

Minutes of a Meeting of the Audit and Governance Committee held at the Hub, Mareham Road, Horncastle, Lincolnshire LN9 6PH on Wednesday, 15th March, 2023 at 10.15 am.

PRESENT

Councillor Will Grover (Chairman)  
Councillor David Andrews (Vice-Chairman)

Councillors Adrian Benjamin, Rosalind Jackson, Jill Makinson-Sanders, and Graham Williams.

Mr George Krawiec and Mr Walter Leschenko attended the Meeting as Independent Co-Optees.

Councillor Stephen Evans attended the Meeting as a Substitute.

OFFICERS IN ATTENDANCE:

Christine Marshall	- Deputy Chief Executive (Corporate Development) and S151 Officer
Matthew Waller	- Internal Audit Manager, Assurance Lincolnshire
Mark Surridge	- Mazars LLP, External Auditor
Bethan Frudd	- Mazars LLP, External Auditor
Suzanne Rolfe	- Group Manager- Insights & Transformation
Elaine Speed	- Senior Democratic Services Officer and Civic Officer
Lynda Eastwood	- Democratic Services Officer
	-

**52. APOLOGIES FOR ABSENCE:**

Apologies for absence were received from Councillor Colin Davie.

It was noted that in accordance with Regulation 13 of the Local Government (Committees and Political Groups) Regulations 1990, notice had been given that Councillor Stephen Evans had been appointed to the Committee in place of Councillor Terry Taylor for this Meeting only.

**53. DISCLOSURE OF INTERESTS (IF ANY):**

At this point in the meeting, Members were invited to declare any relevant interests. None were received.

**54. MINUTES:**

The Minutes of the Meeting held on 1 February 2023 were agreed as a correct record.

**55. CHAIRMAN'S UPDATE:**

There was no update from the Chairman.

**56. ACTION SHEET:**

Members were referred to the Action Sheet that had been circulated on the Supplementary Agenda, pages 1 to 5 refer.

Members noted that the actions from the Meeting held on 1 February 2023 were confirmed as completed or in hand as follows:

Action No. 46 (a) – The Section 151 Officer to circulate an update to Members after the Meeting.

Action No. 46 (b) – The Group Manager – Climate Change and Environment had provided an update, attached at Appendix A, page 5 of the Supplementary Agenda refers.

Action No. 46 (c) – Members were advised that the Capital Programme was being finalised.

Action No. 47 (a) – Members were advised that a confidential briefing was being delivered to Committee after the meeting closed.

Action No. 47 (b) – A letter from the Department for Levelling Up, Housing and Communities was tabled for Members' information (a copy is attached at Appendix A to the Minutes).

#### **57. ELDC DRAFT 2023/24 INTERNAL AUDIT PLAN:**

Matthew Waller, Internal Audit Manager, Assurance Lincolnshire presented Members with the Audit Planning Update and Progress Report as at March 2023.

The report set out the Proposed Internal Audit Plan for 2023/2024 and detailed the activities to be audited and the indicative scope for each audit. The draft plan had been presented to Committee to give Members an opportunity to comment on the plan and the priorities that Internal Audit had established.

The Internal Audit Manager highlighted that the audit plan delivered assurance within agreed resources and confirmed that for 2023/24 this was 175 days. Where necessary, the Plan was amended throughout the year to reflect changing assurance needs.

Members were referred to Appendices A to D, pages 44 to 50 of the Agenda refers that provided details of:

- Auditable Activities;
- How the draft plan achieved the requirements of the Board and Head of Internal Audit;
- Internal Audit's Working Protocols and Performance, and
- Internal Audit's Quality Assurance Framework.

Members were invited to put their comments and questions forward.

- A Member referred to the Green Homes Grants and asked for clarification whether this was a key area to be checked, to include what monies had been claimed, the quality of services that had been delivered and any review process would pick up on areas of concern. The Internal Audit Manager advised Members that the team focussed its time on key issues. However, if Members wished for further information on the Green Homes Grants more details could be requested from management to agree to undertake this specific piece of work.
- A Member noted within the report it stated that the fees had been increased to align with the costs or resources provided in carrying out the work and reflected the rates included within the current agreement, following which it was queried how this was proportioned for the three councils across the Partnership. The Internal Audit Manager confirmed that each council had its own audit plan and agreed number of days and assured Members that ELDC was getting adequate coverage. The Section 151 Officer added that whilst the Partnership was mentioned in the report, the systems across the three councils were separate, however were similar for ease of auditing and this was an efficient way of providing resources and reduced demand on officers' time.

Following a brief discussion, a Member asked for clarification as to whether the internal audit fees had been increased. The Internal Audit Manager confirmed that there was no increase in the fees for 2023/24 and the report would be amended accordingly.

