Credit Risk (Credit Score Analysis):** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score 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.

The advice from Arlingclose is to aim for an average A+, or higher, average credit rating, with an average score of 5 or lower. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

Credit risk indicator	Target
Portfolio average credit rating	A+
Portfolio average credit score	5.0

6.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount cash available within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£5m

6.4 **Interest Rate Exposures:** CIPFA encourages the use of an indicator which limits the Councils exposure to interest rate movements. Compliance with this indicator may lead to the Council being required to borrow, or invest, on a long-term fixed rate basis to limit its exposure to interest rate changes over the next year.

The Council's loans are currently predominantly short term, and the Council does not consider that it is affordable to lock in current rates on a long term basis. It therefore does not believe that it is appropriate to set a limit on the amount of short-term borrowing that can be undertaken at the present time as this could force the Council to borrow long term at an unaffordable rate.

The Council does aim to structure debt in the medium term to manage the revenue impact of a 1% change in interest rates.

The impact of a 1% fall in interest rates will be positive for the Council as short-term borrowing is expected to far exceed short term investments in the medium term. It is thus not seen as necessary to set a limit on the impact of a 1% fall in rates.

The use of this indicator will be kept under review going forward.

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

Maturity Structure	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%

10 years and above	100%	0%
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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.

The Council has set these limits at a broad level to avoid overly onerous restrictions on future borrowing decisions. At the present time 91% of the Councils loans mature in under 12 months. The Council plans to further diversify the maturity of its debt as interest rates are expected to fall further reducing the cost of long-term debt. The Council wishes to have the full flexibility as to when this debt will mature. This indicator will continue to be reviewed in future.

- 6.6 **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 will be:

Principal Sums Invested	2023-24	2024-25	2025-26
Limit on principal invested beyond year end at any one time	£30m	£30m	£20m

7 RELATED MATTERS

- 7.1 The CIPFA Code requires the Council to include the following in its treasury management strategy.

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

The Council will only use standalone financial derivatives (such as swaps, forwards, futures, and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the

Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

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

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

7.3 Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing it access to a greater range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Executive Head of Finance believes this to be the most appropriate status.

7.4 Investment Training: The investment training needs of the Council's treasury management staff are assessed on a continuous basis, discussed as part of the staff development reviews, and reviewed as the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

7.5 Financial Implications - Investments: The budget for investment income in 2025-26 is £1.0m, based on an average investment portfolio of £30m at an average interest rate of 3.5%. Performance of investments against budget will be reviewed on an ongoing basis and as part of our quarterly budget monitoring process.

7.6 Financial Implications - Borrowing: The budget for interest costs in relation to borrowing in 2025-26 is £6.4m (not including IFRIC 4 lease accounting interest). This is determined by taking the expected

borrowing for the year multiplied by the expected interest rate for short-term borrowing for the same period.

7.7 Other Options Considered: The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Head of Finance continues to believe that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	2024-25	2025-26
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Invest in a wider range of counterparties and/or for longer times	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is may not be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default;

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		however long-term interest costs may be less certain
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Appendix A: Arlingclose Economic and Interest Rate Forecast – December 2024

Underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data..
- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.
- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.
- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.
- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.
- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

Forecast:

- In line with our forecast, Bank Rate was held at 4.75% in December.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.
- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.
- Upside risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

APPENDIX 1

Appendix B: Existing Investment and Debt Position – December 2024

	31/12/2024 Actual Portfolio £m	31/12/2024 Average Rate
External borrowing:		
PWLB	20.0	5.0%
Local authorities	112.0	5.1%
Building societies	5.0	4.7%
Northern Ireland Housing Executive	8.0	5.3%
Other long-term liabilities:	1.0	1.3%
Total gross external debt:	146.0	5.1%
Treasury investments:		
Bank accounts	0.1	4.6%
Money market funds	8.1	4.8%
Local authorities	5.0	5.2%
Strategic pooled funds	15.4	6.0%
Total treasury investments	28.5	6.0%
Net debt	117.3	4.8%

ANNUAL NON-TREASURY INVESTMENT STRATEGY 2025-26

1 INTRODUCTION

- 1.1 The Council invests its money for three broad purposes:
- because it has surplus cash because of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
 - to support local public services by lending to or buying shares in other organisations (**service investments**), and
 - to earn investment income (known as **commercial investments** where this is the main purpose).
- 1.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.
- 1.3 The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

2 TREASURY MANAGEMENT INVESTMENTS

- 2.1 The Council typically receives its income in cash (e.g., from taxes and grants) before it pays for its expenditure in cash (e.g., through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £20m and £60m during the 2025/26 financial year.
- 2.2 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

3 SERVICE IMPROVEMENTS: LOANS

- 3.1 **Contribution:** The Council lends money to its subsidiary (Rushmoor Homes Limited) and local businesses to support local public services and stimulate local economic growth. The Council is a funding partner of Farnborough International Limited. The loans have enabled the development of the Farnborough International exhibition and conference centre. Expanding the exhibition and conferencing capabilities in Farnborough brings increased economic capacity to the Borough. The Council established a Wholly Owned Company (WOC) subsidiary, Rushmoor Homes Limited (RHL), in April 2020. The Council will lend to RHL at a commercial rate to enable procurement of property.
- 3.2 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. To limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Loans for service purposes

Category of Borrower	2023-24 Actual £m	2024-25 Forecast £m	2025-26 Estimate £m
Local businesses	6.5	6.5	6.5
Subsidiaries & partnerships	1.5	1.5	1.5
Total	8.0	8.0	8.0

- 3.3 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council’s statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.
- 3.4 **Risk assessment:** The Council assesses the risk of loss before entering into lending agreements and whilst holding service loans by assessing the counterparty’s resilience, the service users’ needs that the loan is designed to help meet and how these will evolve over-time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Executive Head of Finance. All loans will be subject to contract agreed by the Corporate Manager – Legal Services. All loans must be approved by Full Council and will be monitored

by the Executive Head of Finance.

- 3.5 **FIL loan:** The Council has two loan agreements with FIL. The first loan repayments are due in June 2026 with a final repayment in June 2028.

4 COMERCIAL INVESTMENTS: PROPERTY

- 4.1 **Contribution:** The Council has investments in local and regional commercial and residential property with the intention of making a profit that will be spent on local public services.

- 4.2 In November 2020 the Public Works and Loan Board (PWLB) issued new lending terms (subsequently clarified in August 2021) making it conditional that Local Authorities have no intention to buy investment assets primarily for yield in the current and follow two financial years. The Council will not be acquiring any further investment assets primarily for yield.

Property held for investment purposes.

Property by Type	31-Mar-24 Actual		
	Purchase Cost £m	Gains / (Losses) £m	Value in Accounts £m
Industrial units	51.8	9.7	61.5
Offices	36.6	-3.9	32.6
Retail	42.1	-8.1	34.0
Caravan Park	0.3	3.1	3.5
Petrol Stations	2.3	0.5	2.8
Waste Recycling	1.0	0.4	1.4
Mixed Use	0.2	0.1	0.3
Other	0.2	0.1	0.3
Total	134.4	2.0	136.4

- 4.3 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

- 4.4 Where value in accounts is at or above purchase cost: A fair value assessment of the Council’s investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment.

- 4.5 Should the 2024/25 and 2025/26 year-end accounts preparation and audit

process value these properties below their purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

4.6 Where value in accounts is below purchase cost: The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss, and the Council will therefore take mitigating actions to protect the capital invested. These actions include:

- Quarterly review of the portfolio
- Consideration of advice from the Council's commercial property advisers by the Council's Property Investment Advisory Group (PIAG). Currently is agreed that the best course of action is to hold the majority of the assets as values will increase over the long term and most assets within the portfolio are considered sound with strong covenants/dependable income streams. Assets identified for disposal will be taken forward to market.

4.7 **Risk assessment:** The Council assesses the risk of loss before entering and whilst holding property investments by:

- Assessment of the relevant market sector(s) including the level of competition, barriers to entry/exit, future market prospects
- Assessment of exposure to particular market segments to ensure adequate diversification
- Use of external advisors if considered appropriate by the Executive Head of Finance
- Continual monitoring of risk across the whole portfolio and specific assets

4.8 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert into liquid asset at short notice and will be subject to market conditions in terms of timescales involved. However, to ensure that invested sums could be accessed when they are needed the portfolio will be regularly reviewed and prioritised to ensure that commercial property could be sold as a going concern as soon as possible.

5 LOAN COMMITMENTS AND FINANCIAL GUARANTEES

5.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council, for completeness, the Council has no financial guarantees or loan commitments.

6 PROPORTIONALITY

- 6.1 The Council has become increasingly dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Strategy. The Head of Service responsible for the Council’s property and estates functions would review the cause of any shortfall and identify any actions needed to ensure the income shortfall is mitigated or remedied.
- 6.2 With the introduction of the revised PWLB lending terms, the Council has no intention to purchase investment assets primarily for yield in the current and following two financial years. With no further expenditure planned on investment assets primarily for yield the proportion of investment to Gross service expenditure will fluctuate because of changes in investment income from existing holdings and changes in Gross service expenditure.

Proportionality of Investments

Investment income as a proportion of gross service cost	2023-24 Actual	2024-25 Forecast	2025-26 Budget	2026-27 Budget	2027-28 Budget	2028-29 Budget
Investment income £m	10.2	11.1	11.4	11.5	11.3	11.1
Gross service expenditure £m	34.1	35.1	34.2	34.6	35.3	36.0
Proportion	30.0%	31.6%	33.5%	33.2%	31.9%	30.9%

7 BORROWING IN ADVANCE OF NEED

- 7.1 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.
- 7.2 The Council may, in supporting the delivery of the Council’s Capital Programme, borrow in advance of need where it is expected to demonstrate the best longer-term value for money position. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated (ie: the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds.

- 7.3 The Council is aware that it will be exposed to the risk of loss of the borrowed sums, and potential interest rate changes. These risks will be managed as part of the Council's overall management of its treasury risks and will be reported through the standard reporting method.

8 CAPACITY, SKILLS AND CULTURE

- 8.1 **Elected members and statutory officers:** The Council recognises that those elected Members and statutory officers involved in the investment decision making process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- to assess individual investments in the context of the strategic objectives and risk profile of the Council; and
- to enable them to understand how new decisions have changed the overall risk exposure of the Council.

The Council will ensure that the relevant officers and the Members of Cabinet have appropriate skills, providing training and advisor support where there is a skills gap.

- 8.2 **Agents:** Lambert Smith Hampton Investment Management (LSHIM) were appointed as the Council's external investment advisor during 2019/20. LSHIM manage property investment portfolios for institutions, local authorities, and private family offices. The LSHIM investment team are all RICS qualified and have significant combined commercial experience. The assigned investment team can call on the wider expertise and resource of the parent company (Lambert Smith Hampton-LSH) that have offices throughout the UK. The Council also engages a number of other agents to manage specific properties.

- 8.3 **Commercial deals:** The Council will ensure that the Cabinet, officers and agents negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

- 8.4 **Corporate governance:** Any non-treasury management (i.e. property, service loans etc) investment decisions will be scrutinised by Executive Leadership Team and Cabinet before final approval. The Overview and Scrutiny committee review all decisions made by the Cabinet. Although after the event the Committee can make any recommendations to the Council if it sees fit.

9 INVESTMENT INDICATORS

9.1 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure because of its investment decisions.

9.2 **Total risk exposure:** The first 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 down and guarantees the Council has issued over third-party loans.

Total Investment Exposure £m	31-Mar-24 Actual	31-Mar-25 Forecast	31-Mar-26 Forecast
Treasury Management Investments	41.0	21.0	21.0
Service Improvement: Loans	8.0	8.0	8.0
Commercial Investments: Property	134.4	131.1	122.5
Total	183.4	160.1	151.5
Commitments to lend	-	-	-
Guarantees issued on loans	-	-	-
Total exposure	183.4	160.1	151.5

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

Investments funded by borrowing £m	31-Mar-24 Actual	31-Mar-25 Forecast	31-Mar-26 Forecast
Service Improvement: Loans	8.0	8.0	8.0
Commercial Investments: Property	92.2	88.9	80.3
Total	100.2	96.9	88.3

9.4 **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 net rate of return	2023-2024 Actual	2024-25 Forecast	2025-2026 Budget
Treasury Management Investments	6.3%	3.6%	3.9%
Service Improvement: Loans	4.0%	4.0%	4.0%
Commercial Investments: Property	8.3%	7.1%	6.5%
All Investments	7.7%	6.5%	6.0%

9.5 Short term interest rates are also expected to be lower in the MTFS and returns seen in strategic pooled funds are not expected to be maintained. The MTFS is also forecasting a reduction in net income, this is being addressed in the MTFS budget strategy.

