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Committee:	**Accounts, Audit and Risk Committee**
Date:	**Wednesday 15 January 2025**
Time:	**7.00 pm**
Venue:	**Bodicote House, Bodicote, Banbury, Oxon OX15 4AA**

Membership

Councillor Alisa Russell (Chairman)
Councillor Besmira Brasha
Councillor Nicholas Mawer
Councillor Rob Parkinson
Harry Lawson – Independent Person (No voting rights)

Councillor David Rogers (Vice-Chairman)
Councillor Frank Ideh
Councillor Ian Middleton
Councillor Dom Vaitkus
Sarah Thompson - Independent Person (No voting rights)

AGENDA

1. Apologies for Absence and Notification of Substitute Members

2. Declarations of Interest

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. Petitions and Requests to Address the Meeting

The Chairman to report on any requests to submit petitions or to address the meeting.

4. Minutes (Pages 7 - 14)

To confirm as a correct record the Minutes of the meeting of the Committee held on 20 November 2024.

5. Chairman's Announcements

To receive communications from the Chairman.

6. Urgent Business

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

7. Verbal update on the 2023-24 Statement of Accounts

Verbal update on the 2023-24 Statement of Accounts from Bishop Fleming, the Council's current external auditors.

8. External Audit 2023/24 Update (Pages 15 - 40)

Report of Assistant Director of Finance (Section 151 Officer)

Purpose of report

To update the committee on the status of the audit of the 2023/24 statement of accounts, note the proposed changes to the draft statement of accounts; note the draft Letter of Representation; and to seek delegated authority to finalise the accounts with the auditors by the backstop date for 2023/24's accounts.

Recommendations

The Accounts, Audit and Risk Committee resolves:

1.1 To note the proposed changes between the draft and final statement of accounts for 2023/24.

1.2 To note the draft Letter of Representation for 2023/24 (Appendix 1)

1.3 To agree that, once the final audit opinion for 2023/24 is received, the Assistant Director Finance (S151 Officer), in consultation with the Chair of the Accounts, Audit and Risk Committee (or Vice Chair in their absence), be authorised to make any further changes to the accounts agreed with the auditors and sign the accounts. Any further changes will be brought to the Committee's attention at its next meeting following the signing.

1.4 To agree that the Assistant Director of Finance, in consultation with the Chair of the Committee (or Vice Chair in their absence), be authorised to make any further changes to the letter of representation agreed with the auditors that may arise during completion of the audit. Any further changes will be brought to the Committee's attention at its next meeting following the signing.

9. Annual Governance Statement 2023-2024 – Update on Actions (Pages 41 - 60)

Report of the Assistant Director of Law and Governance, Monitoring Officer

Purpose of report

To consider an update on actions from the Annual Governance Statement (AGS) 2023/2024.

Recommendations

The Accounts, Audit and Risk Committee resolves to:

1.1 Consider and comment on the update on the actions arising from the Annual Governance Statement 2023/2024

10. Local Code of Corporate Governance (Pages 61 - 198)

Report of the Assistant Director of Law and Governance, Monitoring Officer

Purpose of report

To review the Local Code of Corporate Governance. The code is part of the overall system of internal control at the Council and supports the provision of the Annual Governance Statement (AGS) which is approved annually by the Accounts, Audit and Risk Committee.

Recommendations

The Accounts, Audit and Risk Committee resolves:

1.1 To approve the reviewed Local Code of Corporate Governance (Appendix 1).

11. Capital and Investment Strategy and Draft Treasury Management Strategy 2024/25 (Pages 199 - 258)

Report of Assistant Director of Finance (Section 151 Officer)

Purpose of report

To submit the draft Capital and Investment Strategy and Treasury Management Strategy for 2025-26 for recommendation by the committee to the Executive

Recommendations

The Accounts, Audit and Risk Committee resolves:

1.1 To recommend the draft Capital and Investment Strategy for 2025-26 (Appendix 1) and draft Treasury Management Strategy for 2025-26 (Appendix 2) to Executive.

12. Internal Audit Progress Update 2024/25 (Pages 259 - 274)

Report of Assistant Director of Finance (Section 151 Officer)

Purpose of report

This report provides the Accounts, Audit and Risk Committee with an update on delivery of the internal audit work programme for 2024/25, following approval of the programme at this committee's May 2024 meeting.

Recommendations

The Accounts, Audit and Risk Committee resolves:

1.1 To note the progress made in delivering the 2024/25 internal audit work programme.

13. **Work Programme** (Pages 275 - 276)

To consider and review the Work Programme.

Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.

Information about this Meeting

Apologies for Absence
Apologies for absence should be notified to democracy@cherwell-dc.gov.uk or 01295 221534 prior to the start of the meeting.

Declarations of Interest
Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item.

Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates
Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

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months.

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The council is obliged, by law, to allow members of the public to take photographs, film, audio-record, and report on proceedings. The council will only seek to prevent this should it be undertaken in a disruptive or otherwise inappropriate manner.

Queries Regarding this Agenda
Please contact Patrick Davis, Democratic and Elections democracy@cherwell-dc.gov.uk, 01295 221534

Shiraz Sheikh
Monitoring Officer

Published on Tuesday 7 January 2025

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Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Bodicote House, Bodicote, Banbury, Oxon OX15 4AA, on 20 November 2024 at 6.30 pm

Present:

Councillor Alisa Russell (Chairman)
Councillor David Rogers (Vice-Chairman)
Councillor Nick Cotter
Harry Lawson, Independent Person

Substitute Members:

Councillor Rob Parkinson (In place of Councillor Jean Conway)
Councillor Andrew McHugh (In place of Councillor Nicholas Mawer)
Councillor Linda Ward (In place of Councillor Ian Middleton)

Apologies for absence:

Councillor Besmira Brasha
Councillor Jean Conway
Councillor Nicholas Mawer
Councillor Ian Middleton
Sarah Thompson – Independent Person

Also Present:

Councillor Frank Ideh
Connor Munro, Internal Audit, Veritau
Sarah Butler, Internal Audit, Veritau

Also Present Virtually:

Kevin Suter, External Audit, EY

Officers:

Michael Furness, Assistant Director Finance & S151 Officer
Joanne Kaye, Head of Finance and Deputy Section 151 Officer
Natasha Clark, Governance and Elections Manager

Officers Attending Virtually:

Richard Smith, Head of Housing
Celia Prado-Teeling, Performance Team Leader
Alex Rycroft, Strategic Finance Business Partner

41 Appointment of Chairman

As the Chairman of the Accounts Audit and Risk Committee had stood down from the Committee, the Governance and Elections Manager – Democratic and Elections opened the meeting and called for nominations for the appointment of Chairman of the Accounts, Audit and Risk Committee for the remainder of the 2024/2025 municipal year.

It was proposed by Councillor McHugh and seconded by Councillor Rogers that Councillor Rogers be appointed Chairman of the Accounts, Audit and Risk Committee for the remainder of the 2024/2025 municipal year.

It was subsequently proposed by Councillor Cotter and seconded by Councillor Parkinson that Councillor Russell be appointed Chairman of the Accounts, Audit and Risk Committee for the remainder of the 2024/2025 municipal year.

There being two nominations for Chairman of the Accounts, Audit and Risk Committee, it was put to the vote. The Committee voted three in favour of Councillor Rogers and four in favour of Councillor Russell. Therefore, Councillor Russell was appointed Chairman for the remainder of the 2024/25 municipal year.

Resolved

(1) That Councillor Alisa Russell be appointed Chairman of the Accounts, Audit and Risk Committee for the remainder of the 2024/2025 municipal year.

42 Appointment of Vice-Chairman (if required)

There was no requirement to vote for a Vice-Chairman.

43 Declarations of Interest

There were no declarations of interest.

44 Petitions and Requests to Address the Meeting

There were no petitions or requests to address the meeting.

45 Minutes

The Minutes of the meeting of the Committee held on 25 September 2024 were agreed as a correct record and signed by the Chairman.

46 **Chairman's Announcements**

There were no Chairman's announcements.

47 **Urgent Business**

There were no items of urgent business.

48 **Counter Fraud Progress Report**

The Assistant Director of Finance (Section 151 Officer) submitted a report to update the Committee on the counter fraud work undertaken so far in 2024/25.

In introducing the report, Sarah Butler, Corporate Fraud Manager at Veritau provided an update on the work that had been carried out by Veritau following their appointment as the council's internal auditor on 1 May 2024. The Committee was advised that the Veritau team had been working closely with the Revenues and Benefits team at the Council to gain an awareness of how the Council worked and the systems it used.

The Committee was advised that the council's website had been updated to enable members of the public to report fraud to Veritau. Up to 25 October, Veritau had received sixty eight referrals, fifty nine of which had been assessed with some of these requiring further investigation.

Resolved

(1) That the Counter Fraud Progress report be noted.

49 **Counter Fraud Policy Update Report**

The Assistant Director of Finance (Section 151 Officer) submitted a report which sought approval of two updated policies, Counter Fraud and Corruption Policy and Anti-Money Laundering Policy

In introducing the report, Sarah Butler, Corporate Fraud Manager at Veritau (the council's internal auditor) advised that the updated policies would bring the Council in line with best practice in the sector and would also update relevant contact details for reporting purposes.

Resolved

(1) That the Counter Fraud and Corruption Policy be approved.

(2) That the Anti-money Laundering Policy be approved.

50 Internal Audit Progress report 2024-25

The Assistant Director of Finance (Section 151 Officer) submitted a report which provided the Committee with an update on the delivery of the internal audit work programme for 2024/25, following approval of the programme at the meeting of 29 May 2024.

In introducing the report, Connor Murray, Assistant Director – Audit Assurance at Veritau, provided the Committee with a progress report on the activity undertaken by Veritau as the Council's internal auditors. The Committee was advised that work was progressing well and that Veritau would be in a position to provide a full opinion on the Council's risk management, governance and internal controls by the end of the financial year.

In response to a question relating to overdue actions in areas of business continuity and GDPR, the Committee was advised that these were being monitored and still required attention and would be included in future audit reports.

Resolved

(1) That the progress made in delivering the 2024/25 internal audit work programme be noted.

51 External Audit Update 2022-2023

Kevin Suter, Partner Assurance – Government and Public Sector at EY provided a verbal update on the External Audit 2022-23.

The Committee was advised that due to the backstop arrangements introduced by Central Government that required Statement of Accounts up to 2022-23 to be published by 13 December 2024, EY would only be able to provide a disclaimed opinion for the Council's accounts 2022-23. The Committee was advised that this was a nationwide issue and it did not imply that there was anything wrong with the Council's accounts, rather that it was as a result of the fact that no audit work had not been undertaken due to the backlog in the sector.

In response to questions from the Committee, the External Auditor confirmed that no work had been undertaken for the 2022-23 Accounts. This was due to delays in completing previous audits along with resourcing issues. The Committee was also advised that as opening balances would not be certified it would take time for appropriate assurances to be re-built. To prevent accounts for every subsequent year being given a disclaimer opinion, the Financial Reporting Council (FRC) was in the process of issuing guidance for auditors to help build assurances over the next 3 – 4 years, subject to good quality accounts.

In response to questions regarding the EY fees for the work undertaken, the Committee was advised that EY did not have a contract with CDC rather with

Public Sector Audit Appointment (PSAA), which set the fees. PSA had yet to confirm fees and would look at each audit and set an individual fee for each audit. The Committee was advised that the Council would still receive formal assurance certificates relating to Value for Money as part of the fees being charged by EY.

Resolved

(1) That the verbal update on the External Audit 2022-2023 be noted.

52 **Risk Monitoring Report Q2 2024-2025**

The Assistant Director Customer Focus submitted a report to update the Committee on how well the Council was managing its Strategic Risks.

In introducing the report, the Performance Team Leader advised the Committee that there had been no change in the Leadership Risk Register during Quarter 2 2024-25.

Resolved

(1) That the Risk Monitoring Report for Quarter 2 2024-25 be noted.

53 **Housing Management Performance**

The Assistant Director Wellbeing and Housing submitted a report which provided the Committee with an annual report on Housing Management Performance relating to the Council's small stock holding of properties and in particular, matters that related to complaints performance in accordance with the Housing Ombudsman's Complaints Handling Code and the wider Social Housing (Regulation) Act.

In introducing the report, the Portfolio Holder for Housing explained that the report was a new regulatory requirement that had come in to effect in April 2024. The Committee was advised that once the report was approved it would be published on the Council's website.

In response to a question querying the value of the Tenants Satisfaction Measures Survey as the council only has a small stockholding and the low level of responses, the Head of Housing explained that whilst this meant the results in some measures could be distorted, it was still necessary to report and publish the Measures.

Resolved

(1) That the Housing Management Performance report be noted and it be also noted that the Housing Management Performance Annual Report and Complaints Handling Code self-assessment would be published on

the Council's website and sent to the Housing Ombudsman as the Council's return for 2023-24**.**

54 **2022/23 Final Statement of Accounts**

The Assistant Director of Finance submitted a report on the 2022/23 Final Statement of Accounts.

In introducing the report, the Head of Finance advised the Committee that this was the final version of the accounts and that some changes had been made to the draft set of accounts that were presented to the Committee its meeting on the 20 March 2024. The most significant change was the downward valuation of the Council's property by £1.43M which had not been included in the draft accounts. The Committee was assured that procedures had been put in place to prevent this happening again. The Committee was advised that whilst the change led to amendments to the Statement of Accounts, it did not impact on the General Fund balance.

In response to questions from the Committee regarding the downward valuation of property, the Head of Finance confirmed that this was likely due to lower than anticipated rental yields being achieved from these assets.

In response to a question regarding the level of Audit fees being charged by EY, the Council's External Auditor for the 2022/23 Statement of Accounts, the Assistant Director of Finance explained that the cost was subject to review by the Public Sector Audit Appointments (PSAA) and therefore that this may be reduced. The Committee was advised that any reduction in fees would be potentially offset by work required on the opening balances for the 2023/24 accounts alongside increased fees for the year.

Resolved

(1) That the final 2022/23 Statement of Accounts and the associated changes between draft and final version be noted.

55 **Financial Management Code - Forecast Self-Assessment Update 2024-25**

The Assistant Director of Finance (Section 151 Officer) submitted a report which updated the Committee on the results of the Council's forecast self-assessment position at February 2025 against the requirements of CIPFA's Financial Management Code.

In introducing the report, the Head of Finance advised the Committee that the Financial Management Code was the minimum that Local Authorities had to do to comply with Section 151 of the Local Government Act to meet its financial responsibilities and that this was the responsibility of the Section 151 officer, Corporate Leadership team and the Executive.

The Committee was advised that the Council's self-assessment was green in all areas of the Financial Management Code which demonstrated a resilient and sustainable approach to managing the Council's finances.

Resolved

(1) That the Council's forecast self-assessment position of strong compliance at February 2025 against the requirements of CIPFA's Financial Management Code be noted**.**

56 **Treasury Management Report - Mid-year review 2024-25 (September 2024)**

The Assistant Director of Finance submitted a report that updated the Committee on treasury management performance and compliance with treasury management policy for 2024-25 as required by the Treasury Management Code of Practice.

In introducing the report, the Head of Finance advised that all treasury management activities undertaken to date during the financial year 2024-25 complied with the Council's approved Treasury Management Strategy, and all Prudential Indicators were met during the reporting period. Over the course of the year, there was an overall Treasury Management forecast underspend of £0.015m compared to the approved budget.

Resolved

(1) That the Treasury Management mid-year review 2024-25 (September 2025) be noted and Council be recommended to receive the report.

57 **Work Programme**

The Head of Finance provided an update on the Committee's work programme.

Resolved

(1) That the work programme update be noted.

The meeting ended at 7.39 pm

Chairman:

Date:

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This report is public	
External Audit 2023/24 Update	
Committee	Accounts, Audit and Risk Committee
Date of Committee	15 January 2025
Portfolio Holder presenting the report	Deputy Leader and Portfolio Holder for Finance, Property and Regeneration, Councillor Lesley McLean
Date Portfolio Holder agreed report	19 December 2024
Report of	Assistant Director of Finance (S151 Officer)

Purpose of report

To update the committee on the status of the audit of the 2023/24 statement of accounts, note the proposed changes to the draft statement of accounts; note the draft Letter of Representation; and to seek delegated authority to finalise the accounts with the auditors by the backstop date for 2023/24's accounts.