- A Member highlighted that in recent years as many as 225 days had been allocated to internal audit and was concerned over such a large reduction for 2023/24. The Internal Audit Manager advised Members that the team no longer undertook housing benefit subsidy work on behalf of the Council's external auditors, which would have reduced the total number by approximately 25 days.
- A Member referred to the ICT Area to be agreed for key areas of focus for ICT reviews and considered that the network down times should be an indicator for why this needed to be an area of focus, particularly on the operational side and not just on risk management. It was further considered that it needed to be fed into the ICT Strategy and be part of the IT service lifecycle and asked to see the terms of reference before the ICT Area was agreed. The Internal Audit Manager responded that he welcomed feedback and the team would gather intelligence and focus on what mattered.
- In relation to Health and Safety as an area to be considered, a Member highlighted that CORP004 on the Risk Register, page 114 of the Agenda refers, stated that 'Health and Safety is included within Internal Audit's Annual Audit Plan. The audit undertaken in 2021 demonstrated a substantial level of assurance.' Therefore, the report needed amending accordingly.

- A Member referred to the audit areas that were rated red in both areas of internal audit risk and assurance map rag rating and asked for assurance that these would be dealt with first. The Internal Audit Manager advised Members that he was working with the Senior Leadership Team and would discuss this further.

No further comments or questions were received.

Following which it was,

RESOLVED:

That the ELDC Draft 2023/24 Internal Audit Plan be noted.

#### **58. AUDIT PLANNING UPDATE AND PROGRESS REPORT - MARCH 2023:**

Mark Surridge was in attendance on behalf of Mazars LLP, External Auditors, to present the Audit Planning Update and Progress Report – March 2023, pages 53 to 64 of the Agenda refer and introduced his colleague Bethan Frudd who would be taking on Jon Machej's role and attending future Committee meetings.

The report provided the Audit and Governance Committee with updates on:

- The 2020/21 and 2021/22 audits and any significant matters to date, and
- Recent relevant reports and publications for Committee's information (detailed at Section 2). Full details were contained within the report.

Key points were highlighted to Members as follows:

- The Council had a requirement for the first time to produce Group Accounts as a result of the growing activities of its subsidiary company Invest East Lindsey Ltd. Mazars were yet to receive these from management and work over both the Council's consolidation arrangements and detailed testing of any material balances had yet to commence. Furthermore, Mazars had been made aware of a qualification on the accounts of the Council's subsidiary company and needed to discuss this with the Council's officers to fully understand the rationale for this and to consider the implications for Mazars required audit work and impact on its audit report on the Council's Group Accounts.

Two elector queries had been received as follows:

- The receipt of correspondence from an elector relating to the representation and handling of the income from the Business Improvement District Levy, which Mazars formally accepted an objection

on East Lindsey District Council's Statement of Accounts for 2021/22 was nearing its conclusion and the outcome would be reported in due course.

- In relation to the Council's failure to comply with its complaints and Freedom of Information request procedures, Mazars had to consider whether to accept this as a formal objection on East Lindsey District Council's Statement of Accounts for 2021/22. Mr Surridge confirmed that it did not meet the requirements for Mazars to investigate.

Value for Money work was ongoing that included an assessment of arrangements that the Council had in place around financial planning, financial management and governance and risk.

Members were invited to put their comments and questions forward.

- A Member raised a concern with regards to Invest East Lindsey (IEL) and non-compliance with the Companies Act 2006, page 59 of the Agenda refers and asked for assurance that the Council was taking action to address this and what reporting mechanisms were in place, following which it was suggested that reports were provided on a regular basis until this had been clarified.

The Section 151 Officer advised Members that she would get an update, however assured Members that a lot of work was currently underway in providing additional support for IEL.

A Member considered that due to the wording around the risks identified in the accounting and governance arrangements of IEL whether this was an area that internal audit needed to do further work on.

The Section 151 Officer advised Members that IEL was a company that had its own arrangements for accounting. There were also arrangements for internal audit in terms on the Council's arrangements and as a company it had its own arrangements and also external audit had an oversight on this as it was included in the Council's accounts. Therefore, it was considered that there were sufficient audit processes in place and it was now important to take action to address some of the particular areas and as Section 151 Officer confirmed that she was satisfied with the audit arrangements in place.

- A Member highlighted that IEL had been referred to Overview Committee for scrutiny on its governance arrangements due to a number of concerns raised by Members, however considered that action needed taking quickly and asked what action would be taken to solidify the governance around that.

Mr Surridge advised Members that Mazars had no concerns with the activities undertaken by IEL and it was the accounts they were

focussing on. For assurance, Members were advised that information was being provided by officers and highlighted that the accounts were complex and acknowledged that it would take some time to work through.