MINIMUM REVENUE PROVISION STATEMENT 2024-25

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2024.
2. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.
3. The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and provides several options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance.
4. MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.
5. For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB certainty rate for annuity loans in the year of expenditure, for a loan term equal to the asset life, and forecast rates for future years, starting in the year after the asset becomes operational or in the year following expenditure was incurred up to a maximum of 50 years.
6. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
7. For assets acquired by finance lease or private finance initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
8. Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so

that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

9. For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.
10. For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.
11. For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.
12. For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.
13. Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:
 - Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
 - Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
 - Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
 - Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

APPENDIX 3

10. For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.
11. Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until 2026/27 or later.
12. Based on the Authority's latest estimate of its CFR on 31st March 2025, the budget for MRP has been set as follows:

	31.03.2025 Estimated CFR £m	2025/26 Estimated MRP £
Capital expenditure after 31.03.2008	172.57	2.094
Leases and Private Finance Initiative	0.093	0.023
Capital loans to third parties	2.978	0.016
Total General Fund	175.64	2.133

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Statement of Accounts

SUMMARY:

This report sets out the latest position on the local audit delay backstop. The purpose of the report is for the committee to consider and approve the financial statements for 2023/24.

RECOMMENDATIONS:

Members are requested to:

- (i) Delegate the approval of the Statement of Accounts for 2023/24 to the Chair of Audit Committee and the S151 Officer.
- (ii) Delegate the signing of the Letter of Representation for 2023/24 to the Chair of Audit Committee and the S151 Officer.
- (iii) Confirms that the 2023/24 accounts have been prepared on a going concern basis.
- (iv) Notes the Auditors Results Report
- (v) Notes the completion of Audits for 2020/21, 2021/22 & 2022/23

1. INTRODUCTION

- 1.1 The Councils Constitution sets out in Part 3, Section 6 (Roles and Responsibilities of Council Decision Making Bodies) that it is the CGAS committees' responsibility to:

“Financial Reporting

28. To approve the annual Statement of Accounts and consider whether appropriate accounting policies have been followed and whether any concerns arising from the financial statement or from the audit need to be brought to the attention of the Council.

29. To consider the external auditor's report to those charged with governance on any issues arising from the audit of the accounts.”

2. PURPOSE

- 2.1 This report sets out the 2023/24 accounts which require approval in line with the statutory Local Government Audit backstop position and includes as update on prior years.

Appendix 1 – 2023/24 Statement of Accounts

Appendix 2 – Draft Letter of Representation

Appendix 3 – External Auditors Results Report

Appendix 4 – Final Audit Reports for 2020/21, 2021/22 & 2022/23

BACKGROUND

- 3.1 The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual Statement of Accounts. These Regulations incorporate a statutory requirement for the Statement of Accounts to be approved by a resolution of a Committee of the relevant body by 31 July for the relevant year.
- 3.2 The Local Audit the Accounts and Audit (Amendment) Regulations 2022 introduced a temporary change to the required dates, moving the dates statutory requirement for the Statement of Accounts to be approved by a resolution of a Committee of the relevant body to later in the year for a temporary period. From 2023/24 the publishing date returned to 31 May.
- 3.3 The Chief Finance Officer (Section 151 Officer) retains responsibility for the preparation of the Statement of Accounts and is required to certify that they give a true and fair view of the financial position of the Council. Members' role in approval is to demonstrate their ownership of the Statement of Accounts and their confidence in both the Chief Finance Officer and the process by which the accounting records are maintained and the Statement of Accounts prepared.
- 3.4 As previously discussed with the committee, there have been national delays in local government audit, with many councils having a number of years audit not completed by the statutory deadlines.
- 3.5 Statute has now been laid by government to clear the backlog. On 5 September 2024 the government published draft the Accounts and Audit (Amendment) Regulations 2024. These Regulations, which were approved on 30 September 2024, set a publication date for audited financial statements for 2023/24 of 28 February 2025.
- 3.6 The prior years of 2020/21, 2021/22 and 2022/23 have now been published with a disclaimed audit opinion. These audit opinions are included in Appendix 4.
- 3.7 Due to prior years having been a disclaimed opinion, and therefore not having reasonable assurance for prior years balances brought forward, the external auditors therefore can only give limited assurance for 2024/25 rather than a clear audit opinion.

4 STATEMENT OF ACCOUNTS

- 4.1 The Statement of Accounts for 2023/24 is included as a separate document at Appendix 1.

- 4.2 The Narrative Report within the set of Accounts highlights the key issues and shows the headline figures.
- 4.3 The format and content of the accounts is largely prescribed by regulation and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Local Authority Accounting (the Code). It is a requirement that the accounts are arranged with all core financial statements grouped together followed by all notes to these statements in a separate section.
- 4.4 Changes have been identified through the audit which will be reflected in the final published copy of the accounts, these include:
- Assets – overstatement of asset balances – this will be mitigated by revaluation balances
 - Pension – actuary has reviewed liability calculations and provided an updated report which will reduce the net liability position held on the balance sheet
- 4.5 The Audit Results Report of the Council's accounts by Ernst & Young is included at Appendix 3.
- 4.6 It is a requirement that the Council issues a Letter of Representation to its external auditors at the conclusion of the audit and is attached at Appendix 2.
- 4.7 Alongside the accounts the Council must publish the Annual Governance Statement which is a statutory document which helps ensure there are the correct controls in place to enable the council to deliver its services and functions and minimise risk to the Council. The Annual Governance Statement is included alongside each set of Accounts.

5 GOING CONCERN REPORT

- 5.1 International Audit Standards require the Audit Committee to provide confirmation that the Statement of Accounts have been prepared on a 'going concern' basis. The going concern concept is one of the core principles underpinning local authority accounting practice and refers to the assumption made when the Accounts are prepared that the organisation will continue to operate for at least 12 months following the accounting period in question, taking into consideration best estimates of future activity and cash flows.
- 5.2 The main issues around the application of the 'going concern' concept are to consider the medium-term financial plans and cash flow forecasts in existence to ensure the continuing operation of the Council. As explained in the Narrative reports to the accounts, the impact of Covid-19 and External economic factors on the Council's finances during the period has been significant. CIPFA issued specific guidance on how local authorities should report their going concern statement in the light of the Covid-19 impact. This guidance confirms that local authorities cannot cease to be a going concern or be liquidated or cease to operate.

- 5.3 Rushmoor's Medium-Term Financial Strategy (MTFS) (2024/2025) was agreed by Council in February 2024. The MTFS forecasts the Council's financial performance and identifies budget pressures for the three years of the plan. This plan demonstrates that the Council faces significant financial pressure. External factors have continued to affect the Council's operations and financial position directly and indirectly. The Council has approved a Financial Resilience Plan to support the financial recovery of the Council with appropriate project governance to secure delivery. Officers have implemented more robust monitoring arrangements and will be increasing frequency to ensure that the Council has early warning of adverse variations to the forecast so that it can take corrective action.

6 CONSULTATION

- 6.1 The unaudited accounts were available for public inspection for 30 working days following publishing as required in Section 25 of the Local Audit and Accountability Act 2014

7 IMPLICATIONS

7.1 Risks

The preparation of the Statement of Accounts and the audit scrutiny provide reassurance that the accounts give a true and fair view of the financial position of the Council. The process of clearing down the backlog of the Annual Statements means full audit sign off has not been achieved for the four years 2020-2024, therefore risks of the Councils financial accounts not showing a true and fair financial position are increased.

7.2 Legal

The Accounts set out Rushmoor's financial position at the year-end in a format which is prescribed by Regulations and the Local Government Accounting Code of Practice.

7.3 Financial and Resource

There are no additional resource implications resulting from the Statement of Accounts. The Accounts set out Rushmoor's financial position at the year-end in a format which is prescribed by Regulations and the Local Government Accounting Code of Practice.

Audited accounts give strong evidence for a financially sound Council and are a key document that helps to demonstrate the Council's accountability for public funds.

The Value for Money report from audit help to demonstrate the Council's key objective of providing good value for money in how the Council's resources have been utilised.

7.4 Equalities Impact

No direct implications.

7.5 Other

Not applicable.

8. CONCLUSIONS

- 8.1 The accounts require approval following closure of the audit. The Committee as 'Those Charged with Governance' are required to receive the Audit Findings Report and approve for the Chair to sign the letters of representation on behalf of the Council.

BACKGROUND DOCUMENTS:

None

CONTACT DETAILS:

Report Author: Rosie Plaistowe- Melham – Financial Services Manager

rosie.plaistowe@rushmoor.gov.uk

Head of Service: Peter Vickers – Executive Head of Finance, S151

peter.vickers@rushmoor.gov.uk

Rushmoor Borough Council Completion Report for Those Charged with Governance

Years ended 31 March 2021
Report issued - 26 November 2024



Building a Better
working world

Rushmoor Borough Council
Corporate Governance, Audit and Standards Committee
Farnborough Road,
Farnborough GU14 7JU

26 November 2024

Dear Corporate Governance, Audit and Standards Committee

Completion Report for Those Charged With Governance

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Corporate Governance, Audit and Standards Committee of Rushmoor Borough Council (the Authority) with a detailed complete report covering our approach and outcomes of the 2020/21 audit.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

In completing our work for this audit year we have taken into account Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance. We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice (including recent 2024 updates), the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. Against this backdrop, we have also considered the Committee's service expectations.

The Corporate Governance, Audit and Standards Committee, as the Authority's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Authority's wider arrangements to support the delivery of a timely and efficient audit.

We consider and report on the adequacy of the Authority's external financial reporting arrangements and the effectiveness of the Corporate Governance, Audit and Standards Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw the Corporate Governance, Audit and Standards Committee members and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix F).

This report is intended solely for the information and use of the Corporate Governance, Audit and Standards Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

NB Whilst this completion report covers the opinion for 2020/21, our value for money work was completed and reported for all three years so we have included it in here but Maria Grindley is signing the 2020/21 opinion only and Simon Mathers will sign our 2021/22 and 2022/23.