1. Recommendations

The Accounts, Audit and Risk Committee resolves:

1.1 To note the proposed changes between the draft and final statement of accounts for 2023/24.

1.2 Note the draft Letter of Representation for 2023/24 (Appendix 1)

1.3 Agree that, once the final audit opinion for 2023/24 is received, the Assistant Director Finance (S151 Officer), in consultation with the Chair of the Accounts, Audit and Risk Committee (or Vice Chair in their absence), be authorised to make any further changes to the accounts agreed with the auditors and sign the accounts. Any further changes will be brought to the Committee's attention at its next meeting following the signing.

1.4 Agree that the Assistant Director of Finance, in consultation with the Chair of the Committee (or Vice Chair in their absence), be authorised to make any further changes to the letter of representation agreed with the auditors that may arise during completion of the audit. Any further changes will be brought to the Committee's attention at its next meeting following the signing.

2. Executive Summary

2.1 The audit of the 2023/24 statement of accounts by the council's new auditors, Bishop Fleming, began in November. The auditors, with the support of officers, have made good progress and both are confident that the accounts will be finalised by the backstop date stipulated by government of 28 Feb 2025 (please see Appendix 2 for frequently asked questions about the backstop).

2.2 The draft accounts were published in June 2024, before the 2022/23 statement of accounts had been finalised with Ernst & Young. The committee were notified of the changes between the draft and final accounts for 2022/23 at its meeting in November 2024. These included items which changed the opening balances for 2023/24; therefore, the majority of the movements between draft and final for 2023/24 are in relation to those changes. The current list of changes is provided in more detail in section 4 of this report. None impact on the general fund. If further changes are required before the completion of the audit these will be reported to the committee at the next opportunity.

2.3 The Letter of Representation is an important part of the audit process whereby the Council, via the Section 151 Officer provides representations around the operation of the Council that allows and helps the auditors to form their opinion as to whether the financial statements give a true and fair view. A draft of the letter for 2023/24 has been provided by the auditors and is found at Appendix 1.

2.4 The next meeting of the Accounts Audit and Risk Committee is in March 2025 but as this is after the backstop date for the 2023/24 statement of accounts to be finalised, the committee is asked to delegate authority to the S151 Officer and the Chair of the committee to do so in order to meet the deadline.

Implications & Impact Assessments

Implications	**Commentary**			
Finance	There are no finance implications arising directly from this report. Joanne Kaye, Head of Finance, 18 December 2024			
Legal	The obligations in law are as set out in the report and there are no legal implications in connection with this report. Shiraz Sheikh, Assistant Director of Law, Governance and Democratic Services (Monitoring Officer), 6 January 2025			
Risk Management	There are no risk implications arising directly from this report. Celia Prado-Teeling, Performance Team Leader, 6 January 2025			
Impact Assessments	Positive	Neutral	Negative	Commentary
Equality Impact				N/A
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?				N/A
B Will the proposed decision have an impact upon the				N/A

lives of people with protected characteristics, including employees and service users?				
Climate & Environmental Impact				N/A
ICT & Digital Impact				N/A
Data Impact				N/A
Procurement & subsidy				N/A
Council Priorities	N/A			
Human Resources	N/A			
Property	N/A			
Consultation & Engagement	N/A			

Supporting Information

3. Background

3.1 The draft statement of accounts for 2023/24 were noted by the committee at its meeting 17 July 2024. At the September 2024 meeting it was also outlined that the 2023/24 statement of accounts would receive a disclaimer opinion, which councils across the country will be receiving as part of the government's audit reset plans. The backstop deadline for the 2023/24 financial year is 28 February 2025.

4. Details

4.1 Since the Committee noted the draft statement of accounts, there have been a few changes made to reach the final statement of accounts. The main movement is in relation to the change in valuation of a single property asset in the final 2022/23 statement (as reported to the committee in November 2024) which was agreed with auditors after the 2023/24 draft statement was published. This change has impacted on both the 2022/23 comparator figures and 2023/24 balances. The changes to the comparator figures are as per the November report; therefore, this report will concentrate on the changes to the 2023/24 statement.

4.2 Table 1 summarises the change which affects the Comprehensive Income and Expenditure Statement (CIES) and relates to a revised depreciation figure recalculated on the amended asset value. The asset was not scheduled for valuation in 2023/24 and so the amended asset value from 2022/23 will be used for the depreciation calculation until it is revalued.

Table 1: Impact on the CIES of changes between draft and final statements

	Net Expenditure per draft Statement of Accounts £'000	Changes £'000	Net Expenditure per final Statement of Accounts £'000
Chief Executive	9,180		9,180
Communities	14,472		14,472
Resources	7,855	(22)	7,833
Cost of Services	**31,508**	**(22)**	**31,485**
Other Operating Expenditure	5,933		
Financing and Investment (Income) and Expenditure	(1,428)		
Taxation and Non-specific Grant (income)	(40,551)		
(Surplus) or Deficit on Provision of Services	**(4,539)**	**(22)**	**(4,560)**
(Surplus) or deficit on revaluation of Property, Plant and Equipment	(33)		(33)
Remeasurement of the net defined benefit liability / (asset)	(12,765)		(12,765)
Other Comprehensive (Income) and expenditure	**(12,798)**		**(12,798)**
Total Comprehensive (Income) and expenditure	**(17,337)**	**(22)**	**(17,358)**

4.3 Table 2 summarises the impact on the Balance Sheet. As the asset was not revalued in 2023/24, the movement represents the net of the amended asset value which was a £1.43m downward valuation, and the revised depreciation of £0.022m. This impact on Property, Plant and Equipment within Long term Assets and the Unusable Reserves (and supporting notes). There is no impact on the General Fund.

Table 2: Impact on the Balance Sheet of changes between draft and final statements

Balance Sheet	**Draft**	**Changes**	**Final**
	£'000	£'000	**£'000**
Long Term Assets	**290,677**	**(1,408)**	**289,269**
Current Assets	**35,486**		**35,486**
Current Liabilities	**78,852**		**78,852**
Long Term Liabilities	**178,278**		**178,278**
Net Assets/(Liability)	**69,034**	**(1,408)**	**67,625**

Usable Reserves	(43,322)		(43,322)
Unusable Reserves	(25,712)	1,408	(24,303)
Total Reserves	**(69,034)**	**1,408**	**(67.625)**
Balance	**0**	**0**	**0**

4.4 Officers are also expecting there to be a material change to the accounts in relation to the disclosure of the pension liability. This is still under discussion with the auditors but is expected to impact on the CIES, the Balance Sheet and the supporting notes. There will not be an impact on the general fund balance and the final outcome will be reported at the next opportunity.

5. Alternative Options and Reasons for Rejection

5.1 Option 1: do not delegate authority to the S151 Office and Chair of the committee to agree the accounts and sign the letter of representation. This has been rejected because without delegation there is a risk that the backstop date could be missed, given that the accounts would need to be signed off by the committee at its 19 March 2025 meeting. Another meeting of the committee before 28 February would need to be convened in that eventuality.

6 Conclusion and Reasons for Recommendations

6.1 The statement of accounts has been prepared according the CIPFA code and represents a true and fair view of the council's financial position. The Accounts, Audit and Risk Committee is invited to note the changes between draft and final statement of accounts and discuss these with officers to obtain an understanding of the changes made between draft and final. They are also invited to note the draft letter of representation and approve delegated authority to the S151 Officer and Chair of the committee to finalise the accounts by the 28 February 2025 backstop date.

Decision Information

Key Decision	N/A
Subject to Call in	N/A
If not, why not subject to call in	N/A
Ward(s) Affected	All

Document Information

Appendices	
Appendix 1	Draft 2023/24 Letter of Representation
Appendix 2	CIPFA Backstop FAQs
Background Papers	None
Reference Papers	Local Audit Backlog Statement – Jim McMahon written statement to parliament 30th July 2024 - https://questions-statements.parliament.uk/written-statements/detail/2024-07-30/hcws46 Draft Statement of Accounts 2022-23 – Report taken to AARC on 17 July 2024
Report Author	Alex Rycroft, Strategic Finance Business Partner
Report Author contact details	Alex.rycroft@cherwell-dc.gov.uk, 01295 221 541

FAO: Craig Sullivan
Bishop Fleming LLP
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4 North East Quay
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www.cherwell.gov.uk

Please ask for:	Michael Furness	Direct Dial:	01295 221845
Email:	Michael.Furness@Cherwell-dc.gov.uk	Our Ref:	Letter of Representations

XX/02/2025

Dear Sirs,

Cherwell District District Council

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as we consider necessary in connection with your audit of Cherwell District Council (the Council) financial statements for the year ended 31 March 2024. These enquiries have included inspection of supporting documentation where appropriate, and are sufficient to satisfy ourselves that we can make each of the following representations. All representations are made to the best of our knowledge and belief.

1. General

We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code) and applicable law and for being satisfied that they give a true and fair view and for making accurate representations to you.

All the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

All the accounting records have been made available to you for the purpose of your audit of the Council. We have provided you with unrestricted access to all appropriate persons within the Council, and with all other records and related information requested, including minutes of all Council and Committee meetings.

The financial statements are free of material misstatements, including omissions.

The effects of uncorrected misstatements (as set out in the appendix to this letter) are immaterial both individually and in total.

2. Internal control and fraud

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and we believe that we have appropriately fulfilled these responsibilities. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.

We have disclosed to you all instances of known or suspected fraud affecting the Council involving management, employees who have a significant role in internal control or others where fraud could have a material effect on the financial statements.

We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the Council's financial statements communicated by current or former employees, analysts, regulators or others.

3. Assets and liabilities

The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets, except for those that are disclosed in the notes to the financial statements.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include PPE and investment property valuations, pension liability and NNDR provisions

All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.

We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

4. Accounting estimates

The methods, data and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement and disclosure that is reasonable in the context of the applicable financial reporting framework.

5. Legal claims

We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.

6. Laws and regulations

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

We confirm that all correspondence with our Regulators has been made available to you.

7. Related parties

Related party relationships and transactions comply with the Council's financial regulations, relevant requirements of the Code and have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with regulatory, legislative and accounting standards requirements.

8. Subsequent events

All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

9. Going concern

We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that the financial reporting framework applicable to local government bodies means that the anticipated continued provision of entity's services in the public sector is normally sufficient evidence of going concern. We have not identified any material uncertainties related to going concern.

10. Annual Governance Statement

We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

11. Narrative Report

The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

We have taken all the appropriate steps in order to make ourselves aware of any relevant audit/ other information and to establish that you are aware of that information.

Yours faithfully

....

Michael Furness (Assistant Director of Finance and S151 Officer)

....

Councillor Alisa Russell (Chairman of the Accounts, Audit and Risk Committee)

Signed on behalf of the Accounts, Audit and Risk Committee of Cherwell District Council

[Date]

Appendix 1- Uncorrected misstatements

Unadjusted items

The table below provides details of adjustments identified during the 2023/24 audit which have not been made within the final set of financial statements. The Accounts, Audit & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

	Comprehensive Income and Expenditure Statement		**Balance sheet**	
	Dr	Cr	Dr	Cr
	£'000	£'000	£'000	£'000
Total (in year)				

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Audit Committee Update

Helping audit committees to be effective

Issue 41
December 2024

The local audit backstop – key questions answered for audit committee members

Table of contents

Introduction

Dear audit committee member,

Welcome to the latest issue of Audit Committee Update from the CIPFA Better Governance Forum. This resource aims to support audit committee members in their role by helping to keep them up to date.

In this issue, we consider the local audit backstop arrangements for English authorities. We explain key terms, what is happening and when, and how audit committees can help.

I hope you will find this issue interesting and helpful in your work on the committee.

Best wishes.

Diana Melville
CIPFA Better Governance Forum

Sharing this document

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A link to this briefing will be included in the CIPFA Better Governance Forum subscribers' newsletter. It can then be shared with that organisation's audit committee members.

If you have an organisational email address (for example, jsmith@mycouncil.gov.uk), then you will also be able to register on our website and download any of our guides and briefings directly. To register, please visit cipfa.org/register.

Local audit backstop

Frequently asked questions

This article will help audit committee members understand the changes to internal audit standards and the transition your team will be making.

What are the key facts we need to know?

The backstop dates are a nationwide measure to address the backlog of incomplete audits of financial statements across local government in England.

They have been introduced as a way to reset the system and assist a return to a regular process of timely audit and publication of financial statements.

How your authority is affected depends on how many financial years' statements are outstanding.

The key dates are as follows:

Financial year	Statutory backstop date
2022/23 and before	13 December 2024
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

As an audit committee what should we be doing?

Understand the current position and how it affects your authority, including:

- How many years' statements are affected?
- What is the current position for each one?
    - Has the unaudited (draft) statement been signed off by your CFO as ready for audit?
    - Are there other matters to take into consideration – for example, an unresolved legal case?
    - What does the auditor plan to do and when?

Then see what this means for the audit committee in reviewing the accounts, receiving the audit report and discussing progress with the finance team and the auditors.

What do our finance teams need to be doing?

The finance team's primary responsibility is to prepare the financial statements in accordance with professional standards to meet the deadlines. As a part of this process, it is important for them to prepare the necessary working papers to support the statements, as these will be needed as evidence by the auditors.

If the team has prepared financial statements to the required standards, meeting the deadline and ready for audit, then they have achieved one key responsibility. They will then need to support the audit by answering questions and providing evidence to the auditor.

What do your auditors need to do?

Auditors are contracted to undertake the audit to professional audit standards and in accordance with the Code of Audit Practice. That will not change, but there have been some revisions made to the code to accommodate the backstop dates.

The auditor will set out the plans and timetable – critically, can they complete the audit in time for the backstop date? This will depend to some extent on how ready the organisation is for the audit and to some extent on the resources available within the audit firm, but largely it will be constrained by the tight deadlines imposed by the statutory backstop dates. These factors will vary from firm to firm and from organisation to organisation, and it may change as the audit progresses. Regular communication is essential, so you know the up-to-date position.

What happens at the backstop date?

By this date at the latest, the accounts must be published with the opinion of the auditor. Ideally the audit will be completed and an unmodified opinion provided, but if this cannot be achieved in time, the auditor will issue a modified opinion.

What does a modified opinion mean?

Audit opinion	Description
Unmodified	This is the best possible outcome. It means the auditor obtains sufficient evidence to support a view that the financial statements are materially accurate and fairly represent the audited body's financial situation.
Qualified	This is problematic. The auditor has material concerns either because of not being able to gather sufficient evidence or finding evidence that suggests material error. However, the effect on the financial statements is contained in specific areas and is not widespread.
Disclaimer of opinion	This is more problematic than being qualified, reflecting a larger-scale lack of evidence – for example, due to time constraints imposed by the backstop dates – which means that the auditor

	cannot provide an opinion. The possible effects on the financial statements of undetected misstatements could be both material and widespread.
Adverse opinion	Normally considered the worst-case scenario. The auditor does have sufficient evidence, but it suggests that material misstatements exist that undermine the reliability of the financial statements as a whole.

Will we still get a proper audit of the financial statements?

Auditors must still follow the professional standards and deliver good audit quality, so the work they undertake will still be to those standards. However, if the full audit is not completed, then some areas may not be fully audited. When the auditor issues the opinion, they must provide an explanation for why a modified opinion has been issued.

Will it damage our ability to borrow or invest?

It is difficult to say for sure, but CIPFA are aware that this is a concern of many authorities. As we expect a large majority of English councils to be affected, the matter should be understood by stakeholders as a widespread issue.

How do we explain to the public or our stakeholders why we have received a modified opinion?

A local authority is accountable to its local community and its stakeholders, so it is right that it takes steps to explain how it is affected by the backstop and why.

Audit committees should encourage clear accountability and communications.

Authorities should explain the national position but also be clear about any local issues that have contributed. The auditor's report should explain clearly the reasons – this provides some independent assurance to the public.

We are concerned that our auditors will issue a modified opinion – what can we do about it?

Talk to your audit engagement lead to understand why they think the auditors will be issuing a modified opinion. If it is because of delays that your organisation is responsible for, then you can speak to your finance teams to try and resolve the issues. If it is due to factors at the firm, or that the backstop dates are simply too close to allow the audit to be completed to the required standard, then that may be more difficult to resolve.

Who can we go to nationally with our concerns?

It is unlikely that the system partners will be able to resolve individual cases, but they are monitoring the national system and will raise concerns with firms.

- Public Sector Audit Appointments (PSAA) is responsible for monitoring audit contracts.
- Financial Reporting Council (FRC) is responsible overall for audit quality.
- MHCLG is the sponsoring department for local government and has introduced the backstop dates.

Will we get a reduction in fees?

PSAA set the fees nationally and have a national process to deal with audits under the backstop. It is not possible to say what the impact on fees is for each authority, as any variation in fees will take into account actual audit work completed. Over the whole period, more audit work might be needed by the auditors to restore assurance.