- A Member queried whether any governance issues may impact on the financial stability of the company. Mr SurrIDGE responded that at the current time not enough work had been undertaken to fully conclude and confirmed that the lines of enquiry were not around financial stability but whether it was a technical breach in terms of documentation. The Section 151 Officer added that extra resources had been provided to get certain tasks undertaken.
- A Member highlighted that the Council had lent IEL £4.4m as detailed at Appendix A of the Q3 Treasury Management update, page 102 of the Agenda refers and queried whether this loan was in jeopardy. The Section 151 Officer advised Members that in terms of the position of the loans, IEL had been impacted by the current economic financial climate as had other businesses and the knock-on effects, for example with properties not being built out as quickly and people struggling to get mortgages. However, the timeline was what was expected and there were no concerns at the current time.

A Member highlighted her concerns with regards to Kingfisher Caravan Park (KCP) and considered that it was time that the Council faced up to the losses and ceased carrying on with schemes that were losing money. The Section 151 Officer highlighted to Members that KCP was a company that had its own directors who would raise such concerns and was not aware that any such concerns had been received. It was confirmed that the directors/shareholders were a mixed appointment of both Members and officers from ELDC.

- A Member asked for a timeline of when a final document addressing the issues from IEL would be reported to Committee. The Section 151 Officer confirmed that IEL was an area of focussed activity at the moment with resources around it to undertake the necessary actions.

No further comments or questions were received.

Following which it was,

RESOLVED:

That the Audit Planning Update and Progress Report - March 2023 be noted.

## **59. FINANCIAL STATEMENTS 2022/23 - ACCOUNTING POLICIES:**

Christine Marshall, Section 151 Officer presented a report on the Financial Statements and Accounting Policies. The purpose of the report was to

review and approve the Accounting Policies for inclusion in the Financial Statements for 2022/23.

The Section 151 Officer advised that unless there were any major changes to accounting rules and regulations, accounting policies did not change significantly. The report presented the proposed accounting policies to be adopted for the 2021/23 financial year. The policies were prepared in line with CIPFA's Code of Practice.

Members were advised that the 2022/23 unaudited Financial Statements needed to be completed by 31 May 2023, (31 July for 2021/22 unaudited Financial Statements) and would be presented to Audit and Governance Committee when complete which would be very challenging. The accounting policies would be included within the Statements, and any minor changes made during the Statements production process would be agreed with the S151 Officer and highlighted to the Committee on this date.

It was noted that no formal consultation has been undertaken, but the Committee had the opportunity to review the accounting policies and propose amendments prior to the publication of the unaudited Financial Statements, in line with 31 May 2023 deadline. A wider consultation regarding the 31 May deadline for the unaudited Finance Statements closed on 2 March 2023 and the Council was awaiting the outcome of this, which could result in the deadline being extended for a further year.

Members were further advised that work was underway in unison with the auditors around some perceptual changes to accounting treatments. It was highlighted that this did not affect the bottom line but was more technical treatment as to how the information was presented and some of the terminology that might be used in the accounts.

Members were invited to put forward their comments and questions:

- A Member queried whether there were any significant changes to the accounting policies from previous years. The Section 151 Officer advised that she was not aware of any in particular, it was more how the information was presented.
- With regards to Policy No. 6 Business Improvement Districts, page 71 of the Agenda refers, the Section 151 Officer clarified that although the scheme was wound up in August 2022, it was included as it was relevant to the 2022/23 accounting year.
- In relation to Policy No. 7 – The Local Government Pension Scheme, page 72 of the Agenda refers, and a query in relation to the discount rate of liabilities at 2.6% for 2021/22, the Section 151 Officer confirmed that the rate varied each year.
- In relation to Policy No. 24 – Reserves, page 83 of the Agenda refers, a Member commented that the Council seemed to be in a very strong

position and queried whether the level of reserves was at the right level. The Section 151 Officer referred Members to the Towns Fund Projects and advised that in 2023/24 large withdrawals would be made to support these projects and also moving into 2024/25 to support the Council's programme, therefore there would be a point when the levels would significantly drop. However, there may be other plans that came in to replenish reserves over a period of time but advised caution over windfall payments that could not be relied upon as a permanent solution.

- In relation to Policy No. 11 – Heritage Assets, page 76 of the Agenda refers, a Member highlighted that Westgate Fields and land for the Arts Trail had been missed off being recorded on the land sites.

No further comments or questions were received.

The recommendations within the report were duly proposed and seconded.

Following which it was,

RESOLVED:

- That following review by the Audit and Governance Committee, the Accounting Policies for 2022/23 at Appendix A be approved.
- That the land sites in Policy No. 11 – Heritage Assets be updated.

## **60. Q3 TREASURY MANAGEMENT UPDATE:**

Christine Marshall, Section 151 Officer presented Members with the Quarter 3 Treasury Management Update, pages 85 to 108 of the Agenda refer to provide the Committee with the 2022/23 Quarter 3 update on the Council's Treasury Management Strategy Statement and Annual Investment Strategy for the period ending 31 December 2022.