Yours faithfully

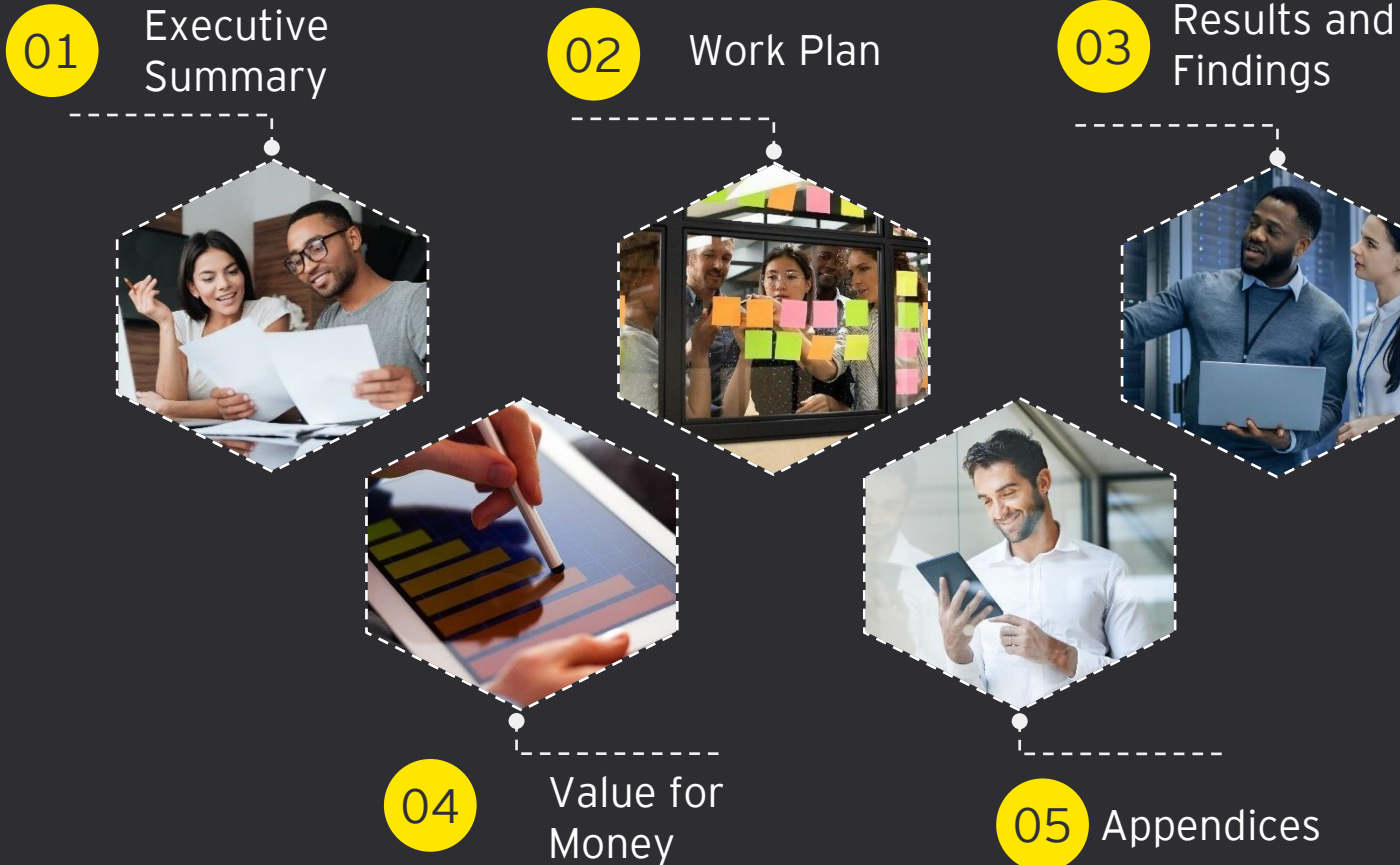
Maria Grindley

Partner

For and on behalf of Ernst & Young LLP

Enc

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.


The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Corporate Governance, Audit and Standards Committee and management of Rushmoor Borough Council. Our work has been undertaken so that we might state to the Corporate Governance, Audit and Standards Committee and management of Rushmoor Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Governance, Audit and Standards Committee and management of Rushmoor Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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01 Executive Summary



Executive Summary – System wide context

Context for the audit – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- ▶ Lack of capacity within the local authority financial accounting professions
- ▶ Increased complexity of reporting requirements within the sector
- ▶ Lack of capacity within audit firms with public sector experience
- ▶ Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed

DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 - “The Accounts and Audit (Amendment) Regulations 2024” (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

As a result of the system wide implementation of backstop dates we anticipate issuing a disclaimed audit opinion on the Authority’s 2020/21 accounts. The proposed disclaimer of the Council’s 2020/21 accounts impacts the audit procedures that we have planned and undertaken to gain assurance on the 2020/21 financial statements and the form of the audit report.

Executive Summary - Local context

Local Background and Context

The position at this Council has developed over recent years resulting in unaudited financial statements for 31 March 2021.

The main reasons for the Council's financial statements not being prepared, audited and signed to date include:

- ▶ Significant issues encountered during the Council's 2019/20 financial statement audit which started in September 2020 and did not conclude until April 2023.
- ▶ During our audit we identified the following which we documented for improvement in our July 2023 Annual Audit Letter:
 - ▶ Provision of property information: We reported on the critical delays in the provision of property information to support the material PPE and IP valuations in the Council's Balance Sheet. This included a lack of management challenge of key assumptions, and we recommended that management ensure that this challenge is factored into 2020/21 and future years;
 - ▶ Capacity of the finance department: Our audit team agreed a number of planned start dates and completion dates for aspects of the work with key finance staff contacts but there were consistent and ongoing delays due to officer work pressures e.g, the audit was also delayed in January 2021 and 2022 as officers needed to prioritise the production of the 2021/22 accounts, on many occasions, information promised to us has failed to meet agreed timelines;
 - ▶ Working papers and supporting documentation was not of the required standard to support the figures within the financial statements and had to be returned on a number of occasions for improvements to be made.
- ▶ Following completion of the 2019/20 financial statements we worked closely with the new Council staff in the finance team to try to complete the 2020/21 audit, and we managed to make a good start but started to find that the issues in the previous year were taking time for the new finance team to work through and therefore this, along with Council staff capacity and issues with getting reliable information from the system meant that we couldn't get the audit completed in time to meet the backstop date.
- ▶ The post pandemic timelines resulted in audit teams trying to move delayed audits on to completion, whilst finance teams were trying to catch up, deal with current priorities and plan for the future. This used a significant amount of our finite audit resource, leading to a lack of capacity to move onto the 2022/23 audit year.
- ▶ In addition to the specific issues at Rushmoor as set out above, there were a number of new technical issues and challenges to address during this period, including, accounting for infrastructure assets and taking into account the updated pension fund valuations, which added to the delays.
- ▶ The Authority has not been in a position to present draft statements of account for audit within the regulatory timeframe. Due to the issues raised above we were unable to complete the 2020/21 financial statements audit and in discussion with the Council it was agreed that they would focus on achieving the improvements needed and getting current years financial statements back on track.

Executive Summary - Report structure and work completed

Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (UK&I), (ISAs) and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office Value for Money Code (NAO VFM Code). It has been split into the following sections.

Section 1 - Executive Summary - this section setting out the national and local context and the structure of our report.

Section 2 - Work Plan - We have completed the following planning tasks:

- ▶ Required independence procedures.
- ▶ Set a level of materiality.
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer.
- ▶ Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting,
- ▶ Identified significant, inherent and other areas of higher risk or focus.
- ▶ Considered any other matters that may require reporting to regulators or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 3 - Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements.
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems, service organisations, which we report as appropriate.
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 4 - Value for money reporting

▶ The value for money report covering the year to 31 March 2021, 2022, 2023.

▶ NB Whilst this completion report covers the opinion for 2020/21, our value for money work was completed and reported for all three years so we have included it in here but Maria Grindley is signing the 2020/21 opinion only and Simon Mathers will sign our 2021/22 and 2022/23.

Section 5 - Appendices



BOARDROOM



02 Work Plan

Work Plan – Audit Scope

Audit scope

This Completion report covers the work that we performed in relation to:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 4.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

Given that SI (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024 imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

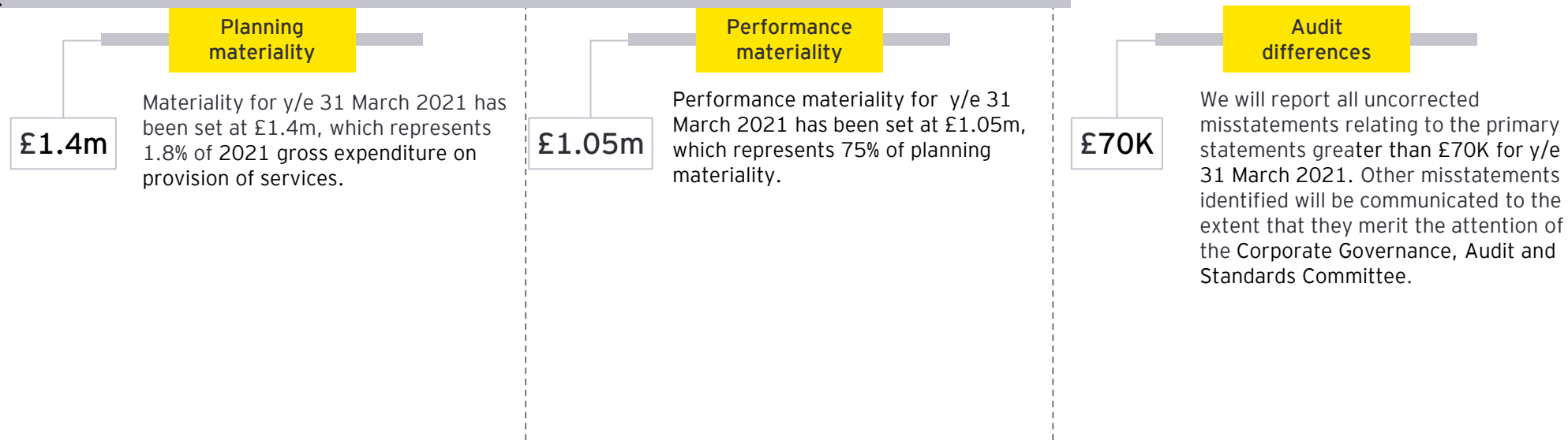
This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2021 we have determined that we cannot meet the objectives of the ISAs(UK), and we anticipate issuing a disclaimed audit report.

Work Plan - Materiality

Materiality



In order to ascertain the significance of issues in the draft financial statements we have set materiality based on the 2019/20 audit year. We have considered updating this materiality for any key changes or known factors from that year of which there were none. We determined that our procedures would be performed using a materiality of £1.4m for 2020/21

These materiality levels have been set based on the main Authority financial statements - we have not considered group materiality. These levels are being used to assess our response to any issues identified in the Authority's financial statements.

Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the years

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of Land and Building -Property plant and equipment and Investment properties	Significant risk	No change in risk or focus	The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council’s accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, covering both those assets that are revalued within the year and the continuing material accuracy of those valued in prior periods. There were a number of PPE adjustments during the prior year two years audit and we have therefore assessed the valuation of land and buildings as a significant risk for the 2020/21 financial statements.
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in revenue and expenditure recognition	Fraud Risk	No change / increase in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. Additional audit procedures will be performed to ensure that the triennial valuation was considered when calculating the pension liability.
Going Concern	Inherent risk	No change in risk or focus	Going Concern Compliance with ISA 570. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Corporate Governance, Audit & Standards Committee.
Covid grant income	Inherent risk	New risk	The classification of grants in terms of whether the council is a principal or agent gives rise to a high inherent risk in the current year. Additional audit procedures will be performed to ensure the correct classification in terms of IAS 20

Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the Audit & Governance Committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).

- ▶ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of our work, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Work Plan - Independence

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner for years ended 31 March 2021 and the audit engagement team have not been compromised

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary, agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is 0:1 2020/21. No additional safeguards are required.

Self-review threats

A self-review threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2024

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 28 June 2024 and can be found here: [EY UK 2024 Transparency Report | EY - UK](#)



03 Results and findings



Results and findings

Status of the audit

Our audit work in respect of the Rushmoor Borough Council opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Completion of subsequent events procedures;
- ▶ Receipt of a signed management representation letter

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion, a current draft is included in a later section of this report.

Value for Money

Our value for money (VFM) work is complete and reported in Section 4 of this report. We identified a risk of significant weakness in respect of financial sustainability (2020-21). Having updated and completed the planned procedures in these areas we did identify a significant weakness. See Section 4 of the report for further details.

Audit differences

In the draft financial statements for 2021, we have identified a number of differences in our review the statements. We have not completed audit work on these statements and therefore are not investigating or reporting on these further.

Other Reporting Issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts. We have no matters to report as a result of this work.



Results and findings

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Rushmoor Borough Council. We concluded we would disclaim the audit and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or Full Council.

Control observations

During the audit, our work has not identified any deficiencies in internal control:

Independence

Further to our review of independence in section 2 of this report we have not identified any issues to bring to your attention..

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We did not identify any issues which required us to issue a report in the public interest.



Results and findings

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We have no other matters to report

Results and findings - Audit Report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSHMOOR BOROUGH COUNCIL

Disclaimer of Opinion

We were engaged to audit the financial statements of Rushmoor Borough Council ('the Council') for the year ended 31 March 2021. The financial statements comprise the:

- Council Movement in Reserves Statement,
- Council Comprehensive Income and Expenditure Statement,
- Council Balance Sheet,
- Council Cash Flow Statement
- the related notes 1 to 41.
- Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13th December 2024.

We completed the audit of the 2019/20 financial statements in March 2023 and issued our audit opinion on 31 March 2023.