PSAA is responsible for setting audit fees and agreeing fee variations for authorities opted in to the appointment of their auditors.

What does a modified opinion mean for the audit of 2024/25 financial statements?

Financial year	Opinion on the statements	Basis
2023/24	Disclaimer	The auditor has begun limited work to rebuild assurance ahead of the 2023/24 backstop date. They have not obtained sufficient evidence to have reasonable assurance over closing balances. The auditor does not have assurance over the brought forward balances from 2022/23 (the opening balances). This means they do not have assurance over the in-year movements. They also do not have assurance over the comparative prior year movements. The auditor judges the lack of evidence over these movements and balances and so cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion at the backstop date.
2024/25	Disclaimer or qualified (except for)	The auditor has obtained sufficient evidence to have assurance over closing balances in 2024/25. The auditor does not have assurance over brought forward balances that were deprioritised on the 2023/24 audit. This means they do not have assurance over all in-year movements. They also do not have assurance over the comparative prior year movements.

		The auditor judges the lack of evidence over these movements and balances and so cannot conclude that the accounts are free from material and pervasive misstatement of the financial statements. Therefore, they disclaim their audit opinion at the backstop date.
2025/26	Qualified (except for)	The auditor has assurance over the opening and closing balances plus in-year movements. The auditor does not have assurance over the comparative figures. The auditor judges that this means there could be material but not pervasive misstatement and will need to qualify their opinion for 2025/26 by limiting its scope to not provide assurance over the comparative figures.
2026/27	Unqualified	The auditor has assurance over opening balances, closing balances, in-year movements and prior year comparatives. The auditor can therefore issue an unmodified opinion.

While the table sets out how auditors might approach the rebuilding of assurance, all audit engagements are different, and local circumstances will influence the extent to which the aspiration can be met. This means that while rebuilding may happen faster in some cases if circumstances allow, it may also take longer. Additionally, the recovery to an unmodified opinion may follow a different trajectory in some cases – for example, where modified opinions or disclaimers are not solely as a result of backstop date publication requirements, where disclaimers have been issued for several years, or where there are complex technical accounting issues to resolve.

The audit committee should ask their auditor to explain the work they will be doing during the recovery and what steps the finance team can take to play their part.

Does a modified opinion mean that we have less assurance over the robustness of our financial systems and the management of our finances?

The audit opinion is an important source of assurance. It is issued in accordance with professional standards and is independent, so a modified opinion does provide less assurance. However, the audit report should highlight causes of concern to you. Auditors are also recommended to issue recommendations at an early stage, so if they find weaknesses in your financial systems, they must highlight these to you.

You will also have other sources of assurance:

- Has internal audit provided assurance over financial systems?
- Does the organisation comply with CIPFA’s Financial Management Code?
- What assurance does the CFO provide in the narrative report?

If there are areas of concern, ask how these are being addressed.

What about the annual governance statement (AGS)?

The AGS must follow the same timetable as the financial statements and so must be published by the backstop date. This should still be a key source of assurance to you on the strength of your internal control arrangements.

Ask about the assurance that underpins it and if it contains any actions to improve internal control.

What about the auditors work on value for money? Will we still receive a report from them?

Yes, auditors must still consider the authority's arrangements for value for money and report their conclusions to the authority. Reporting may be slightly changed during the backstop period, but this source of assurance will still be in place.

Given this is a national problem, what is being done to sort it out? Who is being held to account?

Nationally, the Public Accounts Committee is monitoring the situation and has already issued reports. They hold MHCLG to account and have heard evidence from FRC, PSAA, the National Audit Office, CIPFA, the LGA, and local audit firms.

The FRC will monitor the work of audit firms as part of their audit quality role. They may censure firms who are not working appropriately to restore assurance and a return to normal.

The system partners are also taking steps to reform the local audit system. CIPFA has developed its Diploma in Local Audit to support the training of auditors in local audit. Other work is underway by the FRC as system leader to encourage firms to expand their local audit workforce and address the shortfall in auditors. CIPFA is also working to help ensure there is no return to the backlog. We have also established the Better Reporting Group to recommend practical measures that improve the value of local authority accounts to users.

MHCLG will also be monitoring whether both audit firms and authorities meet the backstop requirements and will publish any concerns. They have indicated they will post a list of any authorities that have not complied with these backstops, and which are not eligible for the limited list of exemptions.

What implications does this have for our authority?

While finance teams are working on the statements and liaising with auditors, their resources aren't available for other work such as budget preparations and working with service teams, so this issue needs to be resolved for everyone's benefit.

Until the backlog of financial statements is resolved and recovery achieved, there will be an additional draw on the finance team's resources, and expected assurance from the financial statements will not be in place.

Accessing training and networking opportunities

CIPFA would encourage audit committee members to access any available training and networking opportunities. Regional forums for audit committee chairs have been established with assistance from the Local Government Association (LGA) and Welsh Local Government Association (WLGA), and each of these is running a programme of meetings and training events. CIPFA has been happy to speak at a number of these sessions already, and we will support where we can.

CIPFA's training webinars are listed below, and in-house training delivered locally or by webinar is also available.

Webinars and training for audit committee members from CIPFA

Introduction to the knowledge and skills of the audit committee

The role and responsibilities of the audit committee and key aspects of the terms of reference.

Understanding local authority accounts for councillors

A webinar to support the review of the financial statements.

Update for police audit committee members

This webinar is suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables.

Update for local authority audit committee members

Full programme details and booking information for webinars will be [available on the CIPFA website](). Webinars are usually published about eight weeks in advance, but enquiries can be sent to customerservices@cipfa.org at any time.

In-house training for your audit committee

In-house training, webinars and guidance tailored to your needs are available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- Internal audit standards and the governance of internal audit (Code)
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements

- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

Assessing the effectiveness of the audit committee

We can also undertake an effectiveness review of the committee, providing feedback on areas the committee can improve on and supporting the development of an action plan.

For further information, email diana.melville@cipfa.org or visit the CIPFA website for further details on our support for audit committees.

Previous issues of Audit Committee Update

Subscribing organisations can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Principal content	Link
Please note the content from some earlier issues has been replaced by more recent issues and so they are not listed below.	
Issues from 2012	
Commissioning, procurement and contracting risks	Issue 8
Reviewing assurance over value for money	Issue 9
Issues from 2015	
What makes a good audit committee chair?	Issue 16
The audit committee role in reviewing the financial statements	Issue 17
Issues from 2016	
Delivering good governance in local government: framework (2016), appointing local auditors	Issue 19
CIPFA survey on audit committees (2016)	Issue 20
The audit committee and internal audit quality	Issue 21
Issues from 2017	
Developing an effective annual governance statement	Issue 22
Issues from 2018	
Developing an effective annual governance statement	Issue 25
Issues from 2019	
Focus on local audit, National Audit Office report on local authority governance	Issue 27
The audit committee role in supporting counter fraud and anti-corruption	Issue 28
CIPFA statement on the role of the head of internal audit, external audit arrangements for English local government bodies	Issue 29
Issues from 2020	
CIPFA Financial Management Code, responding to the Redmond Review: results of CIPFA's survey on audit committees	Issue 30

Compendium edition: reviewing the audit plan, self-assessment and improving effectiveness, developing an effective annual governance statement and focus on local audit	Issue 31
The head of internal audit annual opinion for 2020/21, the Redmond Review: issues for English audit committees	Issue 33
Issues from 2021	
The annual governance statement for 2020/21, local auditors and internal audit working together	Issue 34
Supporting improvements to risk management arrangements, defining the relationship between the audit committee and the scrutiny function, new consultation on local audit and audit committee arrangements	Issue 35
Issues from 2022	
New CIPFA guidance on audit committees in local authorities and police, Internal audit: untapped potential	Issue 36
Issues from 2023	
Assessing audit committee effectiveness	Issue 37
Financial risk and the audit committee, the audit committee role in internal audit standards	Issue 38
Issues from 2024	
Assurance and the audit committee	Issue 39
Oversight and support of internal audit – the role of the audit committee	Issue 40

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12/2024

This report is public	
Annual Governance Statement 2023/2024 – Update on Actions	
Committee	Accounts, Audit and Risk Committee
Date of Committee	15 January 2025
Portfolio Holder presenting the report	Portfolio Holder for Corporate Services Councillor Chris Brant
Date Portfolio Holder agreed report	16 December 2024
Report of	Monitoring Officer & Assistant Director of Law & Governance, Shiraz Sheikh

Purpose of report

To consider an update on actions from the Annual Governance Statement (AGS) 2023/2024.

1. Recommendations

The Accounts, Audit and Risk Committee resolves to:

1.1 Consider and comment on the update on the actions arising from the Annual Governance Statement 2023/2024.

2. Executive Summary

2.1 At its 29 May 2024 meeting, the Accounts, Audit and Risk Committee (AARC) approved the Annual Governance Statement (AGS) for the financial year 2023/2024.

2.2 The report gives the Committee an update to the actions that was included in the Annual Governance Statement 2023/2024.

Implications & Impact Assessments

Implications	Commentary
Finance	There are no financial implications as a result of this update report. Michael Furness, Assistant Director of Finance (S151 Officer)
Legal	The Council has a legal duty to agree an Annual Governance Statement. This report does not itself raise legal implications but this update on the actions arising from last year's AGS is consistent with the responsibility of this Committee to ensure the effectiveness of the Council's Governance.

	Shiraz Sheikh, Monitoring Officer & Assistant Director of Law & Governance 26 November 2024			
Risk Management	There are no risk implications associated directly with this report. Celia Prado-Teeling, Performance & Insight Team Leader, 4 December 2024			
Impact Assessments	Positive	Neutral	Negative	Commentary
Equality Impact		x		Not applicable
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		x		Not applicable
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		x		Not applicable
Climate & Environmental Impact		x		Not applicable
ICT & Digital Impact		x		Not applicable
Data Impact		x		Not applicable
Procurement & subsidy		x		Not applicable.
Council Priorities	Not applicable			
Human Resources	Not applicable			
Property	Not applicable			
Consultation & Engagement	Senior officers for each area have been consulted and provided updates on progress as set out in section 4 of this report			

Supporting Information

3. Background

3.1 At its 29 May 2024 meeting, the Accounts, Audit and Risk Committee (AARC) approved the Annual Governance Statement (AGS) for the financial year 2023/2024 which can be found at appendix 1 of the report.

3.2 Local authorities are required to prepare an AGS to be transparent about their compliance with good governance principles and to give an opinion on the effectiveness of those arrangements. As part of the process, authorities are expected to highlight particular areas of focus for the year following. This report updates the Committee on the actions identified for 2024/25 in the AGS.

4. Details

Annual Governance Statement Actions for 2024/2025

4.1 The Annual Governance Statement outlined the following areas and expected outcomes for particular focus in 2024/25:

Action	Timescale for completion	Responsible Officer(s)	Update
Review focus on transformation and identify work programmes with savings.	First three phases due for completion by close of Q3 2024/25.	Corporate Director of Resources and Transformation Assistant Director of Customer Focus	The three phases of the Transformation programme work were completed in November 2024. Initial effectiveness changes are being built into the budget for 2025/26. Further work is being carried out to develop the long-term transformation programme covering the next 3-5 years.
Ensure reports commissioned for transformation projects have taken into account financial implications and have clear actions plans.	Ongoing	Corporate Director of Resources and Transformation Assistant Director of Customer Focus	The worked carried out over the autumn included S151 on the project board and detailed financials were the basis for the scope of this project. Future workstreams and individual projects with have detailed action plans and clear financial implications and will follow the Councils project management protocols.
Establishing Corporate Programme office type arrangements to deliver corporate projects and	2024-25	Corporate Director of Resources and Transformation	New Corporate Project and programme management system in place and being rolled out in November/December 2025.

transformation with project management methodology.		Assistant Director of Customer Focus	
Develop Workforce Strategy to address key staff vacancies in key services with staff development objectives.	Ongoing	Assistant Director of Human Resources	A new People Strategy is in the final stages of development and will encompass actions such as this as part of its 5 year action plan.
Update on the implementation of the Planning Improvement Plan following three different service review reports.	Ongoing	Assistant Director - Planning and Development	Work has been undertaken on improving the Planning Service over the course of the year with the support of the Transformation Team. A Task and Finish Group has been responsible for an action plan and work continues. A significant reduction in the backlog of development management cases has been seen, assisted by the national Planning Skills Delivery Fund. The recommendations from previous service and process reviews were fed into the recent comprehensive budget review which will inform the Council-wide transformation programme.
Devise a work programme arising from the Digital Futures Strategy 2022 – 2025.	2026-27	Head of Digital and Innovation	Work from the Digital Strategy is in progress and is currently being updated to incorporate a program of work that includes digital-related items identified in the recent work with PA Consulting.
Ensure understanding of the Council's governance at all levels including members and officers. This is to include roles and responsibilities and scheme of delegation.	Ongoing	Assistant Director of Law and Governance and Democratic Services and Monitoring Officer	• A series of 8 "Away days" with the new administration on key strategic issues, each day had a session on governance – related to the topics covered in the away day eg planning, regeneration, companies • The legal team review the officer scheme of delegation regularly, with

			other departments, to ensure decision making is at the correct level of delegation. The scheme of delegation is updated as and when necessary by taking a report to Full Council • On companies owned by the council, a governance review was conducted in 2023 in respect of Graven Hill and its actions are ongoing and monitored each quarter by the Shareholder Committee. A governance review of Crown House is starting by end of 2024/25 • Legal and governance comments are included in every report that goes to members for a decision • The MO is a member of the CLT, and provides governance advice on all matters before CLT • The MO attends all meetings of the Executive and Council, and provides governance and constitutional advice
Ensure Implementation of Procurement Act 2023 effective from October 2024.	February 2025	Procurement Manager / Assistant Director of Law and Governance and Democratic Services and MO	The implementation has been delayed to the end of 2025. In order to prepare we have been involved in the following • Procurement & Contracts Teams Site Updates • Monthly Newsletters • Procurement Act FAQs • Engagement with our e-tendering portal provider • Cabinet Office Procurement Act accreditation • Briefing/Webinars to staff & members • Existing toolkits to support: ○ Specification/KPI development

			Contract management & variation • Update to Forms/Templates • Information for Suppliers • Procurement Strategy Update (2025) • Commercial Playbook v2 (2025)
Addressing issues identified by Internal Audit as requiring improvement in a timely manner.	Ongoing	Assistant Director of Finance / Head of Finance	Monitoring of the implementation of agreed management actions is an ongoing process. The Veritau Internal Audit team has picked up monitoring the delivery of agreed actions identified by the previous provider. Where actions are not completed on time, these are discussed with the service and escalated where appropriate.
Ensure further improvements on Information Governance by setting up as a corporate project.	Ongoing	Information Governance and Localism Manager	A prioritised Information Governance Improvement Plan proposal was presented to CLT on 09 December. Recommendations will include setting up as a corporate project.
Ensure Health and Safety requirements are properly understood for those working in the office and remotely.	Ongoing	Health and Safety Manager	Staff are required to complete mandatory health and safety training to understand risks and requirements in their working environments. All desk-based staff were asked to complete a DSE assessment for their desk in the workplace and home set up by the end of October 2024. In Spring 2024, the H&S Manager, along with the Performance Team Leader completed training for ELT on the completion of risk registers, and all departments have now developed these. Risk registers cover all risks related to service areas, including any specifically relating to H&S.

			H&S complete regular audits across the workforce, and the outcomes of these, along with all H&S accidents, incidents and relevant updates are reported to CLT on a monthly basis.
Implementation of the new waste regime and extended producer responsibility.	Simpler Recycling needs to be implemented by 31 March 26. Plans are being developed but also awaiting further information on EPR, this information is due for release from Defra in Nov 24	Assistant Director of Environmental Services	Simpler Recycling for CDC means that glass will need to be collected at the kerbside by 31.03.24. Plans are being developed to minimise this extra cost. EPR payments should commence in 2025 with the first payments in Autumn 25. Defra is due to release the size of these payments in Nov 24

5. Alternative Options and Reasons for Rejection

5.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Not to note the update. This is not recommended as it is good practice for the Committee to review progress against actions arising from the Annual Governance Statement.

6 Conclusion and Reasons for Recommendations

6.1 In line with Annual Governance Statement process, this report provides an update on actions taken to date during 2024/2025 in respect of recommended actions arising from the 2023/2024 Annual Governance Statement.