Significant activity was highlighted to Members as follows:

- Treasury investments achieved an average rate of 1.98% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 2.284%.
- Property fund investments were estimated to have achieved an average net rate of 3.393%.
- The combined rate achieved on all investments was estimated to be approximately 2.44%.
- The outturn for investment income for 2022/23 was forecast to be £2.6m which would be £1.3m above budget. This would be monitored on a monthly basis to reflect changing market conditions.



Further to the report, Members received a presentation from the Section 151 Officer, a copy is attached at Appendix B to the Minutes.

Members were invited to put their comments and questions forward.

- A Member highlighted her concerns with placing investments for a 12-month period due to the current uncertain financial climate and the risk involved and queried whether this aligned with the need to put security first. The Section 151 Officer responded that cash investments were stepped and referred Members to the table on Appendix A, page 101 of the Agenda refers. When the investment matured it was a judgement call on where to place investments, depending on the prevailing market rates at that moment in time. In 2022, the financial market was very volatile, therefore the Council did short stepping to take advantage of 3, 6, 9 and 12-month steps. The current forecast was more of a plateaued position, however there could be some longer-term volatility.
- A query was raised on property fund returns and with the decline in the housing market queried what impact this would have on the Council's commercial property portfolio. The Section 151 Officer advised Members that property funds were mainly invested in business and retail and was not anticipating any housing market impacts. Currently, business owners were doing a lot of refresh amongst their assets and looking at how they might bring them into a more viable use by making them into smaller units post Covid. In addition, a lot of pension funds owned these assets and wouldn't be in alongside the Council with these if they did not see them as a long-term income driver and investment opportunity.
- With regards to the placement of treasury deposits, a Member raised concerns with the exposure to crypto currency that had negatively impacted on banks worldwide and hoped that the Council intended to watch this carefully.
- A Member highlighted that the Council still had an investment in the First Abu Dhabi Bank and queried whether it was the Council's intention not to further invest in middle eastern countries. The Section 151 Officer advised Members that this would be re-visited when the funds came to mature and the assessment process for those banks that the Council was placing funds with would be looked at, including what holdings they had in certain areas.
- A Member referred to two investments that had matured in January and March 2023, page 101 of the Agenda refers and queried at what return they would have been reinvested. The Section 151 Officer advised Members that she would provide a response after the meeting.
- The loans to Invest East Lindsey (IEL) were highlighted at page 102 of the Agenda and a query was raised on when the 2-year £1.5m Housing Development Loan started and finished and also what period the 'short-

term' cash flow loan for £1.25m referred to. The Section 151 Officer advised Members that she would get the detail and circulate to Members after the meeting.

- A Member queried how long it would take IEL to repay the loans to the Council. With regards to the £1.5m housing development loan, the Section 151 Officer explained how the 'build and sell' model worked and was common with other authorities across the country and a high level of loan was normal for a housing development company. Therefore, it was expected that all of the loans would be repaid when the houses were sold, whereby the developer profits would also be looked at as the arrangement ended.
- A Member commented that IEL had various assets, for example KCP and queried who owned the assets. The Section 151 Officer advised Members that the Council owned the land.
- A Member queried whether it was cheaper to borrow money rather than to place it in investments and what the difference was between the two, for example the difference paid in interest on what was owed against the interest received on investments. The Section 151 Officer explained that the Council could look at a premature redemption as interest rates went up, when the prevailing interest rate exceeded the rate that the loan was at. This meant that the Council could get a premium or discount and put it back into the system that would reduce how much had to be paid back, however considered the PWLB debt to be very good value and as cash came back it also provided funding for future opportunities.
- A Member queried whether the PWLB Loans carried an early repayment penalty. The Section 151 Officer advised that they did not and the PWLB would give the Council a discount at the current rates if it was to redeem early at this point in time.

No further comments or questions were received.

Following which it was,

RESOLVED:

That the Q3 Treasury Management Update be noted.

## **61. RISK MANAGEMENT REPORT:**

Suzanne Rolfe, Group Manager - Insights and Transformation presented Members with the Risk Management Report, pages 109 to 116 of the Agenda refer to provide Members with an overview of Risk Management within the authority.

Members were advised that the Strategic Risk Register had been reviewed at the quarterly risk clinic and by Senior Leadership Team (SLT) and the

report provided Members with the Quarter 3 position statement as at 31 December 2022. Members were informed that a draft Risk Management Framework for the Partnership was currently in development and would be presented to Committee for discussion and review following input from Internal Audit. This would set out arrangements for risk appetite and changes to reporting such as heat maps and direction of travel, Paragraph 1 of the Agenda refers.

The summary of changes to the Risk Register was detailed at Paragraph 2, page 110 of the Agenda refers.

The Group Manager - Insights and Transformation advised Members that she had noted the items picked up at Item 6 with regards to the health and safety risk and the reference to the annual audit plan and would ask the lead officer to review the wording on that.