Following the completion of the 2019/20 financial statements we worked closely with the new Council staff in the finance team to try to complete the 2020/21 audit, and we managed to make a good start but started to find that the issues in the previous year were taking time for the new finance team to work through and therefore this, along with Council staff capacity and issues with getting reliable information from the system meant that we couldn't get the audit completed in time to meet the backstop date. Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer 'Responsibilities set out on page 11 , the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements , in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Rushmoor Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Rushmoor Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

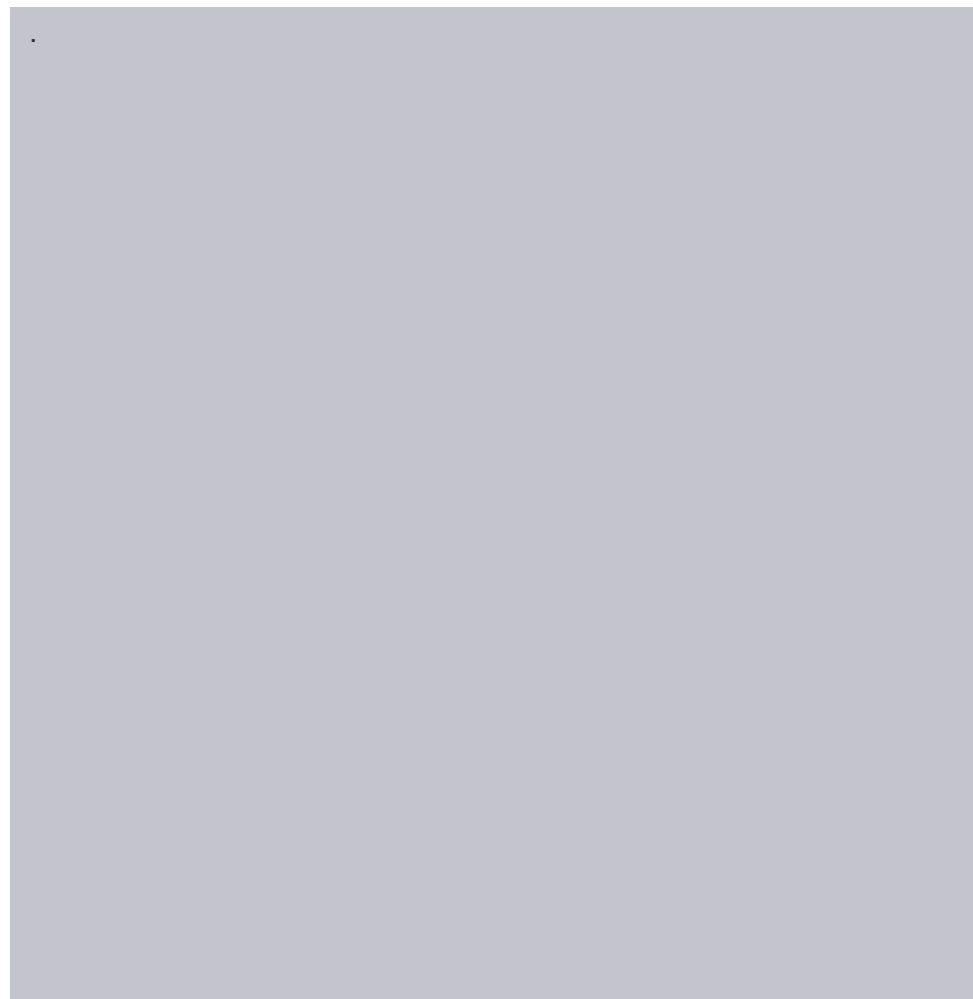
Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Rushmoor Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
26 November 2024





04 Value for Money

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VFM - Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03). The Department for Levelling Up, Housing and Communities (DLUHC) as it was at the time, worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. We are continuing to report Value for Money (VFM) in line with our full responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities. Our Interim Value for money report includes the detailed arrangements and processes underpinning the reporting criteria.

The purpose of this is to explain the work we have undertaken in respect of the period 1 April 2021 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit years 2020/21.

The report sets out the following areas which have been assessed up to the point of issuing this report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified; and
- Findings to date from our planned procedures.

Executive Summary (continued)

Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with key Officers;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council's management and the finance team.

We completed our risk assessment procedures and identified a significant weaknesses in the Council's VFM arrangements for financial sustainability.

We set out our planned response to address the risk in the table below:

Description of risk identified	Work planned to address the risk of significant weakness
<p>2022/23 Financial Sustainability</p> <p>The high level of short-term borrowings without sufficient income to finance the repayments as well as increase in interest costs have resulted in a financial uncertainty.</p> <p>The MTFs Equalisation reserve is being used to balance the budget in the short-term and will be depleted over the MTFs period leading to a deficit position during 2023/24</p>	<p>Review the cash flow forecast as well as the Financial Resilience Review done by CIPFA.</p> <p>Understand the future savings plans that is factored into the financial resilience review against the budget outturn report to determine if those savings plans are realistic.</p> <p>Ensure that the going concern note as disclosed in the updated accounts, reflects the financial uncertainty</p>

Executive Summary (continued)

Reporting

Our commentary for 2020/21, 2021/22 and 2022/23 is set out over pages 25 to 27. The commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2020/21, 2021/22 and 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, we identified a risk of significant weakness as part of our planning procedures in financial sustainability in 202/23, and, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	Significant risk identified in 2022/23	Significant weakness identified in 2022/23
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified in 2021/22 and 2020/21	No significant weakness identified in 2021/22 and 2020/21
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Significant weakness identified

Financial Performance:

The Council's budget for 2020/21 was significantly impacted by Covid-19 largely as a result of reduced income and additional expenditure following restrictions that were put in place in late March 2020 and continued during the financial year. This resulted in a core deficit of £905k before transfers to carry forward requests.

The impact of Covid-19 continued during 2021/22 although restrictions were eased and the focus moved towards the recovery phase. The impact on the Council's finances were mitigated by the provision of Covid funding from Government (£0.589m), with an overall projected surplus of £1.609m before transfers to carry forward requests and meant that the draw down from the Stability and Resilience Reserve was not required.

At the end of 2022/23, the council managed to break even based on the outturn report which was reported to Cabinet in July 2023. However, based on the review of the 2022/23 annual accounts, the council was highly geared with short-term borrowings of £115m, which is significantly high for the size of entity who have a net revenue budget of £12m. In addition, the latest Medium Term Finance Strategy and 2023-24 Budget Outturn presented to the council indicated a projected deficit in 2024/25 which will result in a drawdown of reserves.

Reserves:

Rushmoors' General Fund Balances decreased in 2022/23 by £2.8 million as a result of the deficit position on the Provision of Services. The closing balance of the Councils' balance at the end of 2022/23 was £21.1 million (PY: £23.9 million). Usable Earmarked Reserves decreased by £2.8 million to £19.1 million (PY: £21.9 million).

Budgets and Medium-Term Financial Strategy (MTFS):

An updated MTFS and Budget Strategy was presented to Cabinet in November 2022. The Strategy also considered developments in Capital Finance including the revisions to the Prudential Code and provisions set out in the Levelling Up and Regeneration Bill. The Council's MTFS 2024-2025 to 2027-28 was presented in February 2023. The budget estimates included several significant assumptions and risks and a set of savings targets to mitigate the deficit to bring the council back to a financially sustainable footing by 2027-28. At the time of preparation in February 2023 the MTFS was balanced for 2023-24 and 2024-25 with a budget shortfall of £2.0 million forecast from 2025-26. The 2024-25 budget was balanced using a £5.4m drawdown on reserves and the MTFS shows a cumulative £19.2m deficit over 4 years before mitigation, supported by a projected £10.6m of available reserves. The agreed directorate budget for 2023/24 was £12.4 million financed from a combination of Government Grants, Business Rates and Council Tax. This shortfall would be revised as further government announcements on future funding arrangements were made.

A review of the interest rate assumptions in the budget indicates the long-term borrowing interest rate will be closer to 4% compared with 3.1% factored into estimates. This will put further pressure on the council. In addition, the budget included £40m of capital receipts from the sale of assets. Work on the Financial Resilience review performed by CIPFA, indicates that it is unlikely that the council will achieve the full £40m of capital receipts from the sale of assets.

Conclusion:

For 2022/23, based on the work performed, we have identified a significant weakness in the arrangements that we will be reporting by exception in relation to how the council plans and manages its resources to ensure that it can continue to deliver its services.

For 2020/21 and 2021/22 based on the work performed, the Council had proper arrangements in place in 2021/22 and 2020/21 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Recommendation:

Ensure that all action plans developed by the Council to bring the council back to a financially sustainable footing by 2027-28 is appropriately implemented.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

The Council continues to maintain adequate arrangements to monitor and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud and corruption. There is regular reporting to Chief Officers and Council on all matters providing sufficient detail and data for scrutiny, oversight and decision making. This includes identification of any new opportunities, risks or issues, and their management. The Cabinet makes key decisions and recommendations to the Council on how we provide services for local people. It normally meets once a month. The council is Rushmoor's ultimate decision-making body and is made of all 39 elected councillors. The Corporate, Governance, Audit and standards Committee meets six times a year and makes decision on licensing and reviews the Annual Governance Statement.

A risk management strategy is in place to evaluate and identify risk. There are clearly defined processes to support robust decision making through the understanding of risk, whether an opportunity or threat exists and the likely impact. The Risk Register was developed to identify risks to the Council at a corporate level and is reviewed regularly by risk owners. This risk management framework is supported and informed by the work of the Council's Internal Audit function. The Head of Internal Audit's opinion for 2020/21 was a "limitation of scope". This limitation of scope has arisen because insufficient audits were completed, primarily due to issues with delivery of audits from the contract auditors and the lack of engagement and availability of resources within Council services. An overall audit opinion of reasonable to be provided on Rushmoor Borough Council's Governance, Risk Management, and Control framework was received in 2021/22 and 2022/23.

There is a collaborative process between senior management and members, specifically the budget strategy working group. The budget is built through an incremental process, reviewing assumptions and prior year's performance. Known pressures and savings are built in, and risk is considered alongside reserve levels.

The Council published their draft 2020/21, 2021/22 and 2022/23 financial statements for audit on the 30 July 2021, 31 August 2022 and 31 July 2023 respectively, in line with the Audit and Accounts regulations, and advertised and held an inspection period for members of the public in line with these regulations. Whilst the statements were prepared later this was due to delays in the previous year. We identified that the draft financial statements for all three years were not arithmetically correct and did not agree to the data in the general ledger however we have not completed an audit on those financial statements and have not reviewed the reasons for the differences. The accounts are prepared in line with the content required by the CIPFA Code in so far as the required disclosure requirements are met. The Council has carried out bank reconciliations during the year but there were reconciliation differences. Explanation for these differences were not provided to the team. Therefore, whilst financial statements have been prepared, there are some areas for improvement.

Conclusion: Based on the work performed, the Council had proper arrangements in place to ensure that it makes informed decisions and properly manages its risks.

Recommendation:

We recommend that management ensure that appropriate year end closing out procedures, which include performing reconciliations, are undertaken before the financial statements are published and that these improvements are taken through to future years.

Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

There is regular reporting to Chief Officers and to those charged with governance on all significant matters providing sufficient detail and data for scrutiny, oversight and decision making. This includes identification of any new opportunities, risks or issues, and their management. The finance reports communicate operational information, such as financial performance, performance against non-financial KPIs and any other relevant information.

The Council has a Corporate Plan in place which has four themes to cover both service targets and financial targets. Each theme has performance measures, and a Councillor and Officer lead who has responsibility for that measure. These measures are monitored regularly and reported upon quarterly to assess performance and identify areas for improvement.

The council undertook a Peer review in 2023/24 as well as a review by CIPFA on its Financial Resilience plan. The report endorsed the Financial Resilience Plan and highlighted that "The Council needs to reassert the importance and centrality of finance to the Council, addressing issues in relation to financial capacity and competencies and the robustness of financial management." It further states that, "The Council needs to implement the improvements in financial management discussed in this report and included in the Financial Resilience Plan as a matter of urgency given the importance of good practice financial management in underpinning financial control, supporting effective decision-making and delivering the planned path to financial sustainability."

The Annual Ombudsman Complaint Review Letter 2023 - Local Government and Social Care Ombudsman provides the Council with the evidence that the Council is responding well to complaints and is in effect a "clean bill of health" from a credible third party.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2020/21, 2021/22 and 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



05 Appendices

Appendix A – Management representation letter

Management representation letter - 2020-21

Management Rep Letter

25 November 2024

Maria Grindley

Letter of representations: Audit of single entity Local Authority financial statements 2020/21

This letter of representations is provided in connection with your audit of the financial statements of Rushmoor Borough Council ("the Council) for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Rushmoor Borough Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)].
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)], and are free of material misstatements, including omissions. We have approved the financial statements..
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), that are free from material misstatement, whether due to fraud or error.