Decision Information

Key Decision	N/A
Subject to Call in	N/A
If not, why not subject to call in	N/A
Ward(s) Affected	All

Document Information

Appendices	
Appendix 1	Annual Governance Statement 2023-24
Background Papers	None
Reference Papers	None
Report Author	Shiraz Sheikh, Monitoring Officer & Assistant Director of Law & Governance
Report Author contact details	shiraz.sheikh@cherwell-dc.gov.uk, 01295 221651
Corporate Director Approval (unless Corporate Director or Statutory Officer report)	Report of the Statutory Office, Monitoring Officer

Annual Governance Statement 2023/2024

Shiraz Sheikh

Monitoring Officer/

Assistant Director Law & Governance

Contents

INTRODUCTION

The CIPFA/SOLACE Delivering Good Governance in Local Government (2016) requires local authorities to publish an Annual Governance Statement, and to be responsible for ensuring that:

- its business is **conducted** in accordance with the **law and proper** standards
- public money is safeguarded and properly **accounted** for, and
- **resources** are used **economically, efficiently and effectively to deliver agreed priorities and benefit local people**.

The Council also has a **duty** to:

- make arrangements to **secure continuous improvement** in the way in which its functions are exercised
- put in place **proper arrangements for the governance of its affairs**, and
- implement and maintain effective processes of **internal control**, including appropriate arrangements to manage risk.

The Council's Accounts Audit & Risk Committee (AARC)) reviews governance arrangements, audit reports and risk registers. Their role is to recommend improvements or interventions if expected performance is not being achieved, or gaps in current governance arrangements have been identified. The Overview and Scrutiny Committee (OSC) also scrutinises performance reports as part of its work programme. Budget Planning Committee is also involved in looking at the budget process.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems, processes, cultures and values which underpin how the Council is controlled and managed internally, and how it engages with taxpayers, service users and the wider community. The governance framework enables the Council to monitor delivery of its strategic objectives and assess whether those objectives are securing service improvements and value for money. Systems of internal control and risk management are a significant part of the governance framework and are designed to manage risk down to a reasonable level. Some risks can never be eliminated entirely, however, and these processes provide only reasonable and not absolute assurance of effectiveness.

THE KEY ELEMENTS OF THE GOVERNANCE FRAMEWORK AT CHERWELL DISTRICT COUNCIL

The Council operates an executive based system of governance with a Leader. The Executive takes strategic key decisions with officers responsible for day to day decisions. The Executive is made up of a Leader and 9 other councillors. The leader then appoints individual councillors (portfolio holders) to other positions in the Executive. Their remit includes obtaining assurance that Annual Delivery Plan priorities, and the Budget and Policy Framework approved by Council each year, are delivered in their relevant areas.

The Council has a Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people.

We have various layers of management within the organisation and the management teams each play an important role in the governance framework.

The corporate leadership team (CLT), compromises the Head of Paid Service, Corporate Directors, Monitoring Officer and S151 Officer. CLT meets on a weekly basis. The extended leadership team (ELT) comprises the CLT and Assistant Directors. ELT meets on a monthly basis and are programmed as a series of sessions to focus on strategic issues, projects and programmes and health of the organisation.

The council has two wholly owned companies – Graven Hill and Crown House.

Graven Hill Village Developments was established in 2014. It is an ambitious project aimed at disrupting the market and creating innovative solutions to housing supply issues. The aim of Graven Hill is a large scale self-build community within a development of up to 1,900 new homes. It will also provide commercial space, a nursery, a primary school and health hub, continuing to create new jobs in the locality.

The Crown House apartments project was initiated to drive economic and social regeneration. The initiative has improved community safety, and provided housing in Banbury town centre, comprising 50 apartments and one commercial unit.

The Council commissioned an independent review of the governance arrangements for Graven Hill, the recommendations arising from it were reported to the Shareholder Committee in July 2023 with the action plan agreed with the members. The action plan is regularly reviewed by the Committee and progress is tracked.

ANNUAL PLANNING PROCESS

The Council's Corporate Plan sets the Council's future priorities and objectives over 5 years . the current priorities are as follows:

Housing that meets your needs

Supporting environment sustainability

An enterprising economy with strong and vibrant local centres

Healthy, resilient and engaged communities.

The annual delivery plan sets out the key projects for delivering the above priorities on an annual basis. The new delivery plan was agreed in February 2024.

The Service Plans informed by the service set out how each service is working towards the annual delivery plan and the above priorities.

The framework also sets out the council's golden thread – how its annual priorities are cascaded down through the organisation to individual work plans . Progress towards these priorities is regularly reviewed and reported to the Executive and OSC. Performance monitoring includes key Indicators, monthly measures and targets.

DECISION MAKING

There is a Forward Plan on a regularly basis for all key decisions.

All meetings are held in public and are webcast and available to watch after the event.

Decision are recorded on the Council website

Decision are supported by officer reports which are open to the public unless they qualify as legally "exempt" from publication.

Decisions are also subject to call-in to OSC.

Risk Management

Risk registers identify operational and strategic risks.

Key risks are considered by Directorate Management Teams.

Strategic risks are reported to the Executive and AARC quarterly and overseen by Corporate Leadership Team

Corporate Leadership Team (CLT)

CLT are responsible for the overall management of the Council

The Head of Paid Service is the Chief Executive who is responsible for all Council staff and for leading CLT.

The Corporate Directors lead the majority of services which are delivered to the public with the Chief Executive.

The Monitoring Officer is the Council's Assistant Director of Law, Governance and Procurement who is also responsible for ensuring legality and promoting high standards of conduct.

The Council's Assistant Director of Finance is the Council's S151 Officer/Chief Finance Officer and is responsible for safeguarding the Council's financial position and ensuring value for money.

There is also a statutory officer group with set objectives that meets to monitor governance issues.

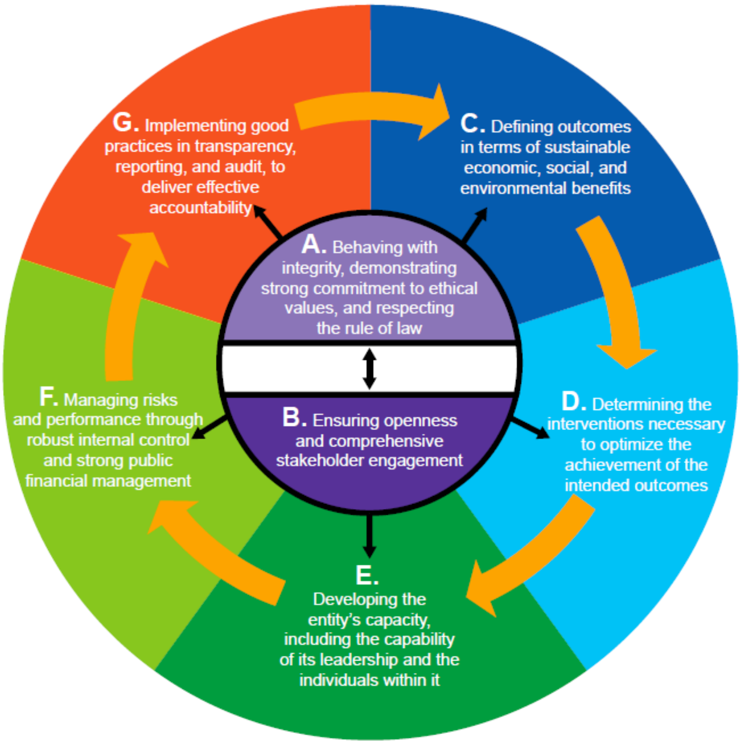
FINANCE

A new Medium-Term Financial Strategy was approved by Council in February 2024 to cover the five years 2025/26 – 2028/29. The purpose of the Medium-Term Financial Strategy is to deliver a balanced and affordable 2024/25 budget and ensure that the Council's finances are robust and sustainable over the medium term or act as an early warning system of a gap in future years between forecast expenditure and resources which the Council must address, and that in the longer term, the Council's finances are not reliant on the unsustainable use of one-off reserves or funding.

The Council has a robust approach to the use of reserves with any changes in uses of reserves from budgeted levels requiring approval in line with the Council's reserves policy. The S151 Officer carries out a risk assessment of general balances as part of the budget setting process and issues an overall opinion on the level of reserves via their S25 statement.

ARRANGEMENTS FOR GOVERNANCE

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' 2016.



The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 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. The Council meets the Standards of the Framework in the following ways:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;

The Council's Chief Finance Officer and Monitoring Officer have specific statutory responsibilities to ensure that decisions taken by the Council are lawful and in line with constitutional requirements.

The Council implemented new format of report helps to assist with lawful decision making and contains legal and financial implications alongside impacts assessments for equality act, environmental , procurement and subsidy control to assist the decision maker in taking all relevant information into account when making a decision.

The Council has adopted codes of conduct for both Officers and Members which facilitates the promotion, communication and embedding of proper standards of behaviour. The Members Code of Conduct is based on the Local Government Association model code which has the benefit of it being consistent across the spectrum of County, District and Parish/Town councils and makes it easier to administer.

The Council's Constitution explains existing policy making and delegation procedures and the matters which must be dealt with by the full Council. It documents the role and responsibilities of the Executive, portfolio holders, each committee and Members and officers. The Monitoring Officer has also setup a Constitution Review Group working with members across the political spectrum to review the Constitution.

B. Ensuring openness and comprehensive stakeholder engagement;

The Council consults regularly with stakeholders, taxpayers and service users. The letstalk.cherwell.gov.uk is the consultation website and enables local people to find, participate in, and view outcomes from, any consultation activities that interest them. It also provides feedback opportunity for stakeholders, taxpayers and service users. In addition, a number of different groups and forums are in place to represent local views on a range of subjects including health and wellbeing and community safety.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;

The Annual Delivery Plan sets out how the Council aims to work in partnership to achieve its agreed objectives. These key objectives are designed to be both financially and environmentally sustainable and have been developed in consultation with partners. The Medium-Term Financial Strategy makes a realistic assessment of financial resources available, and the Budget and Policy Framework approved by Council each year sets out revenue and capital spending limits, savings and efficiency targets as well as key improvement priorities for the forthcoming year.

The Council has implemented a robust procurement strategy for all its procurement activities in accordance with the law and the Council's Contract Procedure Rules. The Social Value outcomes are included as part of the Council's procurement process.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes;

The Executive is responsible for ensuring that actions approved as part of the Budget and Policy Framework are delivered in each service area. The Projected Outturn, leadership risk register and performance against agreed key performance indicators (KPIs) reports to the Executive summarise the forecast financial outturn position each month against budget and delivery of agreed savings targets. These are also considered by CLT each month. These elements of the report are reviewed quarterly by the Budget Planning Committee and Accounts Audit and Risk Committee and the Overview and Scrutiny Committee respectively.

E. Developing the Council's capacity, including the capability of its leadership and the individuals within it;

Maximising capacity by working collaboratively is a key component of the Annual Delivery Plan and a number of longstanding partnership working arrangements are in place. The Constitution sets out how the governance aspects of these arrangements should operate in practice. The Human Resources and Development team has a specific role and remit to improve the capability and capacity of Council officers by offering a range of skills and qualification-based training opportunities.

F. Managing risks and performance through robust internal control and strong public financial management;

The Council's Monitoring Officer has formed the Corporate Oversight and Governance Group (COGG). The primary purpose of the COGG is to ensure good governance and decision-making processes, effective risk management, ensuring and improving value for money, effective internal controls and ensuring transparency and accountability. It also reviews the Governance Dashboard that has been developed by the MO periodically.

The COGG is an internal officer group consisting of the Corporate Director (Resources) as the responsible chair, Monitoring Officer, the S151 Officer, Chief Internal Auditor, Deputy S151 Officer, Head of Legal & Democratic/ Deputy Monitoring Officer (when in post).

For Council Companies there is a separate Companies Governance & Oversight Group which is led by the Chief Executive and supported by the Monitoring Officer, Corporate Director Resources, S151 Officer together with relevant company officers.

The Leadership Risk Register provides a high-level overview of key risks which are reported to CLT and Executive on a monthly basis and AARC on a quarterly meeting. Financial Procedure Rules, Contracts Procedure Rules and Employment Procedure Rules, set out the framework of internal controls. Internal Audit have a programme of work designed to assess how this framework operates in practice and report to the Accounts, Audit and Risk Committee.

Procurement strategy for individual procurements act as a lever for cascading corporate priorities down to services and capital projects that are delivered through commercial partners. Procurement Strategy approval process has been developed to provide a system of robust internal control and ensure best value is achieved through all significant contract awards.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

All Council meetings are held in public and minutes of meetings and webcasts are available on the Council's website. Public questions are allowed at Executive, Committees and Council meetings.

The Council publishes an Annual Financial Report (the Statement of Accounts) annually within the statutory timescales. The Annual Financial Report incorporates the full requirements of best practice guidance in relation to corporate governance, risk management and internal control.

The Council is subject to independent audit by Ernst and Young and receives an Annual Audit Letter reporting on findings. The Council supplements this work with its own internal audit function and ad hoc external peer reviews. The Accounts Audit and Risk Committee undertakes the core functions as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities.*

REVIEW OF EFFECTIVENESS

Internal Audit

The Council uses several ways to review the effectiveness of governance arrangements. One of the key assurance statements is the annual report and opinion of the Chief Internal Auditor. The role of the Internal Audit Service is to provide assurance to management and those charged with governance about the quality and effectiveness of the governance framework and systems of internal control. The internal audit team have completed eight internal audits and three grant certifications, the outcomes are reported to the Accounts, Audit & Risk Committee.

The 2019 CIPFA Statement on the "Role of the Head of Internal Audit in public service organisations" outlines the principles that define the core activities and behaviours that belong to the role of the 'Head of Internal Audit' and the governance requirements needed to support them. The Council's arrangements conform with the governance requirements of the CIPFA statement as our Chief Internal Auditor as follows:

- objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.
- championing best practice in governance and commenting on responses to emerging risks and proposed developments.
- be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee.
- lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.
- be professionally qualified and suitably experienced.

The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS). The self-assessment against the standards is completed on an annual basis and reported to the Accounts, Audit & Risk Committee. It is a requirement of the PSIAS for an external assessment of internal audit to be completed at least every five years. This was undertaken in November 2023 and the results were reported to the Accounts, Audit & Risk Committee in January 2024. The assessment concluded that Internal Audit **fully conforms** with PSIAS, with no recommendations or actions required.

The Chief Internal Auditor prepared an Annual Report on the work of Internal Audit which concludes for the 12 months ended 31 March 2024, there is **satisfactory** assurance regarding Cherwell District Council's overall control environment and the arrangements for governance, risk management and control. Where weaknesses have been identified through internal audit review, they have worked with management to agree appropriate corrective action and timescale for improvement.

Where Internal Audit identifies areas for improvement, management action plans are in place and are routinely monitored by the Internal Audit team and reported to the Accounts, Audit & Risk Committee. Managers are required to provide positive assurance that actions have been implemented;

performance on implementation is high, demonstrating that control weaknesses identified by Internal Audit are being addressed on a timely basis.

The Council agrees an Annual Plan for the Counter-Fraud Service each year. This is presented to the July meeting of the Accounts, Audit and Risk Committee, supporting the Council's Anti-Fraud and Corruption Strategy with updates taken throughout the year. The Counter-Fraud team's purpose is to adhere and to promote the zero-tolerance approach to fraud detailed in the Council's Fraud Strategy, by thoroughly investigating any instances of fraud; applying the appropriate sanctions; undertaking proactive and preventive work to prevent and detect fraud through training, awareness raising, data matching and proactive reviews.

The key objectives of the Counter-Fraud Strategy for 2023/24 were:

- **Govern:** Have robust arrangements in place to ensure counter-fraud, bribery and corruption measures are embedded throughout the organisation.
- **Acknowledge:** Understand fraud risk and maintain a robust anti-fraud response.
- **Prevent: Prevent** and detect fraud taking place against the organisation, using proactive work and data analysis.
- **Pursue:** Carry out fraud investigations, apply sanctions to offenders and recover losses.
- **Protect:** Recognising the harm that fraud can cause in the community.

For the period April 2023 – March 2024, 54 cases were opened. 50 cases were closed, and 4 cases remain open. Of the 50 cases closed, 36 were unproven. The 14 proven cases all resulted in Single Person Discount removals.

Financial Management Code

A key goal of the Financial Management Code of Practice (launched by CIPFA in November 2019) (FM Code) is to improve the financial resilience of organisations by embedding enhanced standards of financial management. Since April 2021 authorities have been expected to work towards full compliance of the FM Code. There are clear links between the FM Code and the Governance Framework, particularly with its focus on achieving sustainable outcomes. As such, Annex 1 sets out the outcomes of the Council's latest self- assessment of compliance with the FM Code. The picture is positive, with the RAG (Red-Amber-Green) rating of compliance showing as Green for all of the 19 standards. A column showing 'Further Work' gives an indication of improvements that can be made over the current year.