Members were invited to put their comments and questions forward.

- A Member asked that now the office relocation project was complete whether there had been a best value assessment, particularly protection against the estimated cost and the actual cost of the move. The Group Manager - Insights and Transformation advised Members that she would ask the question and respond after the meeting.
- A Member commented that there were still a number of risks on the register that related to Covid, however there were less that related to current risks, for example the economic risks as a result of the war in Ukraine, Brexit, high inflation and climate change. The Group Manager - Insights and Transformation advised Members that she would feed this back.
- A Member queried if there was a timescale for the new version of the risk register. The Group Manager - Insights and Transformation advised Members that the audit was underway and expected to receive feedback soon and would keep Members informed on the progress.
- A Member referred to the difficulties around the increasing costs of internal drainage board levies which impacted on CORP002 'Uncertainty of future Lincshire flood defence scheme', page 113 of the Agenda refers. Due to the significance of this and the fact that this had been raised with government to address, it was queried whether it should be on the register as a separate risk. Further to this, the Chairman considered whether this could be covered under CORP001 'Reduction in government funding to deliver Council services and local priorities'. The Section 151 Officer advised Members that the levies were originally funded through the Revenue Support Grants, so strictly speaking it was a reduction of the grant funding over a period of time that had resulted in the IDB pressures.

A Member added that following recent scrutiny on caravan sites, the Lincolnshire Fire Officer interviewed had been working closely with the

Environment Agency Strategic Lead and could not stress enough that it was not if, but when the coast flooded and would continue to bring this up as a matter of great importance. The Group Manager - Insights and Transformation responded that she would take the comments back for consideration.

A Member highlighted that he was aware that all insurance companies were now refusing to offer equity home loans in coastal zones from the beginning of 2023.

- In relation to CORP0012 'Technology infrastructure failure' it was highlighted that the likelihood was scored at '2' and the impact was '5' and considered that the likelihood should be increased to at least a '3'. It was requested that this be reconsidered and also incorporated within the audit scope as well to look at in terms of technology failing. The Group Manager - Insights and Transformation advised Members that she would refer back the comments for the wording in the score.
- A Member asked whether amendments to the risk register could be highlighted in bold text so Members could more easily see where updates had been made. It was further requested that the font size be increased. The Group Manager - Insights and Transformation advised Members that this would be actioned for the next report.
- A Member further requested that the matrix table be included on the next report for ease of reference.

There were no further comments or questions received.

Following which it was,

RESOLVED

That the Risk Management Report be noted.

## **62. COMMITTEE WORK PROGRAMME 2022/23:**

Members were presented with the Audit & Governance Committee Work Programme 2022/23 and noted the items that had been presented to Committee during the municipal year, together with the items that were proposed to be carried over to the following year.

Members were advised that a meeting would be convened in April 2023 with a view to setting the 2023/24 Work Programme in alignment with the Audit and Governance Committees across the Partnership.

With regards to a report on the Review of Effectiveness of Audit and Governance Committee, the Section 151 Officer advised Members that there would be a comprehensive training programme for all Members of the Committee following the May 2023 Elections.

Following which it was,

RESOLVED:

That the Work Programme 2022/23 be noted.

**63. DATE OF NEXT MEETING:**

The date of the next Meeting will be confirmed at the AGM to be held on 24 May 2023.

The meeting closed at 11.56 am.

This page is left intentionally blank



Department for Levelling Up,  
Housing & Communities

**Catherine Frances**  
Director General, Local Government,  
Resilience and Communities  
**Department for Levelling Up, Housing  
and Communities**

2 Marsham Street  
London SW1P 4DF

To: Local Authority Chief Executives and  
Chief Financial Officers in England and  
Local Audit Firm Partners

14 March 2023

Dear Chief Executive / Chief Financial Officer / Local Audit Firm Partners

For 2020/21 only 12% of local government bodies audited accounts were published by the 30 November deadline. These delays affect the assurances that can be given to taxpayers and elected representatives; and impact on authorities' ability to plan and manage their services and finances effectively. This is a multifaceted and complex problem that requires all actors in the local audit system to play their part. Securing the capacity required for the next contracting period through the most recent procurement led by PSAA is reassuring and has resulted in two new entrants into the market; and there have been several technical solutions that have been put in place to reduce the burdens on auditors and local authorities so that auditors can focus on the backlogs. This letter is to update you on DLUHC's continued work to respond to Sir Tony Redmond's *Local Authority Financial Reporting and external audit: independent review* (the Redmond Review) and to reaffirm the Department's continued resolve to work with you and others across the sector to ensure a system wide approach to reducing the continued delays to local audit.

#### Local Audit System Leadership

First, I am pleased to let you know that we have recently published a Memorandum of Understanding (MoU) between DLUHC and the Financial Reporting Council (FRC), setting out the roles and responsibilities the FRC will assume as shadow system leader for local audit. A copy of the MoU can be found on the website of the Local Audit Liaison Committee [here](#).