Appendix A – Management representation letter

Management Rep Letter

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.
6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange. We confirm the authority does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial improprieties;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and Corporate Governance, Audit and Standards Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: 21 November 2024.

Appendix A – Management representation letter

Management representation letter 2020-21

Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements. In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022))
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From 31 March 2023 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our

knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount

Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel

E. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

Appendix A – Management representation letter

Management Rep Letter

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note [X] to the financial statements, we have no other line of credit arrangements.

F. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, valuation of investment property, fair value of financial instruments and valuation of pension liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

G. Estimates

Valuation of property, plant and equipment and investment property

1. We confirm that the significant judgments made in making the valuation of property, plant and equipment and investment property have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of property, plant and equipment and investment property.

3. We confirm that the significant assumptions used in making the fair value of financial instruments appropriately reflect our intent and ability to carry out the valuation of fair value of financial instruments on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialized skills or expertise has been applied in making the fair value of financial instruments.
6. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic.

Fair value of financial instruments

1. We confirm that the significant judgments made in making the fair value of financial instruments have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the fair value of financial instruments.
3. We confirm that the significant assumptions used in making the fair value of financial instruments appropriately reflect our intent and ability to carry out the valuation of fair value of financial instruments on behalf of the entity.

Appendix A – Management representation letter

Management representation letter 2020-21

Management Rep Letter

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialized skills or expertise has been applied in making the fair value of financial instruments.
6. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic.

Valuation of the pension liability

1. We confirm that the significant judgments made in making the valuation of the pension liability have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of pension liability.
3. We confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect our intent and ability to carry out the actuarial valuation of the pension liability on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of the pension liability.
6. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic.

H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

Appendix A – Management representation letter

Management Rep Letter

J. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:
3. Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities,) none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

K. Going Concern

1. Note 1 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

L. Subsequent Events

1. Other than the events described in Note 7 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

M. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement and the annual governance statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We confirm that the Annual Governance Statement for 2020/21 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2020/21 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter.

N. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered including the impact resulting from the commitments made by the Council and reflected in the financial statements.

Yours sincerely

Chief Financial Officer

(Chairman of the Corporate Governance and Audit Committee)

Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

Due to the reset, the above clearly will not be achieved and we will be liaising with PSAA Ltd to discuss and agree fees.

	2020/21
	£
Scale Fee - Code Work	38,376
Other (Note 1)	TBC
Total audit	TBC
Other non-audit services not covered	
None	0
Total other non-audit services	0
Total fees	TBC

All fees exclude VAT

Note 1 - PSAA Ltd, in line with the joint statement issued DLUHC (as at that date) and the FRC is responsible for the determination of the final audit fee in respect of 2020/21

In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	This Completion report for Those Charged with Governance
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	This Completion report for Those Charged with Governance
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	This Completion report for Those Charged with Governance
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Completion report for Those Charged with Governance
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

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Our Reporting to you

Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	This Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	This Completion report for Those Charged with Governance

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

Appendix E – VFM – Summary of recommendations

Recommendations

The table below sets out the recommendations arising from the value for money work in the years covered in this report, 2020/21, 2021/22 to 2022/23. All recommendations have been agreed by management.

Issue	Recommendation	Management response
Financial Sustainability	Ensure that all action plans developed by the Council to bring the council back to a financially sustainable footing by 2027-28 is appropriately implemented	Management have implemented an action plan to address financial sustainability that has been updated and reported upon at every Council.
Governance	Ensure that appropriate year end closing out procedures, which include performing reconciliations, are undertaken before the financial statements are published and that these improvements are taken forward to future years.	Additional capacity within the team and clarity of roles and line management, and specifically the bank reconciliation differences have been resolved

Appendix F – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- assign responsibilities clearly to staff with the appropriate expertise and experience;*
- provide necessary resources to enable delivery of the plan;*
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

Appendix G – Other Communications

EY Transparency Report 2024

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 28 June 2024 and can be found here: [EY UK 2024 Transparency Report | EY - UK](#)

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ED None

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Rushmoor Borough Council Completion Report for Those Charged with Governance

Years ended 31 March 2022 and 31
March 2023

Report issued – 11 December 2024

Rushmoor Borough Council
Corporate Governance, Audit and Standards Committee
Farnborough Road,
Farnborough GU14 7JU

11 December 2024

Dear Corporate Governance, Audit and Standards Committee

Completion Report for Those Charged With Governance

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Corporate Governance, Audit and Standards Committee of Rushmoor Borough Council (the Council) with a detailed complete report covering our approach and outcomes of the 2021/22 and 2022/23 audits.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2022 and 31 March 2023 we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing a disclaimed audit report.

In completing our work for this audit year we have taken into account Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance. We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice (including recent 2024 updates), the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. Against this backdrop, we have also considered the Committee's service expectations.

The Corporate Governance, Audit and Standards Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Authority's wider arrangements to support the delivery of a timely and efficient audit.

We consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Corporate Governance, Audit and Standards Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so. Note that we reported our value for money findings in respect of 2020/21 in our original draft Audit Completion Report for Those Charged with Governance to the 21 November 2024 meeting of the Corporate Governance, Audit and Standards Committee, and in our Interim Value for Money Report reported to the same meeting of that Committee. We continue to report them as part of this report, together with our findings for 2021/22 and 2022/23, for completeness.

This report is intended solely for the information and use of the Corporate Governance, Audit and Standards Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Simon Mathers

Partner

For and on behalf of Ernst & Young LLP

Enc

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Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Corporate Governance, Audit and Standards Committee and management of Rushmoor Borough Council. Our work has been undertaken so that we might state to the Corporate Governance, Audit and Standards Committee and management of Rushmoor Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Governance, Audit and Standards Committee and management of Rushmoor Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary – System wide context

Context for the audit – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- Lack of capacity within the local authority financial accounting professions
- Increased complexity of reporting requirements within the sector
- Lack of capacity within audit firms with public sector experience
- Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed

DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

As a result of the system wide implementation of backstop dates we anticipate issuing a disclaimed audit opinion on the Council's 2021/22 and 2022/23 accounts. The proposed disclaimer of the Council's 2021/22 and 2022/23 accounts impacts both the audit procedures that we have planned and undertaken to gain assurance on the 2021/22 and 2022/23 financial statements and the form of the audit report.

Executive Summary – Local context

Local Background and Context

The position at this Council has developed over recent years resulting in unaudited financial statements for 31 March 2021, 2022 and 2023. The audit of the 2020/21 financial statements for Rushmoor Borough Council was not completed for the reasons set out in our opinion on those financial statements dated 26 November 2024.

The main reasons for the Council's 2021/22 and 2022/23 financial statements not being audited and signed to date include:

- ▶ Significant issues encountered during the Council's 2019/20 financial statement audit which started in September 2020 and did not conclude until April 2023.
- ▶ During our audit we identified the following which we documented for improvement in our 2019/20 Auditor's Annual Report issued in July 2023:
 - ▶ Provision of property information: We reported on the critical delays in the provision of property information to support the material PPE and IP valuations in the Council's Balance Sheet. This included a lack of management challenge of key assumptions, and we recommended that management ensure that this challenge is factored into 2020/21 and future years;
 - ▶ Capacity of the finance department: Our audit team agreed a number of planned start dates and completion dates for aspects of the work with key finance staff contacts but there were consistent and ongoing delays due to officer work pressures e.g, the audit was also delayed in January 2021 and 2022 as officers needed to prioritise the production of the 2021/22 accounts, on many occasions, information promised to us has failed to meet agreed timelines;
 - ▶ Working papers and supporting documentation was not of the required standard to support the figures within the financial statements and had to be returned on a number of occasions for improvements to be made.
- ▶ Following completion of the 2019/20 financial statements we worked closely with the new Council staff in the finance team to try to complete the 2020/21 audit, and we managed to make a good start but started to find that the issues in the previous year were taking time for the new finance team to work through and therefore this, along with Council staff capacity and issues with getting reliable information from the system, meant that we couldn't get the audit completed in time to meet the backstop date.
- ▶ The post pandemic timelines resulted in audit teams trying to move delayed audits on to completion, whilst finance teams were trying to catch up, deal with current priorities and plan for the future. This used a significant amount of our finite audit resource, leading to a lack of capacity to move onto the 2021/22 and 2022/23 audit years.
- ▶ In addition to the specific issues at Rushmoor set out above, there were a number of new technical issues and challenges to address during this period, including, accounting for infrastructure assets and taking into account the updated pension fund valuations, which added to the delays.

The Council has not been in a position to present draft statements of account for audit within the regulatory timeframe. Due to the issues raised above we were unable to complete the 2020/21 financial statements audit and in discussion with the Council it was agreed that they would focus on achieving the improvements needed and getting current years financial statements back on track.

Executive Summary – Report structure and work completed

Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (UK&I), (ISAs) and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office Value for Money Code (NAO VFM Code). It has been split into the following sections.

Section 1 – Executive Summary – this section setting out the national and local context and the structure of our report.

Section 2 – Work Plan – We have completed the following planning tasks:

- ▶ Required independence procedures.
- ▶ Set a level of materiality.
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer.
- ▶ Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting,
- ▶ Identified significant, inherent and other areas of higher risk or focus.
- ▶ Considered any other matters that may require reporting to regulators or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 3 – Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements.
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems, service organisations, which we report as appropriate.
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 4 – Value for money reporting

- ▶ The value for money report covering the year to 31 March 2021, 2022, 2023.

Section 5 - Appendices



02 Work Plan

Work Plan – Audit Scope

This Completion report covers the work that we performed in relation to:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2022 and 31 March 2023 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 4.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

Given that SI (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024 imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2021; 31 March 2022; 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK), and we anticipate issuing a disclaimed audit report.

Work Plan - Materiality

Materiality

Planning materiality

£1.2m

Materiality for y/e 31 March 2022 has been set at £1.1m, which represents 1.8% of 2022 gross expenditure on provision of services.

£1.2m

Materiality for y/e 31 March 2023 has been set at £1.1m, which represents 1.8% of 2023 gross expenditure on provision of services.

Performance materiality

£581K

Performance materiality for y/e 31 March 2022 has been set at £580K, which represents 50% of planning materiality.

£581K

Performance materiality for y/e 31 March 2023 has been set at £580K, which represents 50% of planning materiality.

Audit differences

£58K

We will report all uncorrected misstatements relating to the primary statements greater than £70K for y/e 31 March 2021; £58K for y/e 31 March 2022; £58K for y/e 31 March 2023. Other misstatements identified will be communicated to the extent that they merit the attention of the Corporate Governance, Audit and Standards Committee.

£58K

In order to ascertain the significance of issues in the draft financial statements we have set materiality based on the 2019/20 audit year. We have considered updating this materiality for any key changes or known factors from that year of which there were none. We determined that our procedures would be performed using a materiality of £1.2m for 2021/22 and 2022/23.

These materiality levels have been set based on the main Authority financial statements – we have not considered group materiality. These levels are being used to assess our response to any issues identified in the Authority's financial statements.

Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the years

Audit risks and areas of focus

Risk/area of focus	Applicable years	Risk identified	Change from PY	Details
Valuation of Land and Building –Property plant and equipment and Investment properties	Both years covered by this report	Significant risk	No change in risk or focus	The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council’s accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, covering both those assets that are revalued within the year and the continuing material accuracy of those valued in prior periods. There were a number of PPE adjustments during the prior year two years audit and we have therefore assessed the valuation of land and buildings as a significant risk for the financial statements.
Misstatement due to fraud or error	Both years covered by this report	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in revenue and expenditure recognition	Both years covered by this report	Fraud Risk	No change / increase in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Pension Liability Valuation	Both years covered by this report	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. Additional audit procedures will be performed to ensure that the triennial valuation was considered when calculating the pension liability.
Going Concern	Both years covered by this report	Inherent risk	No change in risk or focus	Going Concern Compliance with ISA 570. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Corporate Governance, Audit & Standards Committee.

Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the Audit & Governance Committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).

- ▶ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of our work, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Work Plan - Independence

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Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner for years ended 31 March 2021, 31 March 2022, and 31 March 2023, and the audit engagement team have not been compromised

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary, agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. There are no non-audit fees for either 2021/22 or 2022/23. No additional safeguards are required.