Actions

Significant actions identified in the preceding years AGS have now been completed.

PEER REVIEW - PROGRESS FEEDBACK

LGA Corporate Peer Challenge (CPC) team noted that a variety of activity has taken place across the breadth of the Council's operations, including progressing work in response to recommendations from the CPC. This has been against a backdrop of significant change. Notably, following the May 2023 elections the council moved to no overall control, coalition arrangements were not forthcoming and as a result the Conservative Group were able to form a minority administration. It noted that both members and officers appear to have handled the move to no overall control well. A comprehensive member development programme was delivered for new members and a concerted effort has been applied to delivering an increased number of briefings for political group leaders.

CPC team further noted the Council is in the process of delivering a necessary organisational transformation to deliver the council's Business Plan and the Medium-Term Financial Strategy (MTFS).

However CPC highlighted the areas where further work is required:

- A medium-term vision is required which will inform the target operating model for the council and act as the golden thread to inform what the asset review and transformation looks like.
- The council will need to develop a plan to ensure that it focuses the delivery of its services within the resource envelope available to it if a phased reset of business rates income is implemented and significant resource reductions materialise.
- To achieve savings which resemble 21 per cent of the revenue budget by 2025/26 the council needs to accelerate its delivery.
- Consider developing a commercial strategy in line with the new asset strategy as these will be complementary documents. Both should inform elements of the transformation strategy and strategic decisions on key assets.

GOVERNANCE SELF ASSESSMENT

Annual Assurance Statements from the Chief Executive, Corporate Directors and Assistant Directors in respect of governance and internal controls for their respective areas, confirm that expected governance arrangements have been in place throughout the year. They have also confirmed that Codes of Conduct, Financial regulations and other corporate processes have operated as expected by undertaking self-assessments of governance arrangements. The themes arising from the self assessment are also reflected in the conclusion below.

CONCLUSION

The Council is satisfied that appropriate governance arrangements are in place however it remains committed to maintaining and where possible improving these arrangements. The following items are noted for improvement in 2024/2025:

- Review focus on transformation and identify work programmes with savings.
- Ensure reports commissioned for transformation projects have take into account financial implications and have clear actions plans.
- Establishing Corporate Programme office type arrangements to deliver corporate projects and transformation with project management methodology.

- Develop Workforce Strategy to address key staff vacancies in key services with staff development objectives.
- Update on the implementation of the Planning Improvement Plan following three different service review reports.
- Devise a work programme arising from the Digital Futures Strategy 2022 – 2025.
- Ensure understanding of the Council's governance at all levels including members and officers. This is to include roles and responsibilities and scheme of delegation.
- Ensure Implementation of Procurement Act 2023 effective from October 2024.
- Addressing issues identified by Internal Audit as requiring improvement in a timely manner.
- Ensure further improvements on Information Governance by setting up as a corporate project.
- Ensure Health and Safety requirements are properly understood for those working in the office and remotely.
- Implementation of the new waste regime and extended producer responsibility.

Other governance outcomes are shown below:

- Nil reports issued by the S151 Officer or the Monitoring Officer.
- The MO received 27 complaints about member conduct in 2023/ 2024. 19 were dismissed at initial stage with 2 offered an informal resolution. No further action was taken in 6 complaints due to members concerned resigning from serving as a councillor.
- The Local Government and Social Care Ombudsman upheld no complaint out of total 7 received.

STATEMENT OF OPINION

It is our opinion that the Council's governance arrangements in 2023/24 were sound and provide a robust platform for achieving the Council's priorities and challenges in 2024/25. It is our opinion that our ability to maintain sound governance during the past year, has been effective.

Gordon Stewart

Chief Executive (from 10 January 2024)

Cllr Barry Wood

Leader of the Council (until 22 May 2024)

Dated:

This report is public	
Local Code of Corporate Governance	
Committee	Accounts Audit and Risk Committee
Date of Committee	15 January 2025
Portfolio Holder presenting the report	Portfolio Holder for Corporate Services, Councillor Chris Brant
Date Portfolio Holder agreed report	16 December 2024
Report of	Assistant Director Law and Governance, Monitoring Officer

Purpose of report

To review the Local Code of Corporate Governance. The code is part of the overall system of internal control at the Council and supports the provision of the Annual Governance Statement (AGS) which is approved annually by the Accounts, Audit and Risk Committee.

1. Recommendations

The Accounts, Audit and Risk Committee resolves:

1.1 To approve the reviewed Local Code of Corporate Governance (Appendix 1).

2. Executive Summary

2.1 This reports sets out the Council Local Code of Corporate Governance based on the Framework document for Corporate Governance in Local Government publish by CIPFA and SOLACE (Appendix 2). This has followed a review from the Corporate Oversight and Governance Group.

The Local Code of Corporate Governance describes the Council commitment to corporate governance and the arrangements in place that will ensure its implementation and application in all aspects of the Council's work.

Implications & Impact Assessments

Implications	Commentary
Finance	There are no financial implications arsing as a result of this report Rachel Ainsworth Finance Business Partner, 25 November 2024
Legal	There are no legal implications arising directly from this report.

	Shiraz Sheikh, Assistant Director Law & Governance, Monitoring Officer 25 November 2024			
Risk Management	There are no risk implications arising directly from this report. Celia Prado-Teeling, Performance & Insight Team Leader, 20 November 2024			
Impact Assessments	Positive	Neutral	Negative	Commentary
Equality Impact		x		There are no equalities implications arising directly from this report. Celia Prado-Teeling, Performance & Insight Team Leader, 20 November 2024
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		x		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		x		
Climate & Environmental Impact				N/A
ICT & Digital Impact				N/A
Data Impact				N/A
Procurement & subsidy				N/A
Council Priorities	N/A			
Human Resources	N/A			
Property	N/A			
Consultation & Engagement	None			

Supporting Information

3. Background

3.1 Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises systems, processes, cultures and values by which the Council is directed and controlled and through which it accounts to, engages with and, where appropriate leads the community. The Leader of the Council and Chief Executive have a special role as custodians of the Council's governance arrangements, but good governance is also the responsibility of all Members and Officers.

3.2 The Chartered Institute of Public Finance and Accountancy, ("CIPFA") and the Society of Local Authority Chief Executives ("SOLACE") published a framework document for Corporate Governance in Local Government in April 2016. The Council is committed to the principles of good corporate governance through the adoption and maintenance of a Local Code of Corporate Governance, as recommended by the CIPFA/SOLACE Framework.

3.3 This Local Code of Corporate Governance therefore sets out and describes the Council's commitment to corporate governance and identifies arrangements that will ensure its effective implementation and application in all aspects of the Council's work. This Local Code of Corporate Governance will be reviewed by the Statutory Officers through the Corporate Oversight & Governance Group regularly and at least annually as part of the preparation of the Annual Governance Statement.

4. Details

4.1 In 2016 the Chartered Institute of Public Finance and Accountancy (CIPFA) & Society of Local Authority Chief Executives (SOLACE) produced an updated guidance and framework with the identified principles that should underpin the governance of each local authority, and a structured approach to assist individual authorities to achieve good governance, "Delivering Good Governance in Local Government: Framework 2016 Edition." The Code of Corporate Governance attached at Appendix 1 is based upon this guidance.

4.2 The Framework urges local authorities to test their structures against seven core principles by:

- Reviewing their existing governance arrangements against the Framework
- Developing and maintaining an up-to-date local code of governance including arrangements for ensuring its ongoing application and effectiveness
- Preparing an Annual Governance Statement in order to report publicly on the extent to which they comply with their own code, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period.

4.3 Unlike the Annual Governance Statement, there is no statutory requirement for a Local Code of Corporate Governance. Rather, the Code complements and underpins the Annual Governance Statement by demonstrating, with evidence, how the Council meets the good governance principles set out in the Good Governance Framework published by the Chartered Institute of Finance and Accountancy.

4.4. The Local Code of Corporate Governance sets out how Cherwell District Council complies with the requirements of the Code and identifies key documents, which provide detailed information as to how the Council ensures the Corporate Governance principles are adhered to.

4.5 Appendix A of the Local Code of Governance details the actions and behaviours taken by the Council that demonstrate good governance; as taken from 2016 CIPFA & SOLACE: "Delivering Good Governance in Local Government: Framework 2016 Edition"

4.6 Appendix B of the Local Code of Corporate Governance identifies evidence that demonstrates that the Council is delivering good governance.

5. Alternative Options and Reasons for Rejection

5.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Not to approve the Local Code of Corporate Governance. This is not recommended as the Code demonstrates how the Council meets the good governance principles set out in the CIPFA Good Governance Framework.

6 Conclusion and Reasons for Recommendations

6.1 The Local Code of Corporate Governance provides a simple and transparent way to communicate to the Council's stakeholders how it is meeting the requirements of the CIPFA/SOLACE Framework and provide a reference point in the Annual Governance Statement.

Decision Information

Key Decision	N/A
Subject to Call in	N/A
If not, why not subject to call in	N/A
Ward(s) Affected	All

Document Information

Appendices	
Appendix 1	Code of Corporate Governance
Appendix 2	CIPFA Delivering Good Governance 2016 (AGS Frameowrk)
Background Papers	None
Reference Papers	None
Report Author	Shiraz Sheikh, Assistant Director of Law and Governance
Report Author contact details	shiraz.sheikh@cherwell-dc.gov.uk 01295 221651
Corporate Director Approval (unless Corporate Director or Statutory Officer report)	Report of Statutory Officer, Monitoring Officer

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Code of Corporate Governance

2024-2025

Review date: September 2025

Contents

Introduction

In 2016 CIPFA & SOLACE produced an updated guidance and framework with the identified principles that should underpin the governance of each local authority, and a structured approach to assist individual authorities to achieve good governance, “Delivering Good Governance in Local Government: Framework 2016 Edition.”

The Council’s Code of Corporate Governance is based upon this guidance.

What is Governance?

Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which the Council is directed and controlled and through which it accounts to, engages with and leads its communities.

Corporate governance in public bodies can be defined as “the framework of accountability to users, stakeholders and the wider community, within which organisations take decisions and lead and control their functions, to achieve their objectives”. It can be further defined as including “robust systems and processes, effective leadership and high standards of behaviour, a culture based on openness and honesty and an external focus on the needs of service users and the public”.

GUIDANCE AND FRAMEWORK

The Framework urges local authorities to test their structures against seven core principles by:

- Reviewing their existing governance arrangements against the Framework
- Developing and maintaining an up-to-date local code of governance including arrangements for ensuring its ongoing application and effectiveness
- Preparing an Annual Governance Statement in order to report publicly on the extent to which they comply with their own code, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period.

The preparation and publication of an annual governance statement in accordance with this Framework is necessary to meet the statutory requirement set out in Regulation 6 (4) of the Accounts and Audit (England) Regulations 2015 for authorities to prepare a statement of internal control in accordance with “proper practices”.

Internal control and risk management are increasingly recognised as important elements of good Corporate Governance.

The scope of internal control spans the whole range of the Council's activities and includes controls designed to ensure that:

- The Council's policies are implemented in practice;
- High quality services are delivered efficiently and effectively;
- The Council's values and ethical standards are met;
- Laws and Regulations are complied with
- Required procedures are adhered to;
- Financial statements and other published performance information is accurate and reliable;
- Human, financial, environmental and other resources are managed efficiently and effectively.

The Regulations place a requirement on the Council to conduct an annual review of the effectiveness of its internal controls and identify areas where improvements can be made.

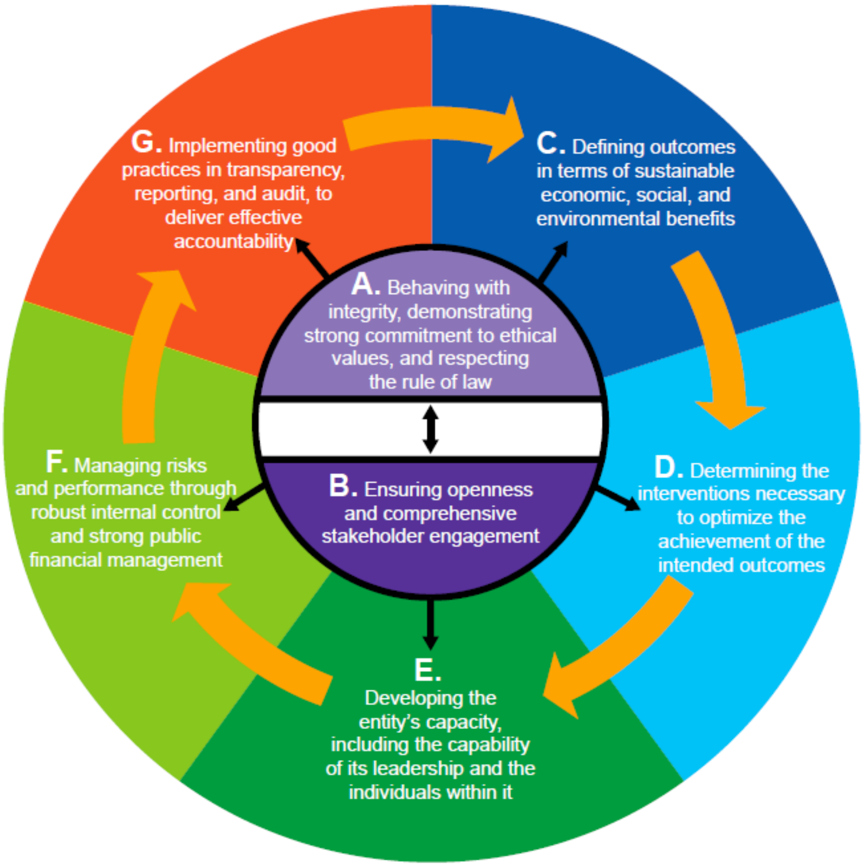
POSITION IN CHERWELL DISTRICT COUNCIL

The implementation of the Accounts and Audit Regulations required the production of a Statement on Internal Control, which formed part of the Council's Statement of Accounts. The Council's Corporate Governance Assurance Framework sets out the Corporate Governance arrangements within the Council and sets out the roles and responsibilities of key Officers, Councillors and Committees within that process.

This Local Code of Corporate Governance sets out how Cherwell District Council complies with the requirements of the Code and identifies key documents, which provide detailed information as to how the Council ensures these Corporate Governance principles are adhered to.

Core Principles

The Council's Code of Corporate Governance is based on the CIPFA/SOLACE framework. The framework "Delivering Good Governance in Local Government" sets out seven core principles of good governance, these are:



A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;

B. Ensuring openness and comprehensive stakeholder engagement;

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;

D. Determining the interventions necessary to optimise the achievement of the intended outcomes;

E. Developing the Council's capacity, including the capability of its leadership and the individuals within it;

F. Managing risks and performance through robust internal control and strong public financial management; and

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Code specifically identifies the actions and behaviours taken by the Council in relation to each of these core principles and associated sub principles. The Code, along with its supporting infrastructure is set out below at Appendix A, with evidence of compliance summarised in in Appendix B.

The Accounts, Audit & Risk Committee is currently responsible for approving this Code and ensuring it is annually reviewed and updated accordingly.

Next Review date: September 2025

Appendix A - Actions and behaviours taken by the Council that demonstrate good governance.