The Redmond Review identified that the fragmented nature of the local audit system limited the ability of the system to respond to emerging challenges. DLUHC's vision for local audit focuses on the need for a system leader to enhance coordination and collaboration amongst stakeholders and establish clear accountability for the functioning of the system. The role of a system leader for local audit will therefore be vital to drive through the reforms necessary for a sustainable, effective local audit system.

The FRC appointed Neil Harris as Director of Local Audit in September 2022 and Neil has established a new local audit unit to spearhead the FRC's new role. We expect full shadow arrangements to start in the coming months, at which point the Department will issue a Remit Letter setting out our policy priorities. The shadow period will continue until the Audit, Reporting and Governance Authority (ARGA) is established through legislation.

## Local Audit Delays

The recent National Audit Office's report (*Progress update: Timeliness of local auditor reporting on local government in England*) set out that the backlog of audit opinions remains considerable and pervasive and that the reasons for this are multifaceted. Addressing the existing backlog, alongside embedding sustainable, long-term culture change on timely and high-quality financial reporting and audit will be a key focus for the FRC in its new role.

We and the FRC will continue to engage all parts of the system to determine if further measures are needed in addition to activity underway as set out in our December 2021 publication *Measures to Improve Local Audit Delays*. For example, as you will be aware, the Government acted at the end of last year to lay a Statutory Instrument to provide a temporary solution to the issue concerning the audit of local authority infrastructure assets. These regulations are now in force and I would like to take this opportunity to stress that authorities affected by the issue should seek to close outstanding accounts as soon as possible.

Chief Executive Officers, Chief Financial Officers and your finance teams are critical to delivering high-quality financial reporting in the public interest. As you will be aware, this includes complying with the Chartered Institute of Public Finance and Accountancy's (CIPFA) financial reporting framework, professional accounting standards, being accountable with appropriate expert support for critical accounting judgements, estimates and ensuring through robust internal quality assurance that sufficient and appropriate evidence exists to support the primary statements and disclosure notes ahead of audit. This should involve submitting the annual auditor's report to the Audit Committee and then Full Council, accompanied by the response recommended by the audit committee to any significant issues raised in the report. It is also incumbent upon the Chief Financial Officer to report to the Chief Executive, Audit Committee and others if there are any concerns on the capacity, capability and ability to deliver high-quality draft financial statements by the statutory deadline.

Within audit firms, auditors and the Key Audit Partner also have a fundamental role in safeguarding high quality audits but also setting out to the Chief Executive, CFO and Audit Committee a realistic project and delivery plan for delayed audits and the critical dependencies. For example, this may involve (but is not limited to) obtaining sufficient and appropriate evidence from management on critical judgements, or securing the appropriate mix of skilled and specialist audit resource. Key Audit Partners also have a critical role to report as soon as practicable where they have identified any significant concerns and/or risks of significant weaknesses in Value for Money arrangements and what action should be taken by management, Audit Committee and full Council. It is just as important for this to happen if the delays are associated with concerns on the Local Authorities' financial reporting systems, process, capacity and capability.

The Department and FRC are now actively reviewing where lengthy backlogs of audits exist from both an auditor and local authority perspective. It is evident that in some cases an audit has not been completed in several years and this is clearly not in the interests of the council or the taxpayers. We expect audit firms and Local Authorities to work together to resolve this and I urge you to make every effort to collaboratively consider where historic issues are compounding delays unnecessarily and, where they are, to put in place an action plan and timetable to ensure these are swiftly resolved. I would also ask that, if you have not already done so, Local Authority CEOs and CFOs, and your respective audit partners each provide the Audit Committee with a written position statement. This should set out the outstanding matters, the impact this position could have on the audit opinion(s) and any reporting under statutory audit powers, the actions and timetable to resolve these from a local authority and auditor perspective, as well as a judgement from each of you on how realistic and achievable this is. This should be done as early as possible and would enable the Audit Committee to exercise its role to determine whether it has sufficient assurance on the action plans and if not



what additional information and explanations it requires to make a decision that balances a realistic and swift timetable for authorising the historic audited financial statements for issue. You should also consider whether this statement should also be submitted to full council.

It is clear that ensuring system wide timely delivery of local audits will require a continued, concerted effort from everyone across the system and I welcome your joint support in this undertaking.

Yours sincerely,



**CATHERINE FRANCES**

11/11/11

# Quarter 3 Treasury Management Update 2022/23

Period ending 31<sup>st</sup> December 2022



# Introduction

- The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.