Self-review threats

A self-review threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2024

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 28 June 2024 and can be found here: [ey-uk-2024-transparency-report.pdf](https://www.ey.com/uk/en/issues-and-ideas/2024/06/28/ey-uk-2024-transparency-report.pdf).



03 Results and findings

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Results and findings

Status of the audit

Our audit work in respect of the Rushmoor Borough Council opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Completion of subsequent events procedures;
- ▶ Receipt of a signed management representation letter

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion, a current draft is included in a later section of this report.

Value for Money

Our value for money (VFM) work is complete and reported in Section 4 of this report. We identified a risk of significant weakness in respect of financial sustainability. Having updated and completed the planned procedures in these areas we did identify a significant weakness. See Section 4 of the report for further details.

Audit differences

We have identified a number of misstatements from our review of the financial statements. These included both casting errors and opening balances not agreeing to prior year accounts. We have not completed audit work on these statements and therefore are not investigating or reporting on these further. A list of all the errors have been reported to management and should be considered in the balance brought forward to the 2023/24 financial statements.

Other Reporting Issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

The Comptroller and Auditor General issued his opinion and certificate on the 2022-23 Whole of Government Accounts on 22 November 2024 and confirmed that no further work was required on the part of component auditors. We therefore expect to be able to certify completion of the audit as part of our final 2021/22 and 2022/23 audit reports.



Results and findings

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Rushmoor Borough Council. We concluded we would disclaim the audit and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or Full Council.

Control observations

During the audit, our work has not identified any deficiencies in internal control:

Independence

Further to our review of independence in section 2 of this report we have not identified any issues to bring to your attention..

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We did not identify any issues which required us to issue a report in the public interest.



Results and findings

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We have no other matters to report

Results and findings - Audit Report

Draft audit report 2021-22

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSHMOOR BOROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Rushmoor Borough Council ('the Council') for the year ended 31 March 2023. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement
- the related notes 1 to 43
- Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13th December 2024.

The audit of the 2020/21 financial statements for Rushmoor Borough Council was not completed for the reasons set out in our opinion on those financial statements dated 26 November 2024. The backstop date and the wider requirements of the local audit system reset meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2021/22 financial statements. Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on pages 7, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Rushmoor Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Rushmoor Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Rushmoor Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Mathers (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
13 December 2024

Results and findings - Audit Report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSHMOOR BOROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Rushmoor Borough Council ('the Council') for the year ended 31 March 2023. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement
- the related notes 1 to 43
- Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13th December 2024.

The audit of the 2020/21 financial statements for Rushmoor Borough Council was not completed for the reasons set out in our opinion on those financial statements dated 26 November 2024. The audit of the 2021/22 financial statements for Rushmoor Borough Council was not completed for the reasons set out in our opinion on those financial statements dated 13 December 2024. The backstop date and the wider requirements of the local audit system reset; meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements. Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

Report on the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

On the basis of our work, having regard to the Code of Audit Practice 2024 and the guidance issued by the Comptroller and Auditor General in January 2023, we have identified the following significant weaknesses in the Authority's arrangements for the year ended 31 March 2023.

Significant weaknesses in arrangements

Weakness in arrangements to secure future financial sustainability

Weakness identified:

At the end of 2022/23 the Authority did not have adequate arrangements to reduce its recurrent level of revenue spending so that it can be contained within available resources without the need to call on reserves or reduce the level of planned service provision. In particular, the Authority did not have arrangements to reduce its very high level of short-term borrowing to mitigate the impact of this on its revenue budget over the medium term and reduce the level of interest rate risk it is currently exposed to.

The evidence on which our view is based:

- The level of actual overspending against the revenue budget in the 2022/23, and the planned further call on reserves of £16.6m for the period 2024/25 to 2027/28 to be able to balance the budget without the Authority taking steps to significantly curb spending.

- The Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2023/24 was presented at the Council meeting on 23 February 2023. It concluded that at 31 December 2022, the Council held £100m of short-term borrowings. The Council's plan was that it expected to borrow up to £27m in 2023-24. At the commencement of 2022-23 the Council had a Capital Financing Requirement (CFR) of £121.9m in relation to a specific elements of capital expenditure incurred in the previous financial year (2021-22). The borrowing that was required in 2022-23 required Minimum Revenue Provision to be charged to the Council's General Fund Revenue Account in 2023-24 and future years. The actual borrowings for 2023-24 was £42m compared to the planned borrowings of £27m.
- The level of external borrowing held by the Authority and the proportion of this borrowing that is short-term. Changes in the wider UK economy at the reporting date, and specifically increased inflation and increased interest rates, also put further pressure on the Authority's finances. Total borrowings at the end of 2022/23 were £120m. This was 91 per cent of the liability benchmark established under the prudential framework and 86 per cent of the Capital Financing Requirement.

The impact on the Authority

The current level of recurrent over-spending and high level of short-term borrowing will result in the Authority being unable to set a balanced budget for 2026/27 unless mitigating action is taken, which could include the need to reduce the planned level of future service provision.

Action required by the Authority

The Authority needs to fully implement and action its Financial Resilience Plan which contains a range of medium and shorter-term actions designed to ensure its financial sustainability. Specifically:

- Develop and implement appropriate arrangements to deliver a permanent removal from the base budget of £0.5m each year for the four years commencing 2024/25.
- Identify and deliver a £40m asset disposal programme to achieve the Authority's interest and cost reduction savings targets.
- Seek to replace short-term with long-term borrowing to reduce the Authority's exposure to interest rate risk and allow for more certainty in its medium-term financial planning arrangements.

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

The issues above are evidence of weaknesses in proper arrangements for sustainable delivery of services in accordance with strategic and statutory priorities.

We consider the issues above as evidence of weaknesses in arrangements in relation to:

Economy, Efficiency and Effectiveness, including:

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

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 7, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Rushmoor Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Rushmoor Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.


Use of our report

This report is made solely to the members of Rushmoor Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Mathers (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
13 December 2024



04 Value for Money



VFM - Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03). The Department for Levelling Up, Housing and Communities (DLUHC) as it was at the time, worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. We are continuing to report Value for Money (VFM) in line with our full responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities. Our Interim Value for money report includes the detailed arrangements and processes underpinning the reporting criteria.

The purpose of this is to explain the work we have undertaken in respect of the period 1 April 2021 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit years 2020/21, 2021/22 and 2022/23. Note that VFM our findings in respect of 2020/21 are as reported in our original draft Audit Completion Report for Those Charged with Governance to the 21 November 2024 meeting of the Corporate Governance, Audit and Standards Committee, and in our Interim Value for Money Report reported to the same meeting of that Committee. We continue to repeat them here for completeness.

The report sets out the following areas which have been assessed up to the point of issuing this report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified; and
- Findings to date from our planned procedures.

Executive Summary (continued)

Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with key Officers;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council's management and the finance team.

We completed our risk assessment procedures and identified a significant weaknesses in the Council's VFM arrangements for financial sustainability.

We set out our planned response to address the risk in the table below:

Description of risk identified	Work planned to address the risk of significant weakness
<p>2022/23 Financial Sustainability</p> <p>The high level of short-term borrowings without sufficient income to finance the repayments as well as increase in interest costs have resulted in a financial uncertainty.</p> <p>The MTFE Equalisation reserve is being used to balance the budget in the short-term and will be depleted over the MTFE period leading to a deficit position during 2023/24</p>	<p>Review of the Council's cash flow forecasting and external Financial Resilience Review undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA).</p> <p>Understand the future savings plans factored into the Financial Resilience Review against the budget outturn report to determine if those savings plans are realistic.</p> <p>Ensure that the going concern note as disclosed in the updated accounts, reflects the financial uncertainty</p>

Executive Summary (continued)

Reporting

Our commentary for 2020/21, 2021/22 and 2022/23 is set out over pages 25 to 27. The commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2020/21, 2021/22 and 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, we identified a risk of significant weakness as part of our planning procedures in financial sustainability in 202/23, and, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	Significant risk identified in 2022/23	Significant weakness identified in 2022/23
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified in 2021/22 and 2020/21	No significant weakness identified in 2021/22 and 2020/21
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Significant weakness identified

Financial Performance:

The Council's budget for 2020/21 was significantly impacted by Covid-19 largely as a result of reduced income and additional expenditure following restrictions that were put in place in late March 2020 and continued during the financial year. This resulted in a core deficit of £905k before transfers to carry forward requests.

The impact of Covid-19 continued during 2021/22 although restrictions were eased and the focus moved towards the recovery phase. The impact on the Council's finances were mitigated by the provision of Covid funding from Government (£0.589m), with an overall projected surplus of £1.609m before transfers to carry forward requests and meant that the draw down from the Stability and Resilience Reserve was not required.

At the end of 2022/23, the council managed to break even based on the outturn report which was reported to Cabinet in July 2023. However, based on the review of the 2022/23 annual accounts, the council was highly geared with short-term borrowings of £115m, which is significantly high for the size of entity who have a net revenue budget of £12m. In addition, the latest Medium Term Finance Strategy and 2023-24 Budget Outturn presented to the council indicated a projected deficit in 2024/25 which will result in a drawdown of reserves.

Reserves:

Rushmoors' General Fund Balances decreased in 2022/23 by £2.8 million as a result of the deficit position on the Provision of Services. The closing balance of the Councils' balance at the end of 2022/23 was £21.1 million (PY: £23.9 million). Usable Earmarked Reserves decreased by £2.8 million to £19.1 million (PY: £21.9 million).

Budgets and Medium-Term Financial Strategy (MTFS):

An updated MTFS and Budget Strategy was presented to Cabinet in November 2022. The Strategy also considered developments in Capital Finance including the revisions to the Prudential Code and provisions set out in the Levelling Up and Regeneration Bill. The Council's MTFS 2024-2025 to 2027-28 was presented in February 2023. The budget estimates included several significant assumptions and risks and a set of savings targets to mitigate the deficit to bring the council back to a financially sustainable footing by 2027-28. At the time of preparation in February 2023 the MTFS was balanced for 2023-24 and 2024-25 with a budget shortfall of £2.0 million forecast from 2025-26. The 2024-25 budget was balanced using a £5.4m drawdown on reserves and the MTFS shows a cumulative £19.2m deficit over 4 years before mitigation, supported by a projected £10.6m of available reserves. The agreed directorate budget for 2023/24 was £12.4 million financed from a combination of Government Grants, Business Rates and Council Tax. This shortfall would be revised as further government announcements on future funding arrangements were made.

A review of the interest rate assumptions in the budget indicates the long-term borrowing interest rate will be closer to 4% compared with 3.1% factored into estimates. This will put further pressure on the council. In addition, the budget included £40m of capital receipts from the sale of assets. Work on the Financial Resilience review performed by CIPFA, indicates that it is unlikely that the council will achieve the full £40m of capital receipts from the sale of assets.

Conclusion:

For 2022/23, based on the work performed, we have identified a significant weakness in the arrangements that we report by exception in relation to how the council plans and manages its resources to ensure that it can continue to deliver its services.

For 2020/21 and 2021/22 based on the work performed, the Council had proper arrangements in place in 2021/22 and 2020/21 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Recommendation:

Ensure that all action plans developed by the Council to bring the council back to a financially sustainable footing by 2027-28 are appropriately implemented.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

The Council continues to maintain adequate arrangements to monitor and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud and corruption. There is regular reporting to Chief Officers and Council on all matters providing sufficient detail and data for scrutiny, oversight and decision making. This includes identification of any new opportunities, risks or issues, and their management. The Cabinet makes key decisions and recommendations to the Council on how we provide services for local people. It normally meets once a month. The council is Rushmoor's ultimate decision-making body and is made of all 39 elected councillors. The Corporate, Governance, Audit and standards Committee meets six times a year and makes decision on licensing and reviews the Annual Governance Statement.

A risk management strategy is in place to evaluate and identify risk. There are clearly defined processes to support robust decision making through the understanding of risk, whether an opportunity or threat exists and the likely impact. The Risk Register was developed to identify risks to the Council at a corporate level and is reviewed regularly by risk owners. This risk management framework is supported and informed by the work of the Council's Internal Audit function. The Head of Internal Audit's opinion for 2020/21 was a "limitation of scope". This limitation of scope has arisen because insufficient audits were completed, primarily due to issues with delivery of audits from the contract auditors and the lack of engagement and availability of resources within Council services. An overall audit opinion of reasonable to be provided on Rushmoor Borough Council's Governance, Risk Management, and Control framework was received in 2021/22 and 2022/23.