As taken from 2016 CIPFA & SOLACE: "Delivering Good Governance in Local Government: Framework 2016 Edition"

Principle	Sub Principles	Council Actions and Behaviours
(A) Behaving with integrity, demonstrating strong Commitment to ethical values, and respecting the rule of law	Behaving with integrity	▪ Ensure that Members and Officers behave with integrity and lead a culture where acting in the public interest is visible and consistently demonstrated thereby protecting the reputation of the Council; ▪ Ensure that Members take the lead in establishing specific standard operating principles or values for the Council and its staff and that they are communicated and understood. These will build on the Seven Principles of Public Life (The Nolan Principles); ▪ Lead by example and use the above standard operating principles or values as a framework for decision making and other actions; and ▪ Demonstrate, communicate and embed the standard operating principles or values through appropriate policies and processes which will be reviewed on a regular basis to ensure they are operating effectively.
	Demonstrating strong commitment to ethical values	▪ Seek to establish, monitor and maintain the Council's ethical standards and performance; ▪ Underpin personal behaviour with ethical values and ensure they permeate all aspects of the Council's culture and operation; ▪ Develop and maintain robust policies and procedures which place emphasis on agreed ethical values; and ▪ Ensure that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the Council.
	Respecting the Rule of Law	▪ Ensure Members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations; ▪ Create the conditions to ensure that the statutory officers, other key post holders, and Members are able to fulfil their responsibilities in accordance with legislative and regulatory provisions; ▪ Strive to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders; ▪ Deal with breaches of legal and regulatory provisions effectively; and ▪ Ensure corruption and misuse of power is dealt with effectively.
(B) Ensuring openness and comprehensive stakeholder engagement	Openness	▪ Ensure an open culture through demonstrating, documenting, and communicating the Council's commitment to openness; ▪ Make decisions that are open about actions, plans, resource use, forecasts, outputs, and outcomes. The presumption will be for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential will be provided; ▪ Provide clear reasoning and evidence for decisions in both public records and explanations to stakeholders and will be explicit about the criteria, rationale and considerations used. In due course, the Council will ensure that the impact and consequences of those decisions are clear; and ▪ Use formal and informal consultation and engagement to determine the most appropriate and effective interventions / courses of action.
	Engaging comprehensively with institutional stakeholders	▪ Effectively engage with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably; ▪ Develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively; and ▪ Ensure that partnerships are based on trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.
	Engaging stakeholders individual citizens and service users	▪ Establish a clear policy on the type of issues that the Council will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes; ▪ Ensure that communication methods are effective, and that Members and Officers are clear about their roles with regard to community engagement; ▪ Encourage, collect, and evaluate the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs; ▪ Implement effective feedback mechanisms in order to demonstrate how their views have been taken into account; ▪ Balance feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity; and ▪ Take account of the interests of future generations of taxpayers and service users.

Principle	Sub Principles	Council Actions and Behaviours
(C) Defining outcomes in terms of sustainable economic, social and environmental benefits	Defining outcomes	▪ Have a clear vision, which is an agreed formal statement of the Council's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the Council's overall strategy, planning, and other decisions; ▪ Specify the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer; ▪ Deliver defined outcomes on a sustainable basis within the resources that will be available; ▪ Identify and manage risks to the achievement of outcomes; and ▪ Manage service users' expectations effectively with regard to determining priorities and making the best use of the resources available.
	Sustainable economic, social and environmental benefits	▪ Consider and balance the combined economic, social, and environmental impact of policies, plans and decisions when taking decisions about service provision; ▪ Take a longer- term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the Council's intended outcomes and short-term factors such as the political cycle or financial constraints; ▪ Determine the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs; and ▪ Ensure fair access to services.
(D) Determining the interventions necessary to optimise	Determining interventions	▪ Ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore, ensuring best value is achieved however services are provided; and ▪ Consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts.
	Planning interventions	▪ Establish and implement robust planning and control cycles that cover strategic and operational plans, priorities and targets; ▪ Engage with internal and external stakeholders in determining how services and other courses of action should be planned and delivered; ▪ Consider and monitor risks facing each partner when working collaboratively including shared risks; ▪ Ensure arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances; ▪ Establish appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured; ▪ Ensure capacity exists to generate the information required to review service quality regularly; ▪ Prepare budgets in accordance with organisational objectives, strategies and the medium-term financial plan; and ▪ Inform medium and long-term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.
	Optimising intended outcomes	▪ Ensure the medium-term financial strategy integrates and balances service priorities, affordability, and other resource constraints; ▪ Ensure the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term; ▪ Ensure the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage; and ▪ Ensure the achievement of 'social value' through service procurement planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the community…over and above the direct purchasing of goods, services and outcomes".

Principle	Sub Principles	Council Actions and Behaviours
(E) Developing the Council's capacity, including the capability of its leadership and the individuals within it	Developing the Council's capacity	▪ Review operations, performance use of assets on a regular basis to ensure their continuing effectiveness; ▪ Improve resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the Council's resources are allocated so that outcomes are achieved effectively and efficiently; ▪ Recognise the benefits of partnerships and collaborative working where added value can be achieved; and ▪ Develop and maintain an effective workforce plan to enhance the strategic allocation of resources.
	Developing the capability of the Council's leadership and other individuals	▪ Develop protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained; ▪ Publish a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body; ▪ Ensure the Leader and the Chief Executive have clearly defined and distinctive leadership roles within a structure whereby the Chief Executive leads the Council in implementing strategy and managing the delivery of services and other outputs set by Members and each provides a check and a balance for each other's authority; ▪ Develop the capabilities of Members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political, and environmental changes and risks by: ➢ ensuring Members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged; ➢ ensuring Members and Officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis; and ➢ ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external. ▪ Ensure that there are structures in place to encourage public participation; ▪ Take steps to consider the leadership's own effectiveness and ensure leaders are open to constructive feedback from peer review and inspections; ▪ Hold staff to account through regular performance reviews which take account of training or development needs; and ▪ Ensure arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.
(F) Managing risks and performance through financial management	Managing Risk	▪ Recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making; ▪ Implement robust and integrated risk management arrangements and ensure that they are working effectively; and ▪ Ensure that responsibilities for managing individual risks are clearly allocated.
	Managing Performance	▪ Monitor service delivery effectively including planning, specification, execution and independent post implementation review; ▪ Make decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the Council's financial, social and environmental position and outlook; ▪ Ensure an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the Council's performance and that of any organisation for which it is responsible; ▪ Provide Members and senior management with regular reports on service delivery plans and on progress towards outcome achievement; and ▪ Ensure there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements).
	Robust internal control	▪ Align the risk management strategy and policies on internal control with achieving objectives; ▪ Evaluate and monitor the Council's risk management and internal control arrangements on a regular basis; ▪ Ensure effective counter fraud and anti-corruption arrangements are in place; ▪ Ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor; ▪ Ensure an Audit and Governance Committee which is independent of the executive and accountable to the Council: ➢ provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment; and ➢ that its recommendations are listened to and acted upon.

Principle	Sub Principles	Council Actions and Behaviours
(F) Managing risks and performance through robust internal control and strong public financial management	Managing Data	▪ Ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data;
		▪ Ensure effective arrangements are in place and operating effectively when sharing data with other bodies; and
		▪ Review and audit regularly the quality and accuracy of data used in decision making and performance monitoring;
	Strong public financial management	▪ Ensure financial management supports both long-term achievement of outcomes and short-term financial and operational performance; and
		▪ Ensure well –developed financial management is integrated at all levels of planning and control, including management of financial risks and controls.
(G)Implementing good practices in transparency, accountability	Implementing good practice in transparency	▪ Write and communicate reports for the public and other stakeholders in a fair, balanced, and understandable style appropriate to the intended audience ensuring that they are easy to access and interrogate; and
		▪ Strike a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.
	Implementing good practices in reporting	▪ Report at least annually on performance, value for money and the stewardship of its resources to stakeholders in a timely and understandable way;
		▪ Ensure Members and senior management own the results;
		▪ Ensure robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publish the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (Annual Governance Statement);
		▪ Ensure that the Framework is applied to jointly managed or shared service organisations as appropriate; and
		▪ Ensure the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations.
	Assurance accountability	▪ Ensure that recommendations for corrective action made by external audit are acted upon;
		▪ Ensure an effective internal audit service with direct access to Members is in place which provides assurance with regard to governance arrangements and that recommendations are acted upon;
		▪ Welcome peer challenge, reviews and inspections from regulatory bodies and implement recommendations;
		▪ Gain assurance on risks associated with delivering services through third parties and evidence this in the annual governance statement; and
		▪ Ensure that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met.

Appendix B – Cherwell District Council’s Evidence of Good Governance

Core Principles	(A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	(B) Ensuring openness and comprehensive stakeholder engagement	(C) Defining outcomes in terms of sustainable economic, social, and environmental benefits	(D) Determining the interventions necessary to optimise the achievement of the intended outcomes	(E) Developing the Council’s capacity, including the capability of its leadership and the individuals within it	(F) Managing risks and performance through robust internal control and strong public financial management	(G) Implementing good practices in transparency, reporting, and audit to deliver effective accountability
Evidence of Good Governance	The Constitution	Cherwell District Council Website records all council meetings and key decisions	Executive Reports	Business Plan 2022/23	The Constitution	The Constitution Financial Procedure Rules	Accounts Audit and Risk Committee (AARC)
	Schemes of Delegation / Decision making protocols Committee Report preparation and review process including evaluation of implications. Annual counter fraud work programme, including both proactive and reactive work	Decision Making Protocols Forward Plan of Executive/Key Decisions Publication of decisions	Business Plan 2022-2023	Annual Budget and Corporate Planning process	Protocol on Members’ Rights and Responsibilities Constitution – Opposition rights	Accounts, Audit and Risk Committee Annual Internal Audit Strategy and Work Programme. Annual Statement of Accounts & Plan Self-assessment against CIPFA’s Financial Management Code.	Webcasting of meetings and allowing public attendance / questions AARC Terms of Reference
	Accounts Audit and Risk Committee Corporate Oversight and Governance Group	Corporate Complaints Procedure	Scrutiny Committees	Stakeholder Engagement	Member Induction/Development Programme	Overview & Scrutiny Committee and working groups	Scrutiny Committees
	Scrutiny Committee Standards Committee	Scrutiny Committee Work Programmes Health Overview and Scrutiny Committees (led by OCC)	Local Plan consultation	Business Cases including options appraisals	Organisational Development Programme	Performance, risk and finance reports.	Decision Making Protocols
	Contract Procedure Rules/ Financial Procedure Rules Financial Regulations	Public Meetings	Procurement & Social Value Policy		Chief Executive Appraisal process Leadership Development	Annual Governance Statement Director Assurance Statements / questionnaires to support development of the AGS	External audit of accounts and VFM opinion Annual Statement of Accounts
	Statutory Officer roles: Head of Paid Service (Chief executive), S151 Officer, Monitoring Officer. Chief Internal Auditor	Annual Budget Consultation	Business Cases including option appraisals to support decision making	Monthly Performance Risk and Finance Reporting	Annual Appraisal System. Continuing Professional Development (CPD)	External audit of accounts and VFM opinion/ statement of accounts/ medium term financial strategy	Annual Governance Statement Corporate Governance Assurance Framework
	Members’ and Officers’ Codes of Conduct Member/Officer Induction Programme Members’/Officers’ Register of Interest	Co-production programme	Business and Budget Planning process including Service Plans	Medium Term Financial Strategy	Health and Safety Governance Framework and policies	Risk & Opportunities Management Strategy Risk Management Framework Risk Based Internal Auditing Service / planning	Chief Internal Auditors Annual Opinion / Report Annual Counter Fraud Report.
	Values “Team Cherwell” launch	Annual Residents Satisfaction Survey	Transparency Code	Procurement & Social Value Policy	Benchmarking	Leadership Risk Register	Internal Audit Service (via Veritau)
	LGA Model Code of Member conduct	Published Annual Statement of Accounts, Annual Governance Statement	Equality Diversity and Inclusion Framework, Equality & Climate Impact Assessments, Climate Action Framework	Service Plans	Internally led reviews Independent challenge	Counter Fraud and Corruption Policy Anti-Money Laundering Policy Business Continuity Plans Contingency Planning Local Resilience Forum	Monthly Performance Risk and Finance Reporting
	Protocol on Member Officer relations	Monthly performance risk and finance reporting	Framework Risk & Opportunities Management Strategy, Risk Registers	Decision Making Protocols	External Reviews	Monthly Performance risk and finance reporting, Annual Budget and Corporate Planning process	Committee reports containing clear sections on implications, including consultation and risk management

	Counter Fraud Framework Counter Fraud and Corruption Policy	Transparency Code		Business Continuity Plans Contingency Planning Local Resilience Forum	Wellbeing advice Employee assistance programme	Internal Audit Strategy	Implemented the outcome of the Redmond Review independent persons on the AARC.
	Whistleblowing Policy Regulation of Investigatory Powers Act					Monthly Performance, Risk and Financial Reports	

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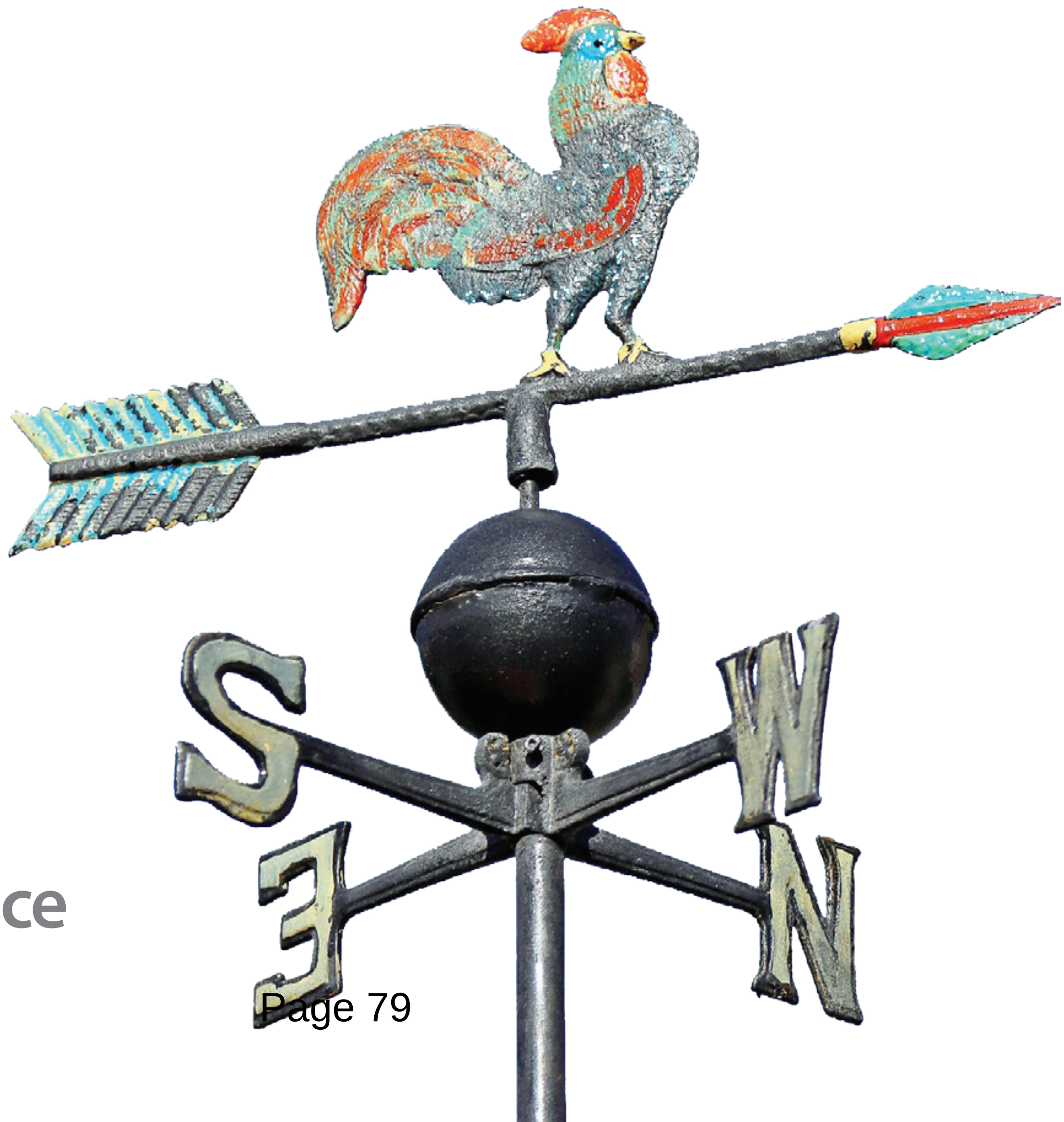

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Preface

These guidance notes relate to Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) which is intended to be used as best practice for developing and maintaining a locally adopted code of governance.

These guidance notes are intended to assist local authorities and associated organisations and systems – combined authorities, joint boards, partnerships and other vehicles through which authorities now work – in reviewing the effectiveness of their own governance arrangements by reference to best practice and using self-assessment.

Contents

CHAPTER ONE

Introduction

DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT: RELATIONSHIP WITH THE FRAMEWORK

1.1 *Delivering Good Governance in Local Government: Framework,* published by CIPFA in association with Solace in 2007, set the standard for local authority governance in the UK. CIPFA and Solace reviewed the Framework in 2015 to ensure it remains 'fit for purpose' and published a revised edition in spring 2016. A comparison of the principles from the Framework (2016) and those included in the Framework (2007) is included for information at Appendix A to these guidance notes.