# Economic Update

## Commentary by Link Group

A detailed economic outlook has been provided by our external treasury advisors. The key points are as follows:

- A 0.5% m/m rise in Gross Domestic Product (GDP) in October, mostly driven by the reversal of bank holiday effects.
- Signs of economic activity losing momentum as households increased their savings.
- Consumer Price Index (CPI) inflation fall to 10.7% in November after peaking at 11.1% in October;
- Interest rates rise by 125 basis points (bps) over Q4 2022, taking Bank Rate to 3.50% (now 4%);
- Reduced volatility in UK financial markets but a waning in global risk appetite.



# Interest Rate Forecast

Link Group Interest Rate View 19.12.22		Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
<b>BANK RATE</b>		3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings		3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings		4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings		4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB		4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB		4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB		4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB		4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20



# Annual Investment Strategy

- The Treasury Management Strategy Statement for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 2 March 2022. It sets out the Council's investment priorities as being:
  - Security of capital;
  - Liquidity;
  - Yield
- Rates have improved dramatically during the first three quarters of 2022/23 and are expected to improve further as Bank Rate continues to increase over the next few months.



# Investment Performance to 31/12/22

- The Council's 2022/23 budget for investment income is £1.3m. At the end of December 2022 investment income earned was estimated to be approximately £1.72m, which was £750k above the profiled budget on a straight line basis. This figure is still an estimate as the actual returns on all property funds to December 2022 are not likely to be known until late March 2023.
- The average level of funds available for investment purposes during the first three quarters of the financial year was £68.3m excluding property fund investments.
- Treasury investments achieved an average rate of 1.98% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 2.284%.
- Property fund investments are estimated to have achieved an average net rate of 3.393%.





# Investment Performance to 31/12/22

- The combined rate achieved on all investments is estimated to be approximately 2.44%.
- The outturn for investment income for 2022/23 is forecast to be £2.6m.
- During the financial year the Council has made investments in line with the agreed Treasury Management Strategy.
- The following table provides details of the cash investments held by the Council at 31 December 2022.



# Cash Investments as at 31/12/22

	Country	Amount	Fixed/ Variable	Start Date	Maturity Date	Yield
Financial Institution		(£)				
Barclays Bank Current Account	UK	107,694	N/A	Call	N/A	0.00%
Barclays Bank	UK	3,410,419	Variable	Call	N/A	3.25%
Handelsbanken Plc	Sweden	6,352	Variable	Call	N/A	3.30%
CCLA Money Market Fund	N/A	7,500,000	Variable	Call	N/A	3.31%
UK Debt Management Office	UK	7,300,000	Fixed	28/12/22	03/01/23	3.14%
Credit Industriel et Commercial	France	5,000,000	Fixed	01/09/22	01/03/23	3.20%
Goldman Sachs	UK	5,000,000	Fixed	10/10/22	11/04/23	4.30%
Lloyds Bank	UK	5,000,000	Fixed	17/10/22	17/04/23	4.50%
Helaba Bank	Germany	5,000,000	Fixed	16/08/22	16/05/23	2.95%
Australia & New Zealand Bank	Australia	5,000,000	Fixed	16/08/22	16/05/23	2.98%
Close Brothers	UK	5,000,000	Fixed	24/11/22	24/05/23	4.00%
Rabobank	Netherlands	5,000,000	Fixed	31/08/22	31/05/23	3.53%
First Abu Dhabi Bank	United Arab Emirates	2,500,000	Fixed	28/07/22	28/07/23	2.93%
DNB Bank ASA	Norway	5,000,000	Fixed	31/08/22	31/08/23	3.90%
National Westminster Bank	UK	5,000,000	Fixed	09/11/22	09/11/23	4.40%
Toronto Dominion Bank	Canada	5,000,000	Fixed	22/12/22	21/12/23	4.85%
<b>TOTAL</b>		<b>70,824,465</b>				



# Property Fund Investments as at 31/12/22

## Pooled Investment Fund (Revenue Expenditure)

Financial Institution	Purchase Cost (£)	Estimated Revenue Received 2022/23 (£)	Projected Annualised Distribution Yield 2022/23	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	2022/23 Gain/ (Loss) (£)	2022/23 Annualised Fund Capital Gain/(Loss) Since 1/4/22	2022/23 Estimated Combined Return	VRP
Federated Hermes Property Unit Trust	3,999,951	99,207	3.28% Estimate	4,038,717	38,766	(744,026)	(20.65%)	(17.37%)	N/A