There is a collaborative process between senior management and members, specifically the budget strategy working group. The budget is built through an incremental process, reviewing assumptions and prior year's performance. Known pressures and savings are built in, and risk is considered alongside reserve levels.

The Council published their draft 2020/21, 2021/22 and 2022/23 financial statements for audit on the 30 July 2021, 31 August 2022 and 31 July 2023 respectively, in line with the Audit and Accounts regulations, and advertised and held an inspection period for members of the public in line with these regulations. Whilst the statements were prepared later this was due to delays in the previous year. We identified that the draft financial statements for all three years were not arithmetically correct and did not agree to the data in the general ledger however we have not completed an audit on those financial statements and have not reviewed the reasons for the differences. The accounts are prepared in line with the content required by the CIPFA Code in so far as the required disclosure requirements are met. The Council has carried out bank reconciliations during the year but there were reconciliation differences. Explanation for these differences were not provided to the team. Therefore, whilst financial statements have been prepared, there are some areas for improvement.

Conclusion: Based on the work performed, the Council had proper arrangements in place to ensure that it makes informed decisions and properly manages its risks.

Recommendation:

We recommend that management ensure that appropriate year end closing out procedures, which include performing reconciliations, are undertaken before the financial statements are published and that these improvements are taken through to future years.

Value for Money Commentary (continued)

Page 222

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

There is regular reporting to Chief Officers and to those charged with governance on all significant matters providing sufficient detail and data for scrutiny, oversight and decision making. This includes identification of any new opportunities, risks or issues, and their management. The finance reports communicate operational information, such as financial performance, performance against non-financial KPIs and any other relevant information.

The Council has a Corporate Plan in place which has four themes to cover both service targets and financial targets. Each theme has performance measures, and a Councillor and Officer lead who has responsibility for that measure. These measures are monitored regularly and reported upon quarterly to assess performance and identify areas for improvement.

The council undertook a Peer review in 2023/24 as well as a review by CIPFA on its Financial Resilience plan. The report endorsed the Financial Resilience Plan and highlighted that "The Council needs to reassert the importance and centrality of finance to the Council, addressing issues in relation to financial capacity and competencies and the robustness of financial management." It further states that, "The Council needs to implement the improvements in financial management discussed in this report and included in the Financial Resilience Plan as a matter of urgency given the importance of good practice financial management in underpinning financial control, supporting effective decision-making and delivering the planned path to financial sustainability."

The Annual Ombudsman Complaint Review Letter 2023 - Local Government and Social Care Ombudsman provides the Council with the evidence that the Council is responding well to complaints and is in effect a "clean bill of health" from a credible third party.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2020/21, 2021/22 and 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



05 Appendices

Appendix A – Management representation letter

Management representation letter

This is example draft wording for the management letter which Management will tailor and send back signed and dated prior to the opinion being issued for both 2021/22 and 2022/23

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

This letter of representations is provided in connection with your audit of the financial statements of Rushmoor Borough Council ("the Council) for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Rushmoor Borough Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), that are free from material misstatement, whether due to fraud or error.

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.
6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial improprieties;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;involving management, or employees who have significant roles in internal controls, or others; or

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
1. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and Corporate Governance, Audit and Standards Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: *[list date]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Appendix A – Management representation letter

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022))
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From 31 March 2023 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note [X] to the financial statements, we have no other line of credit arrangements.

Appendix A – Management representation letter

Management representation letter

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F. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, valuation of investment property, fair value of financial instruments and valuation of pension liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

G. Estimates

Valuation of property, plant and equipment and investment property

1. We confirm that the significant judgments made in making the valuation of property, plant and equipment and investment property have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of property, plant and equipment and investment property.
3. We confirm that the significant assumptions used in making the valuation of property, plant and equipment and investment property appropriately reflect our intent and ability to carry out *[describe the specific courses of action]* on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of property, plant and equipment and investment property.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

Fair value of financial instruments

1. We confirm that the significant judgments made in making the fair value of financial instruments have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the fair value of financial instruments.
3. We confirm that the significant assumptions used in making the fair value of financial instruments appropriately reflect our intent and ability to carry out *[describe the specific courses of action]* on behalf of the entity.

Appendix A – Management representation letter

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).
5. We confirm that appropriate specialized skills or expertise has been applied in making the fair value of financial instruments.
6. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic.

Valuation of the pension liability

1. We confirm that the significant judgments made in making the valuation of the pension liability have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of pension liability.
3. We confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect our intent and ability to carry out [describe the specific courses of action] on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of the pension liability.
6. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements, including due to the COVID-19 pandemic

H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:
3. Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, [continue listing as appropriate]) none of which involves any allegations of non-compliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
4. Matters referred to in the letters dated [date] issued to you by the Council's Monitoring Officer and the Council's legal advisor.
5. Matters referred to in the letter of comments received from the [name of regulator] regarding

K. Going Concern

1. Note 1 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

L. Subsequent Events

1. Other than the events described in Note 7 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

M. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement and the annual governance statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We confirm that the Annual Governance Statement for 2020/21 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2020/21 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter.

N. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered including the impact resulting from the commitments made by the Council and reflected in the financial statements.

Yours faithfully,

Chief Financial Officer

(Chairman of the Corporate Governance and Audit Committee)

Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

Due to the reset, the above clearly will not be achieved and we will be liaising with PSAA Ltd to discuss and agree fees.

	2022/23	2021/22
	£	£
Scale Fee – Code Work	38,376	38,376
Other (Note 1)	TBC	TBC
Total audit	TBC	TBC
Other non-audit services not covered		
None	0	0
Total other non-audit services	0	0
Total fees	TBC	TBC

All fees exclude VAT

Note 1 - PSAA Ltd, in line with the joint statement issued DLUHC (as at that date) and the FRC is responsible for the determination of the final audit fee in respect of 2021/22 and 2022/23.

In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	This Completion report for Those Charged with Governance
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	This Completion report for Those Charged with Governance
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	This Completion report for Those Charged with Governance
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Completion report for Those Charged with Governance
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	This Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	This Completion report for Those Charged with Governance

Appendix D – VFM – Summary of recommendations

Recommendations

The table below sets out the recommendations arising from the value for money work for the 2020/21, 2021/22 and 2022/23 years. All recommendations have been agreed by management.

Issue	Recommendation	Management response
Financial Sustainability	<ul style="list-style-type: none">• Develop and implement appropriate arrangements to deliver a permanent removal from the base budget of £0.5m each year for the four years commencing 2024/25.• Identify and deliver a £40m asset disposal programme to achieve the Authority's interest and cost reduction savings targets.• Seek to replace short-term with long-term borrowing to reduce the Authority's exposure to interest rate risk and allow for more certainty in its medium-term financial planning arrangements.	Management have implemented an action plan to address financial sustainability that has been updated and reported upon at every Council.
Governance	Ensure that appropriate year end closing out procedures, which include performing reconciliations, are undertaken before the financial statements are published and that these improvements are taken forward to future years.	Additional capacity within the team and clarity of roles and line management, and specifically the bank reconciliation differences have been resolved.

Appendix E – Other Communications

EY Transparency Report 2024

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 28 June 2024 and can be found here: [ey-uk-2024-transparency-report.pdf](#).

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ED None

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSHMOOR BOROUGH COUNCIL

Disclaimer of Opinion

We were engaged to audit the financial statements of Rushmoor Borough Council ('the Council') for the year ended 31 March 2022. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement
- the related notes 1 to 43.
- Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13th December 2024.

The audit of the 2020/21 financial statements for Rushmoor Borough Council was not completed for the reasons set out in our opinion on those financial statements dated 26 November 2024. The backstop date and the wider requirements of the local audit system reset meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2021/22 financial statements. Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit, performed subject to the pervasive limitation described above, or our knowledge of the Council.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 8, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Rushmoor Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether

Rushmoor Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

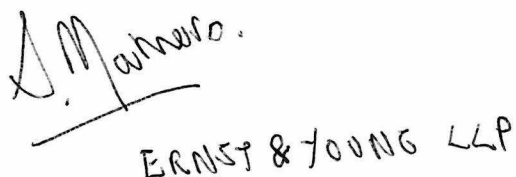
We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Rushmoor Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



Handwritten signature of Simon Mathers and the text "ERNST & YOUNG LLP".

Simon Mathers (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
13 December 2024

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated 11 December 2024, available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSHMOOR BOROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Rushmoor Borough Council ('the Council') for the year ended 31 March 2023. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement
- the related notes 1 to 43
- Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13th December 2024.

The audit of the 2021/22 financial statements for Rushmoor Borough Council was not completed for the reasons set out in our opinion on those financial statements dated 26 November 2024. The backstop date and the wider requirements of the local audit system reset meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements. Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit, performed subject to the pervasive limitation described above, or our knowledge of the Council.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

Report on the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

On the basis of our work, having regard to the Code of Audit Practice 2024 and the guidance issued by the Comptroller and Auditor General in January 2023, we have identified the following significant weaknesses in the Authority's arrangements for the year ended 31 March 2023.

Significant weaknesses in arrangements

Weakness in arrangements to secure future financial sustainability

Weakness identified

At the end of 2022/23 the Authority did not have adequate arrangements to reduce its recurrent level of revenue spending so that it can be contained within available resources without the need to call on reserves or reduce the level of planned service provision. In particular, the Authority did not have arrangements to reduce its very high level of short-term borrowing to mitigate the impact of this on its revenue budget over the medium term and reduce the level of interest rate risk it is currently exposed to.

The evidence on which our view is based

- The level of actual overspending against the revenue budget in the 2022/23, and the planned further call on reserves of £16.6m for the period 2024/25 to 2027/28 to be able to balance the budget without the Authority taking steps to significantly curb spending.
- The Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2023/24 was presented at the Council meeting on 23 February 2023. It concluded that at 31 December 2022, the Council held £100.0m of short-term borrowings. The Council's plan was that it expected to borrow up to £27m in 2023/24. At the commencement of 2022/23 the Council had a Capital Financing Requirement (CFR) of £121.9m in relation to a specific elements of capital expenditure incurred in the previous financial year (2021/22). The borrowing that was planned in 2022/23 required Minimum Revenue Provision to be charged to the Council's General Fund Revenue Account in 2023/24 and future years. The actual borrowings for 2023/24 was £42m compared to the planned borrowings of £27m.
- The level of external borrowing held by the Authority and the proportion of this borrowing that is short-term. Changes in the wider UK economy at the reporting date, and specifically increased inflation and increased interest rates, also put further pressure on the Authority's finances. Total borrowings at the end of 2022/23 were £120m. This was 91 per cent of the liability benchmark established under the prudential framework and 86 per cent of the Capital Financing Requirement.

The impact on the Authority

The current level of recurrent over-spending and high level of short-term borrowing will result in the Authority being unable to set a balanced budget for 2026/27 unless mitigating action is taken, which could include the need to reduce the planned level of future service provision.

Action required by the Authority

The Authority needs to fully implement and action its Financial Resilience Plan which contains a range of medium and shorter-term actions designed to ensure its financial sustainability. Specifically:

- Develop and implement appropriate arrangements to deliver a permanent removal from the base budget of £0.5m each year for the four years commencing 2024/25.

- Identify and deliver a £40m asset disposal programme to achieve the Authority's interest and cost reduction savings targets.
- Seek to replace short-term with long-term borrowing to reduce the Authority's exposure to interest rate risk and allow for more certainty in its medium-term financial planning arrangements.

The issues above are evidence of weaknesses in proper arrangements for sustainable delivery of services in accordance with strategic and statutory priorities.

We consider the issues above as evidence of weaknesses in arrangements in relation to:

Economy, Efficiency and Effectiveness, including:

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

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 7, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Councils financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Rushmoor Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Rushmoor Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

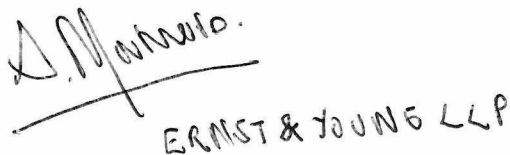
We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Rushmoor Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



A handwritten signature in black ink, appearing to read 'S. Mathers', is written over a horizontal line. Below the line, the text 'ERNST & YOUNG LLP' is printed in a bold, sans-serif font.