1.2 The new Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) applies to annual governance statements prepared for the financial year 2016/17 onwards.

1.3 The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

1.4 The Framework draws on earlier work on governance in the public services which is briefly outlined at Appendix B to these guidance notes.

1.5 It is intended that the Framework is used by local authorities (across their governance systems, structures and partnerships) including:

- county councils
- district, borough and city councils
- metropolitan and unitary boroughs
- the Greater London Authority and functional bodies
- combined authorities, city regions, devolved structures
- the City of London Corporation
- combined fire authorities
- joint authorities

- police authorities, which for these purposes since 2012 includes both the police and crime commissioner (PCC) and the chief constable
- national park authorities.

PURPOSE OF THE GUIDANCE NOTES

1.6 These guidance notes should be used in conjunction with the Framework. They are intended to assist authorities across their governance systems, structures and partnerships in reviewing and testing their governance arrangements against the principles for good governance. They will also help them in interpreting the principles and terminology contained in the Framework in a way that is appropriate for their governance structures, taking account of the legislative and constitutional arrangements that underpin them. However, it is not intended that these guidance notes are in any way prescriptive – all authorities are encouraged to consider carefully the content of the Framework and to use it in a way that best reflects their structure, type, functions and size.

1.7 These guidance notes are aimed at local government in England (separate guidance notes are being prepared for the police) and will be particularly useful for officers. They are intended to help those supporting political and officer leadership with establishing robust governance. They signpost component parts of the process and establish a hierarchy of support.

1.8 These guidance notes aim to assist authorities in:

- considering how they might go about reviewing their governance arrangements
- developing and reviewing governance arrangements across the whole governance system including partnerships, shared services and alternative delivery vehicles
- developing and updating their own local codes of governance
- demonstrating compliance with the principles of good governance.

1.9 The term 'local code' essentially refers to the governance structure in place, as there is an expectation that a formally set out local structure should exist, although in practice it may consist of a number of local codes or documents. For example, Staffordshire County Council draws together on a single sheet all its systems, processes and documents that contribute to the authority's governance. The extent to which they are in place and effective is considered as part of the authority's annual review.

1.10 It is suggested that, in using the Framework and guidance notes, authorities should nominate an individual or group of individuals within the authority who have appropriate knowledge and expertise and levels of seniority to:

- consider the extent to which the authority complies with the principles of good governance set out in the Framework
- identify systems, processes and documentation that provide evidence of compliance
- identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified
- identify issues that have not been addressed in the authority and consider how they should be addressed

- identify the individuals who would be responsible for undertaking the actions that are required.

1.11 The review of governance arrangements must be reported on within the authority, for example to the audit committee or other appropriate member body, and externally with the published accounts of the authority. In doing this, the authority is looking to provide assurance that:

- its governance arrangements are adequate and working effectively in practice
- where the reviews of the governance arrangements have revealed significant gaps which will impact on the authority achieving its objectives, what action is to be taken to ensure effective governance in future.

TERMINOLOGY

1.12 The terms 'authorities', 'local government organisations' and 'organisations' are used throughout the guidance notes and should be taken to cover any partnerships and joint working arrangements in operation. A full glossary of terms used in the Framework and guidance notes is included at Appendix C.

1.13 In the police service, where the accountabilities rest with designated individuals rather than a group of members, terms such as 'leader' should be interpreted as relating to the PCC or the chief constable as appropriate.

Context for the update

1.14 Local government continues to undergo significant change, much of which has been driven by austerity measures. In order to cope with this climate of austerity, authorities will need to continue to adapt the way in which they operate. Local authorities have responded by increasing collaboration and developing their role as 'enablers'. Authorities will continue to make difficult decisions which may mean that certain services are no longer provided, but in doing this they need to communicate effectively with their communities, service users, stakeholders and individuals to ensure that the most vulnerable citizens are protected.

1.15 In addition to economic and financial challenge, the integrated health and social care programme, devolution, the Localism Act 2011, the Police Reform and Social Responsibility Act 2011, the Cities and Local Government Devolution Act 2016 and other key legislation have brought new roles, opportunities and greater flexibility for authorities.

1.16 The development of combined authorities, devolution deals together with elected mayors brings about the chance to design governance structures from the bottom up. It provides the opportunity to ensure that the core principles of good governance covering openness and stakeholder engagement, defining outcomes, monitoring performance and demonstrating effective accountability are integrated and embedded within the new structures and that mechanisms for effective scrutiny are established. It is clear that to bid successfully for devolved power will require good governance to be demonstrated as well as crucial in using such powers effectively.

1.17 Other developments are resulting from the Home Office's wider responsibility for fire, encouraging greater collaboration between 'blue light' services. Fire authorities are now looking at mergers and joint working proposals with each other plus wider collaboration with the police sector.

1.18 New responsibilities and the development of innovative collaborative structures and ways of working provide challenges for governance such as ensuring transparency, and, in particular, for managing risk. Whether working with other authorities, public sector bodies, the third sector or private sector providers, local authorities must ensure that robust governance arrangements are established at the outset which provide for a shared view of expected outcomes supported by effective mechanisms for control and risk management thereby ensuring that the public purse is properly protected. It is vital that all joint arrangements observe all the principles of good governance and are managed and reviewed with the same rigour.

CHAPTER TWO

The 'governing body' in a local authority

INTRODUCTION

2.1 The International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) defines the governing body as:

The person(s) or group with primary responsibility for overseeing an entity's strategic direction, operations and accountability.

2.2 In local government the governing body is the full council or authority.

RESPONSIBILITIES

2.3 Elected members are collectively responsible for the governance of the council. The full council's responsibilities include:

- agreeing the council's constitution, comprising the key governance documents including the executive arrangements and making major changes to reflect best practice
- agreeing the policy framework including key strategies and agreeing the budget
- appointing the chief officers
- appointing committees responsible for overview and scrutiny functions, audit and regulatory matters and also for appointing members to them.

2.4 The Local Government Act 2000 required councils with populations over 85,000 to adopt a mayor or leader and cabinet model. This meant decision-making power was placed with either a mayor directly elected by local residents or a council leader with a small 'cabinet' or 'executive' who had the power to make decisions both individually and collectively. Local authorities were also required to establish an overview and scrutiny function for members outside the cabinet through which they could question and challenge policy and the performance of the executive and promote public debate.

2.5 The executive is responsible for:

- proposing the policy framework and key strategies
- proposing the budget
- implementing the policy framework and key strategies.

2.6 The chief executive advises councillors on policy and necessary procedures to drive the aims and objectives of the authority. The chief executive leads a management team consisting of senior managers. The chief financial officer, monitoring officer and other senior managers are responsible for advising the executive and scrutiny committees on legislative, financial and other policy considerations to achieve the aims and objectives of the authority. They are responsible for implementing councillors' decisions and for service performance.

2.7 The Localism Act 2011 allowed councils in England to change their governance arrangements. They may adopt a committee based system for decision making as an alternative to the leadership/cabinet model or to a directly elected mayor model, should they wish, subject to a local referendum. The key elements of the framework include the following:

- Removal of restrictions, set out in the 2000 Act, which require all councils in England with a population of 85,000 or more to operate executive arrangements – either the leader and cabinet or mayor and cabinet model.
- Councils in England have the freedom to decide what governance model to adopt, including the committee system.
- Councils opting to operate the committee system are able to decide how to discharge their functions, subject to the requirement to have certain statutory committees, such as a licensing committee.
- Councils choosing to operate the committee system are not required to have an overview and scrutiny committee, under Section 21 of the 2000 Act.

2.8 Fire authorities and joint authorities, including waste disposal authorities, passenger transport authorities and combined fire and rescue authorities, do not have directly elected members. Instead they have members appointed to the authority by the local council. National park authorities also have members appointed by the secretary of state. Members are responsible for setting policies and priorities and the efficient and effective use of resources. These authorities do not have formal constitutions but rely on the schemes of delegation and operate a traditional local authority committee model. In fire and rescue authorities, the fire brigade operates as the executive arm with the fire service providing scrutiny.

2.9 In the police, police and crime commissioners (PCCs) and chief constables are corporations sole and are jointly responsible for governance. Separate guidance notes have been prepared for the police, but the principles included in the Framework are equally relevant to them.

CHAPTER THREE

Working in partnership

INTRODUCTION

3.1 Effective service provision has meant that local authorities have always needed to work in partnership with other bodies. However, joint working and the use of a range of alternative delivery vehicles has increased over recent years as local government has coped with less resources.

3.2 An individual council may retain responsibility for the provision of services but other councils or organisations may provide these on their behalf. Collaborations bring about stronger relationships between authorities which may result in a more formal relationship at a later stage such as a combined authority.

3.3 Examples of joint working include:

- joint commissioning with other public bodies
- joint ventures with other public sector bodies
- partnerships with the private sector, including outsourcing
- shared services such as:
  - joint management teams
  - joint provision with other local authorities such as back office functions
  - joint working in the fire service.

COMBINED AUTHORITIES AND DEVOLUTION

3.4 The Local Democracy, Economic Development and Construction Act 2009 permits combined authorities to be established; a legal structure that may be set up by two or more local authorities in England. The 2009 Act permits the authorities to undertake functions related to economic development, regeneration, or transport.

3.5 The Cities and Local Government Devolution Act 2016 gives combined authorities further powers to enable growth and public service reform in their areas. They are also permitted to have a directly-elected mayor who will be able to exercise the functions of the police and crime commissioner for their area. The 2016 Act requires each combined authority to set up at least one overview and scrutiny committee.

3.6 The Greater Manchester Combined Authority was established in 2011, and a devolution agreement was announced in November 2014. The devolution agreement provides the authority with additional powers to support business growth, join up budgets in health and social care and elect a metro mayor. Since then, deals with several other areas have been agreed. Devolution deals negotiated to date have mostly involved transfer of powers over services such as business support, further education and skills funding, transport budgets and land management, with involvement in health and policing being less common.

3.7 The devolution agenda is driving new and rapidly-evolving models of collaboration with a focus on place-based outcomes, bringing about specific challenges and issues for governance. For such arrangements, clarity of vision is crucial. It is also essential that at the negotiation stage, communities are able to understand what the objectives for devolution are and are consulted accordingly.

3.8 Devolved organisations will need to act transparently where there are potential conflicts between the long term view required for outcomes such as economic regeneration and short term factors such as the political cycle. Other key features for arrangements to be successful include strong collaborative – and clearly accountable – leadership (which doesn't feel like a takeover to those outside a dominant organisation).

3.9 Partnership working can be a challenge across local government, but working with other sectors adds greater complexity. Relationships between clinical commissioning groups and local authorities need to be clearly defined owing to statutory and cultural differences. Staff from each sector need to be clear regarding the outcomes to be achieved and that workforce differences are or will be addressed.

3.10 Where there are proposals to merge police and crime commissioner (PCC) powers with elected mayors, accountability will need to be carefully thought through as current police force areas are not coterminous with local government boundaries. Consideration will therefore be needed on how the mayor's accountability will be shared with PCCs.

CASE STUDIES

3.11 This section outlines four case studies which have been provided by the following authorities and shows how they have approached governance issues in relation to partnership working:

1. **Cheshire East** – establishing alternative service delivery vehicles.
2. **Leeds City Council** – developing a public service led mutual social enterprise.
3. **Anonymous** – joint committee governance arrangements – solving problems.
4. **Highland Partnership** – lead agencies for health and social care.

3.12 There follows a section highlighting questions that members and officers in an authority might consider to help ensure that the principles of good governance are embedded within the authority's partnership working.

3.13 The final section of this chapter outlines the issues to consider when looking at, implementing and reviewing arrangements for sharing chief executives and management teams.

Cheshire East Council – establishing alternative service delivery vehicles

The following case study looks at how Cheshire East Council set up alternative service delivery vehicles and outlines its approach to specific governance issues.

BECOMING A COMMISSIONING AUTHORITY

Cheshire East Council ('the council') set out a three year plan in February 2013 which would see the birth of new alternative service delivery vehicles (ASDVs) as a way of encouraging entrepreneurial spirit, innovation and culture change, helping to bridge the gap between budget availability and desired outcomes.

In order to support the delivery of a range of resident-focused outcomes, the council prioritised projects and rolled out a new project management framework and associated training, including a new two-stage project endorsement process involving senior officers from each professional discipline as well as members.

ANSA ENVIRONMENTAL SERVICES LIMITED

Ansa Environmental Services Limited (Ansa), an ASDV, was set up as a 'Teckal-exempt', wholly owned company of the council, enabling the council to directly award work to Ansa. It also offered the council a way of retaining corporate oversight via various governance processes including its group holding company, Cheshire East Residents First (CERF). The 'Teckal' exemption (now codified in Regulation 12 of the Public Contracts Regulations 2015) offers Ansa the opportunity to grow its business by allowing other public sector bodies to 'buy-in' to Ansa, thus dramatically speeding up procurement and mobilisation of new contracts for services and lowering traditional procurement costs.

CREATION OF ANSA

The council's environmental services and bereavement and street cleansing departments were ripe for change and there was significant support from employees, councillors and management for developing an arm's-length company as an alternative to full outsourcing.

Following a service review, focus groups and employee consultation, the departments were realigned to form Ansa and a separate company, Orbitas Bereavement Services Limited, which both began trading in April 2014. Ansa was set the challenge to maintain high quality services to over 165,000 households while delivering £2.5m in efficiency savings within the first five years and to grow its income by 2.5%. Ansa now delivers waste, street cleansing, fleet, grounds and parks services on behalf of the council and external customers and has added training and business change consultancy to its offering.

Kevin Melling, Ansa Managing Director, says:

Our success reflects the passion and commitment of managers and employees to making Ansa the best service provider it can be for the benefit of local residents and wider customer base. Ansa is performing well across all of its services, including raising the bar on its recycling rate and diversion from landfill and receiving external recognition for its parks and grounds delivery. The achievement of both Royal Society for the Prevention of Accidents Gold Award and ISO 9001 on the first year of entry reflects positively on the safety, efficiency and quality standards of the organisation. This, together with a strong financial performance, sets a platform for future growth and development of the company as Ansa becomes increasingly commercial.

Given that Ansa exceeded all of its key performance indicators (KPIs), delivered £1.3m of the five year savings' target early, and made an operating profit, confidence in Ansa is high. The council and Ansa are in discussions to extend the contract by a further ten years with the option of further extensions.

STAKEHOLDER ENGAGEMENT

Jane Thomason, Chief Operating Officer:

Effective engagement with stakeholders including clients, residents, employees and members is essential to our success, allowing us to deliver performance improvements and efficiencies across the business while maintaining high levels of customer satisfaction. Our passion and enthusiasm make us attractive as both a supplier and employer, as we work together to grow our business and deliver a high quality service.

PROJECT AND PROGRAMME GOVERNANCE

The ASDV projects were overseen by individual project boards and a programme steering group. Professional advice was procured before either party entered into new contractual arrangements. A formal business case and company business plan were developed and then independently audited. Final approval was achieved through a series of related cabinet papers, ensuring legal, financial and constitutional compliance. Following project-delivery, an in-depth 'lessons learned' session was held, significantly speeding up and smoothing implementation of later ASDVs.