## Property Funds (Capital Expenditure)

Financial Institution	Purchase Cost Less Repaid Capital (£)	Estimated Revenue Received 2022/23 (£)	Projected Annualised Distribution Yield 2022/23	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	Quarterly Gain/ (Loss) (£)	2022/23 Annualised Fund Capital Gain/(Loss) Since 1/4/22	2022/23 Estimated Combined Return	VRP
Schroder UK Real Estate Fund	4,800,037	145,548	3.94% Estimate	4,881,368	81,331	(1,007,231)	(22.70%)	(18.76%)	0
Threadneedle Property Unit Trust	4,798,987	147,296	4.08% Estimate	4,218,174	(580,813)	(814,811)	(21.49%)	(17.41%)	0
BlackRock UK Property Fund	4,800,032	102,014	2.84% Estimate	4,508,638	(291,394)	(941,923)	(22.94%)	(20.10%)	0
M&G Investments UK Property Fund (after distribution payments)	1,135,507	27,705	3.12% Estimate	1,265,722	130,215	(56,632)	N/A	N/A	(360,649)
AEW UK Core Property Fund	4,800,000	109,221	3.02% Estimate	4,191,991	(608,009)	(676,853)	(18.41%)	(15.39%)	0
<b>TOTAL</b>	<b>20,334,563</b>	<b>531,784</b>		<b>19,065,893</b>	<b>(1,268,670)</b>	<b>(750,220)</b>			



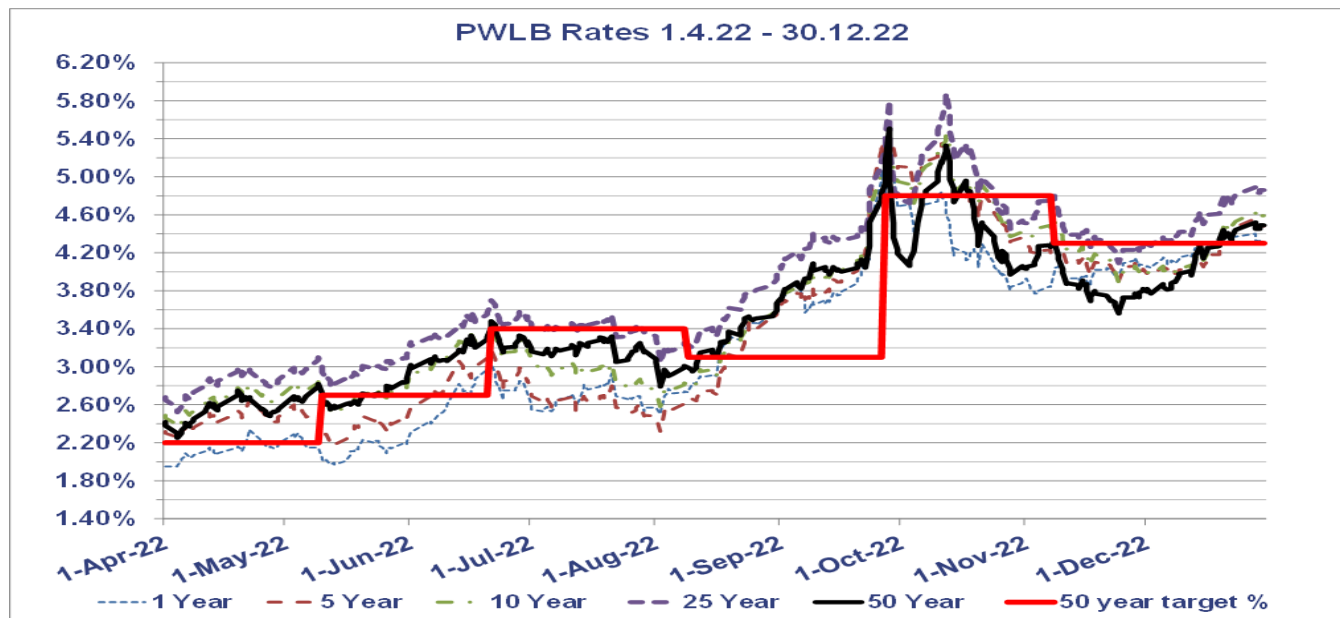
# Property Fund Distribution Analysis

Financial Institution	Actual Dividend Distributions Received Pre 2022/23	Original Budgeted Distribution for 2022/23	Estimated Dividend Distributions Received 2022/23	Total Distributions Received Since Purchase
<b>Federated Hermes Property Unit Trust</b>	727,525	97,040	99,207	826,732
<b>Schroder UK Real Estate Fund</b>	779,317	116,450	145,548	924,865
<b>Threadneedle Property Unit Trust</b>	703,245	161,982	147,296	850,541
<b>BlackRock UK Property Fund</b>	531,654	119,343	102,014	633,668
<b>M&amp;G Investments UK Property Fund</b>	581,963	134,532	27,705	609,668
<b>AEW UK Core Property Fund</b>	742,212	162,378	109,221	851,433
<b>Total Revenue</b>	4,065,916	791,725	630,991	4,696,907



# Borrowing as at 31/12/22

- 2 PWLB fixed rate loans totalling £20m at an average rate of 2.465% maturing in 2068.
- Total interest costs for 2022/23 on this fixed rate borrowing is £493,000.



# Recommendation

“It is recommended that Members of the Audit and Governance Committee receive and review the contents of the report.”



# Questions ?



This page is left intentionally blank