Simon Mathers (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
13 December 2024

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated 11 December 2024, available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSHMOOR BOROUGH COUNCIL

Disclaimer of Opinion

We were engaged to audit the financial statements of Rushmoor Borough Council ('the Council') for the year ended 31 March 2021. The financial statements comprise the:

- Council Movement in Reserves Statement,
- Council Comprehensive Income and Expenditure Statement,
- Council Balance Sheet,
- Council Cash Flow Statement
- the related notes 1 to 41.
- Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13th December 2024.

We completed the audit of the 2019/20 financial statements in March 2023 and issued our audit opinion on 31 March 2023.

Following the completion of the 2019/20 financial statements we worked closely with the new Council staff in the finance team to try to complete the 2020/21 audit, and we managed to make a good start but started to find that the issues in the previous year were taking time for the new finance team to work through and therefore this, along with Council staff capacity and issues with getting reliable information from the system meant that we couldn't get the audit completed in time to meet the backstop date. Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer 'Responsibilities set out on page 11, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Rushmoor Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Rushmoor Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

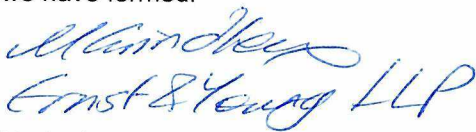
We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Rushmoor Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
26 November 2024

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Auditor's Completion Report for Those Charged with Governance dated 25 November 2024, available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.

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29th JANUARY 2025

INTERNAL AUDIT – AUDIT UPDATE

SUMMARY:

This report describes:

- An update on the audits finalised since the last update report to Committee in September 2024 and a summary of the progress towards the 2024/25 audit plan.

RECOMMENDATION:

Members are requested to:

- i. Note the audit work completed.
- ii. Note the progress to date towards the 2024/25 audit plan.

1 Introduction

1.1 This report is to provide Members with:

- An overview of the work finalised for the 2023/24 audit plan;
- A progress update on the 2024/25 Audit Plan; and
- A schedule of work to be delivered in Q4.

2 Audit Work Completed

2.1 The table below provides an overview of the assurance opinion, given to the completed audits since the last update in September 2024:

Audit Title	Assurance Opinion	Recommendations by Priority		
		High	Medium	Low
2023/24 Internal Audit Plan				
Capital Programme – Meads	Reasonable	1	0	0
2024/25 Internal Audit Plan				
Building Control	Reasonable	1	3	1
Princes Hall	Reasonable	2	7	1
Procurement cards follow up	Substantial	0	1	0

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

Capital Programme – Meads

The Council undertook a purchase of the Meads and did substantial due diligence using external expert support and advice.

Rushmoor Borough Council (RBC) commissioned the services of Lambert Smith Hampton Investment Management (LSHIM) to provide professional advice and assurance. Part of the Asset Report published by the LSHIM set out options for the format of operational management, following which Eddison's were engaged through a standard tendering process. A decision was approved by Cabinet to contract with the successful company in advance of the acquisition to facilitate mobilisation and provide further due diligence.

Town Centre strategy was published by David Lock Associates, to explore the sustainability of a regeneration project of the scale likely to result from a capital purchase such as the Meads & Kingsmead. The viability of future regeneration was also validated by the commitment of Sovereign Housing Association to its own plans to rejuvenate their recently purchased Princes Mead, all be it a predominantly housing led project.

In addition, to one high priority recommendation on retrospective reporting on the approach taken to financing, a number of best practice recommendations were identified which would strengthen any future approach including:

- Improved modelling providing more extensive scenario testing which covers worse case and other options available.
- Clear approval requests within reports so that it is clearly shown what is being requested for approval from Cabinet.
- Exit strategy to demonstrate at what point the Council would no longer view the strategy viable and what action would be taken to exit.

Building Control

Key Observations

Areas assessed to be working well/controls are effective:

- Risk Management processes to ensure that projects identified as non-standard and therefore subject to a bespoke inspection are in place and embedded into the IDOX system in order to meet the requirements of KPI 3.
- One of the requirements within the legislation (KPI5), is to state whether there is a Quality Management System (QMS) in place, RBC have been awarded (British Standards Institution) BSI ISO:9001 in Quality Management.
- A complaints process is in place with a procedure on how to handle the complaints to enable continual improvement in compliance with KPI6 of the OSR monitoring arrangements as well as full reportable data.
- In order to meet the Code of Conduct for Registered Building Inspectors a Whistleblowing Policy needs to be in place and the council have this and is readily available via different methods.

- All building inspectors are registered, except for one trainee who works under supervision in compliance with the regulation. The building inspectors' class and category are confirmed through the government website.

Areas where the framework of governance, risk management and control could be improved:

- The council do not have effective monitoring arrangements to comply with KPI1 of the Operational Standards Rules (OSR) monitoring arrangements by the Building Safety Regulator (BSR) as reporting is currently completed manually by the Technical Support Leader. This is more likely to be due to the delay of the cloud based IDOX system upgrade that was due to take place in June 2024.
- The IDOX system has been updated to include enforcement and intervention activities however the council currently have no stop notices or other compliance measures in place.
- The Health and Safety Executive (HSE) Code of Conduct refers to Continuous Professional Development (CPD) activities such as training on data protection, equality, diversity and inclusion and these are available at Rushmoor Borough Council and have been completed. However, there are specific training elements set out including anti-money laundering, and this element is yet to be completed by the Registered Building Inspectors as RBC do not have any in-house training available.

Princes Hall

Areas assessed to be working well/controls are effective:

- Princes Hall has built strong relationships with the local community and supports many local services such as Rushmoor Healthy Living, Recovery College, Blood Donation and NHS Managing Emotions groups amongst many others. Rooms are available for hire within the building. The rates for hire are agreed with the Finance department and Commercial Manager – Theatre and Leisure.
- A detailed 'H & S Maintenance' tracker is utilised to provide a high level overview of health and safety elements within Princes Hall, including areas such as legionella, fire, lifting equipment, air handling and ventilation, amongst others. The control sheet defines areas into sections and states who is responsible, the frequency of check to be conducted and the date for the next safety check to be completed.
- A 'Front of House Checklist' is used to record safety checks that are completed before and after every show.
- 'Skillsgate' system is used to record and manage staff training. All staff are required to complete eight mandatory modules including workplace health and safety, and fire safety. All mandatory testing had been completed by Princes Hall staff.

- Technicians working at height are required to complete the International Powered Access Federation (IPAF) training. Training and expire dates is monitored by the Commercial Manager – Theatre and Leisure.
- Service contracts are in place with ‘Gilgen Doors’ to service the roller and automatic doors every six months, reports are produced and provided to property services on completion. Temple lifts comprehensive service contract is in place with quarterly reviews scheduled and undertaken. They work in conjunction with Zurich who inspect and issue Lifting Operations and Lifting Equipment Regulations 1998 (LOLER) certificates.
- Five risk assessments (Manual Handling; Office; Working at Height; Aladdin performances and Fire) were provided as part of the review, testing found that all risk assessments were comprehensive with a RAG rated system being applied. The ‘H & S Maintenance’ tracker spreadsheet is also used to manage and maintain all risk assessments that are required to be completed throughout the theatre.
- Accidents and near misses are reported directly using the SharePoint page, a corporate reporting page for accidents and incidents is available. Once logged the Corporate Health and Safety Manager reviews and completes any necessary follow up. A quarterly Corporate Health, Safety & Welfare Group meeting is also attended by the Commercial Manager – Theatre and Leisure to be aware of any changes to corporate policies and guidance.
- Princes Hall maintain various licenses for the theatre including a premises licence, a food hygiene certificate, and a music licence return is submitted quarterly to PRS for Music by the Commercial Manager – Theatre and Leisure.
- A ‘Tech Jobs List’ tracking spreadsheet is used to record and log low priority maintenance issues. The jobs are colour coded using amber, green and red to prioritise jobs in priority order.
- Contractors who are required to complete necessary works within the theatre are selected from Rushmoor Borough Council's Framework.
- The finance department at Rushmoor Borough council set the % rates for fees and charges which is RPI linked. The proposal is reviewed by the Commercial and Service Manager at Princes Hall. A comprehensive spreadsheet named ‘Fees and Charges - Budget Setting 24/25’ is used to show charges for the coming financial year.
- ‘Square Up’ system is used to capture stock details of items sold within the bars. A report of ‘Refreshment Category Sales Data’ is also held to provide analysis of sales data per show. This is used to plan and predict future sales for up-and-coming shows.

Areas where the framework of governance, risk management and control could be improved:

- Fire and water checks are allocated by a Senior Technician. Microsoft Forms are used to capture data, Casual Staff scan a QR code on their mobile device and complete the necessary checks such as whether fire extinguishers are in the right locations and are intact, also running / flushing of infrequently used taps throughout the building are stated as weekly checks. However, testing found inconsistencies in the timing of the fire and water checks, with no established routine for reviewing and addressing identified issues.
- Ten supporting documents such as policies and procedures were obtained as part of the review, testing found that all documents were clear and concise. However, five had no known review dates and ten had no version numbers to ensure the latest was in circulation.
- Testing found out of eleven job descriptions ten had clearly defined areas for compliance with health and safety or had set responsibilities for aspects of health and safety. However, one job description had no detail regarding health and safety and for one role no job description was available.
- Development Reviews are completed annually for staff and testing found that job descriptions state their 'Principal Accountabilities' aligned to their role for all eleven roles reviewed. However, 'Principal Accountabilities' or KPI's were unable to be evidenced and being used to monitor performance.
- Access levels to the systems used are controlled by the Commercial Manager – Theatre and Leisure, users are set up within the 'Yesplan system and 'Spektrix' and assigned the necessary levels of access according to the role. An 'Access to Spektrix' matrix was provided which shows which members of the team have full access, report collector access or no access. However, it was stated that there is currently no control sheet or overview document for the 'Yesplan' system, as this is currently still within the development stages.

Procurement cards – follow up

The procurement card audit was carried out in 23/24 and provided a limited assurance level.

Since the audit was carried out the Council has re-procured the procurement cards through its banking provider. The benefits of moving the procurement cards include:

- Improved controls for the Council
- Financial rebates on spend carried out on the cards
- Improved visibility of transactions on the cards in real time through the new portal.

Finance are currently running the new cards in parallel to transitioning users across from the old cards. During this process Finance are also reviewing if users still need the cards prior to giving them a new one, reviewing limits and getting users to sign up to the guidance to show they have read and understood the terms for using the cards.

3 Progress towards the Audit Plan

3.1 The table below provides a summary of progress to date (13/01/25):

2023/24 audit plan progress

Audit/ Audit follow up status	Number of reviews	%
Finalised	12	75
Draft report	2	12.5
In progress	0	0
Audits removed	2	12.5
	16	100
Audits to be started	0	0
Total	16	100

2024/25 audit plan progress

Audit/ Audit follow up status	Number of reviews	%
Finalised	2	15
Draft report	1	8
In progress	6	46
Audits removed	0	0
	9	69
Audits to be started	4	31
Total	13	100

4. Expected Deliverables for Q4 2024/25

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
Operations	Disabled Facilities Grants – To review the DFG process.
ACE	Homes for Ukraine fund - A review of the processes for the Homes for Ukraine funding. (23/24)
ELT	Rushmoor Homes Limited - Review the processes in place for RBC involvement with RHL including the process for drawing down funding. (23/24)
Finance	Effectiveness of financial rules and processes & compliance with financial regulations - To review the effectiveness of processes in place and compliance.

Service	Audit/ follow up/descriptor
Finance	Capital Programme – To review the process for developing and agreeing the annual capital programme.
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	National Non-Domestic Rates (NNDR) – Key financial system
Finance	Sales Ledger – Key financial system
Finance	Financial Management System (FMS) & Bank Reconciliation – Key financial system
Regeneration	Union Yard – A review of the project including governance and finances.
IT	Pay 360 – A review of the update to the 360 system.
Property & Growth	Biodiversity - A review to ensure that the appropriate processes have been implemented to meet the new legislation.

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 2024/25 audit plan, and the expected deliverables for Q4.

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

References:

Internal Audit – Audit Plan 2024/25, presented to the Committee on 20 March 2024.
[Agenda for Corporate Governance, Audit and Standards Committee on Wednesday, 20th March, 2024, 7.00 pm - Rushmoor Borough Council](#)

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](#)

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