CORPORATE GOVERNANCE

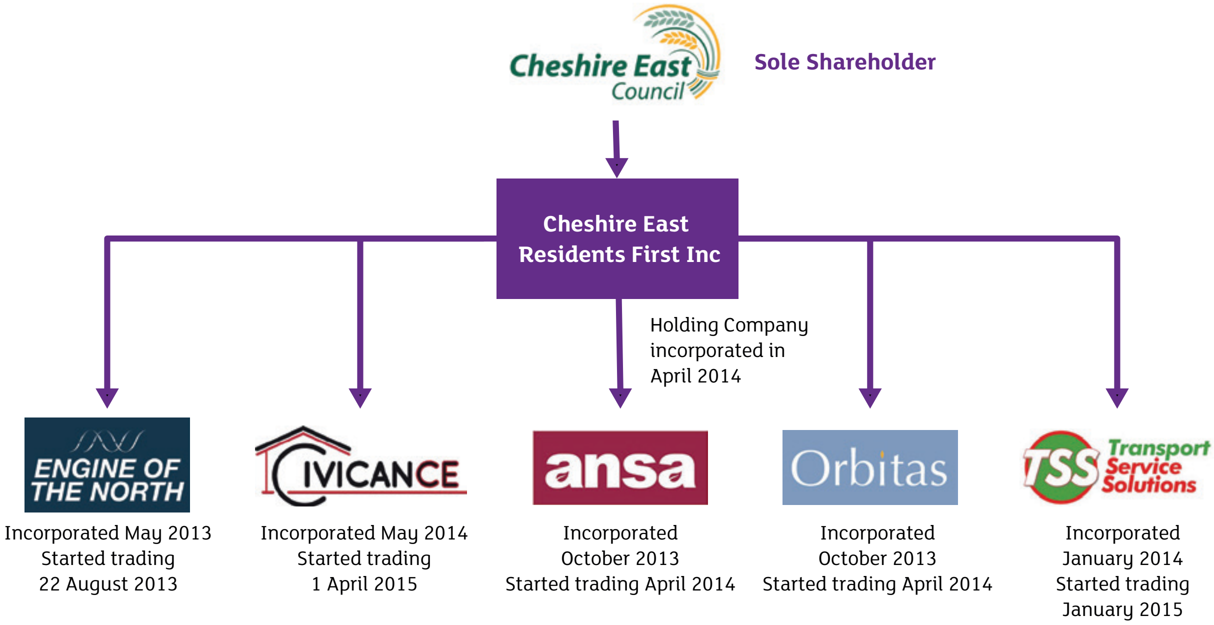
During the projects, a clear separation of roles was defined for those who would 'commission' and those who would 'deliver' the service. A detailed contract was agreed which included KPIs and a service specification drawn up by the commissioner and corresponding method statements from Ansa. An annual management fee review process was built-in together with an agreement to buy back those support services not due to transfer to the new company, providing a measure of stability, continuity, and, council control. Where appropriate, contracts were novated across to Ansa, with the balance either bought back via the council or re-tendered in Ansa's name.

New governance processes were developed and then approved by Ansa's board, including a balanced scorecard approach to risk management and a performance management framework. Ansa reports into a quarterly shareholder board and submits updated business plans via this route. The annual management fee is negotiated via the commissioning manager together with any in-year changes to scope of work and associated additional income and/or savings targets. Ansa has retained pre-existing employee terms and conditions including pensions. Where possible, Ansa is taking the opportunity to become more flexible and agile by streamlining processes and procedures, re-procurement of key contracts and realignment of resources.

FUTURE GROWTH POTENTIAL

Ansa is in talks with a number of public and private sector bodies about how it can work collaboratively and profitably to optimise resources, efficiency and deliver best value and is building a reputation for responsive and reliable, quality environmental services.

Group structure



Leeds City Council – development of a public service staff led mutual

Leeds City Council has recently encouraged and nurtured the development of a public service staff led mutual, Aspire Community Benefit Society, to deliver its in-house care services for adults with learning disabilities, enabling managers and staff to build a long term sustainable future for a service to over 1000 of the city's most vulnerable adults. In doing so it has freed up the enterprising spirit of staff to operate in an organisational form that is established to benefit the needs of the community.

The challenge was to ensure that the transition process and the new alternative delivery model governance arrangements were carried out in accordance with the authority's governance and decision-making frameworks.

The key areas in which both internal governance processes relating to the transfer of the service, and the governance arrangements for the new alternative delivery model, were delivered have been outlined under the principles contained in the council's code of corporate governance.

BEHAVING WITH INTEGRITY

The social enterprise agreed to adopt the council's HR policies and procedures, and there was also agreement to buy back support services, which provides good conduct and behaviour in line with the council's existing standards.

DEFINING OUTCOMES FOR THE COUNCIL AND COMMUNITY NEEDS

The proposal for the creation of a social enterprise for learning disability services was intended to contribute to the delivery of the city and council's priorities in the following areas:

- Civic enterprise – a new leadership style for local government where councils become more enterprising, businesses and other partners become more civic and citizens become more engaged.
- Better lives through enterprise – a revised role for adult social care, as it moves from being a direct provider of services to being a co-ordinator of the provision.
- Ensuring quality services that are viable and sustainable.
- Socially responsible employers in the marketplace, stimulating jobs and good growth locally.

In addition, the detailed service specification was drawn up to promote the delivery of the council's learning disability strategy and the priorities of customers:

- More opportunities to be available for disabled people in mainstream services, eg leisure, education and employment.
- More choice and easier access to housing.
- A skilled workforce able to meet a diverse range of need in the community and at home.
- Innovative ways of meeting the needs of individuals within shared support environments.
- Specialist services to support individuals with very complex needs in Leeds and prevent them from being sent out of area away from their communities.

HAVING CLEAR RESPONSIBILITIES AND ARRANGEMENTS TO DELIVER EFFECTIVE ACCOUNTABILITY

Clear governance arrangements for the alternative delivery model were integral to the transfer of the service. The social enterprise has a board of directors and comprises a non-executive chair, six members of the company (three of whom are union stewards), three people who use the services, three independent non-executive specialists from the community and three nominations from the council.

DETERMINING THE INTERVENTIONS NECESSARY TO ACHIEVE INTENDED OUTCOMES

A strategic governance board (chaired by the executive member for adult social care) was established from the outset and included representation from across the council and trade unions.

Terms of reference were established for the strategic governance board to ensure that everyone was aware of its function and its decision making capacity.

DEVELOPING THE ENTITY'S CAPACITY INCLUDING THE CAPABILITY OF MEMBERS AND OFFICERS

The service obtained independent support from the Cabinet Office Mutuals Support Programme. Part of this support focused on testing and updating the existing five year integrated business plan. This involved working through the preferred legal and governance models of the alternative delivery model.

The social enterprise has a five-year contract with the council, based on the council's standard terms and conditions, with a contract price based on an agreement to buy-back support services (such as HR, IT and finance) from the council. The contract will be monitored by the council's own monitoring officers and there will be quarterly performance review meetings with an overall annual review of the contract.

COMPREHENSIVE STAKEHOLDER ENGAGEMENT

A formal consultation with staff was undertaken, with each staff member being invited to attend both informal and larger scale engagement events, with trade union representatives present. This was followed by a staff survey where 78% of staff members voted in favour of moving the service to a social enterprise. The social enterprise has confirmed its commitment to positive employee relations and collective bargaining. The social enterprise has proposed a joint negotiation and consultative committee and a health and safety committee very similar to that which is currently in place in the council.

Feedback gathered from current service users was used to shape the service specifications and ensure that the services to be provided are in line with current and predicted future needs for people with learning disabilities, as detailed in the adult social care market position statement.

Anonymous – joint committee governance arrangements – solving problems

This case study was included in the 2012 guidance notes but it remains relevant and provides useful pointers in today's climate.

The joint committee had always performed well, requiring little involvement from the lead authority and had returned substantial annual dividends to member authorities. Then things started to go very wrong; there were significant operational failures and excessive spending and falling revenues wiped out almost all the profits. Governance arrangements were in place for the historically stable organisation but it became rapidly apparent that they were not sufficient in a dynamically changing environment with 'rogue' factors at work. Stopping the decline and returning the organisation to good performance and profitability took an enormous amount of time, cost and effort with massive reputational and personal risk for some officers.

The governance arrangements in place and written into the constitution covered:

- the purpose and objectives of the organisation
- the role and responsibilities of the director
- the role and responsibilities of the statutory officers from the lead authority
- the delegations and authority of the director
- financial and contract procedure rules.

Arrangements were also in place in relation to lead authority control and oversight of banking arrangements. This proved critical to the early identification by the lead authority of problems arising (through observation of cash flows) when the organisation's reporting to members was inaccurate and misleading.

Problems in applying good governance were as follows:

- Arrangements were ignored by key people. Decisions were being made but not transparently reported.
- The size of the joint committee was an issue. Its membership covered a wide cross section of 'owning' authorities but with no relationship (local or political) other than being present at the same committee meetings three or four times a year.
- The members had little understanding of the role of the lead authority so when advice was given it was repeatedly ignored.
- The director was not line managed by any authority so there was an inability to direct a change in behaviour or approach.
- The role and purpose of the organisation had become blurred and misunderstood over time and was potentially in conflict with the local authorities that 'owned' it.
- In the absence of an audit committee, governance concerns were not independently and closely monitored.
- Whistleblowing arrangements were ineffective as they were not sufficiently independent.
- The activity wasn't actually unlawful, making it difficult for the lead authority to 'force' action to be taken.
- Member decision making was technically correct in governance terms (formal reports from the lead authority clearly stated the problems but members chose not to agree recommendations).

Improvements made to avoid a recurrence of problems (once the problems had been resolved and action eventually taken) included the following:

- Member training – their role, the role of the organisation and the role of the statutory officers.
- A strategic officer group was established chaired by the lead authority and consisting of senior officers from all the member authorities which now meets in advance of each committee meeting to consider implications and hold the director to account.
- A small and focused audit committee has been established.
- A whistleblowing hotline and website through to lead authority has been set up. It is therefore independent of the organisation's management.
- The constitution, delegations and procedure rules have been reviewed and updated by officers of all member authorities ensuring everyone is aware of them and members are fully briefed.

Highland Partnership – lead agencies for health and social care

This case study looks at the partnership established by the Highland Council and NHS Highland to provide adult health and social care.

LEAD AGENCY MODEL

The Highland Council and NHS Highland entered into a partnership agreement in 2012, heralding the beginning of service integration. This was the start of a five year plan which set out the vision and expected outcomes for improving health and social care.

The council and health board had considered alternative governance models, such as a new body corporate between the organisations, but settled on 'single governance, single management and single budget' via the lead agency model. This was influenced by developments in English authorities, such as Torbay Council and North East Lincolnshire Council.

Accordingly, since 2012, adult social care has been commissioned by Highland Council from NHS Highland, as part of an integrated approach to the delivery of adult health and care services. Community based child health has been commissioned by NHS Highland from Highland Council, and delivered within a single department that includes education and children's social care. Fifteen hundred social care staff transferred to the health board and 200 health staff transferred to the council to deliver these services.

The lead agency model depends on the following arrangements:

- A joint approach (with partners) to strategic planning and commissioning, with the development of a joint strategic plan that establishes strategic direction and improvement outcomes (co-ordinated by each lead agency).
- The commissioning agency sets out the service requirement, and provides the resource to achieve it. This is in line with, and integrated into, the strategic plan.
- The lead agency delivers the service requirement, against performance outcome targets and standards.
- The commissioning agency monitors the delivery of the commission against the agreed outcomes.

A governance structure was put in place in each organisation to ensure effective decision making, monitor progress and continue to modify arrangements as the transformation programmes progressed. This was based on existing legislation, and a strategic commissioning group brought the agency leaders together with other stakeholders to help ensure continuing joined up decision making.

DEVELOPMENTS SINCE 2012

In 2014, changes in Scottish legislation to drive health and care integration across the country resulted in the development of the integration scheme with the partnership agreement remaining as detailed guidance. This also marked the transition from the strategic commissioning group to a joint monitoring committee.

This change provided an opportunity to further review the governance arrangements to minimise duplication and bureaucracy, while still providing robust scrutiny, and in particular to ensure that:

- the governance arrangements are predicated on the lead agency principles of 'single governance, single budget, single management'

- each lead agency has a single governance committee to scrutinise performance and to consider policy and service development
- the governance structure provides an acceptable level of assurance as well as a route for further scrutiny should that assurance not be achieved
- assurance reporting is scheduled to reflect meaningful information and progress to mirror collection of much of the data and to enable scheduling of governance meetings for lead agency and commissioner reporting.

The review focused on the best arrangements to achieve the improved service outcomes, the articulation of strengths and weaknesses in the current system, and exploration of options to deliver better, consistent governance across the lead agencies.

The first stage of the review involved asking “what is it that we need to discharge our governance responsibilities?” The second stage considered “recommendations regarding the establishment and population of a structure to achieve this”.

The joint monitoring committee also took account of the expanding role of the locality partnerships, which had been developed to influence the local delivery of health and care and were developing a wider community planning role. Although not part of the governance structure of the lead agency model, these partnerships are considered integral to the local delivery of the strategic plans. It is envisaged that each locality will maintain and monitor local plans for improving services to adults and children, reflecting local and authority-wide priorities and outcome targets.

The review has clarified the process whereby the lead agency will provide scrutiny over the delivery of services, and the commissioning agency will receive assurance reports based on the exercising of that scrutiny, and will receive a regular performance report relating to the delivery of the outcomes that are set out in the commission.

It is intended that the performance report will take the format of an agreed template, for use by both adult and children’s services, wherever possible based around critical outcome indicators, and will only include proxy process or input indicators where outcome measures are not possible.

These various formal processes will be supported by ongoing, formal and informal liaison between officers and senior members of the board and council, as it is recognised that good governance is supported by ongoing good working relationships.

EMBEDDING THE PRINCIPLES OF GOOD GOVERNANCE IN PARTNERSHIPS

3.14 The following section highlights questions that members and officers in an authority might consider when looking at, implementing and reviewing partnership arrangements. They are set against the principles of good governance from Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016).

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

3.15 It is important that values are agreed for partnerships at the outset and that they are clearly understood and communicated.

- Have values for the partnership been agreed and have they been communicated to all concerned?
- How will they be monitored?
- Are there any particular issues that need to be resolved as a result of working with private sector providers?
- Do all the partners share in these values?
- Has the 'tone from the top' been established?
- Is there clarity over partners' statutory duties?
- Are the leaders and staff associated with the partnership committed to it?
- How will a collaborative partnership be built/maintained and parochialism be guarded against?

B. Ensuring openness and comprehensive stakeholder engagement

3.16 For partnership working to be effective, partners must have trust in each other and therefore be open with each other and their stakeholders about their activities. Where different sector bodies are working together, the partnership will need to understand and accommodate the different cultures of partnership organisations. For example, the multi-faceted focus of a local authority versus the singular focus of a health organisation. This could potentially influence the level of importance placed on a partnership by different organisations, and is therefore an important consideration.

3.17 The legislative and governance arrangements underpinning different sectors should also be taken into account. For example, local authorities have local political leadership, in the NHS board membership is made up of officers and non-executive directors, and charities will have trustees (often dedicated volunteers).

- Is there high level agreement between the partners concerning the value of and intention towards partnership working and collaboration?
- Is the importance of trust recognised at all levels and its role in supporting change?
- Is the partnership taking place in an atmosphere of trust?
- How will those leading the partnership ensure that different cultures within partnership organisations are understood and respected?

- What issues might different cultures generate? Are there any that might cause problems and if so, how might they be resolved?
- Do the partners understand how the governance arrangements in each partner operate?
- What issues might different governance arrangements introduce? Are there any that might cause problems and if so, how might they be resolved?
- Have exit arrangements been defined? What might trigger them?
- How are conflicts dealt with?
- How will effective communication be developed and maintained?
- How will effective stakeholder engagement be maintained?

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

3.18 Partnership working may be employed for a number of reasons, for example to improve service quality and outcomes. Combined commissioning may be aimed at increasing spending power and reducing costs.

- Is there a shared vision and are there clearly defined outcomes that have been agreed upon by all partners and are supported by stakeholders?
- Has the vision been communicated appropriately?
- Where a longer term view is required in relation to agreed outcomes, how will a focus be maintained when there are potential conflicts such as the political cycle or immediate local challenges to deal with?
- Have appropriate performance indicators been agreed by the partners?
- Will working in partnership add value?
- Have the benefits been clearly mapped out?

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

3.19 Even where it appears obvious that working in partnership will improve outcomes, there still needs to be detailed discussion at a strategic level to clarify the aims of the partnership and specific issues such as control of resources.

- Is there a clear strategy on what is to be delivered and how this is to be done?
- Do members and officers receive support in making decisions in respect of their partnership roles?
- Are partner roles and responsibilities agreed and understood?
- Is there clarity over who has the responsibility to make decisions?
- Has consideration been given to the best way to evaluate the effectiveness of joint activities in achieving goals?
- Have clear parameters been established covering such issues as:
  - structure
  - control

  - devolved decision making
  - accountability.
- Have structures and processes been negotiated and are they written in to terms of agreement?

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

3.20 Effective partnership working requires a different type of leadership – one that is distributed across organisations. Therefore leaders need to be empowered to work within and across organisations where they may not have hierarchical authority over others. Dedicated roles are also required to do this. This type of leadership requires different forms of communication, interaction and power sharing as well as staff development.

3.21 With regard to leadership, the following could be considered:

- While developing partnership arrangements/devolved arrangements, how will the organisation ensure that it does not lose sight of its own current challenges?
- Does the partnership have strong, effective and collaborative leadership?
- Are members able to scrutinise and challenge effectively?
- Are partners able to work flexibly and is this reflected in their attitude so that it benefits the partnership?
- Is there a consistent policy in place for dealing with differences in employment terms and conditions?
- Do partnership leaders have the ability to work across organisational boundaries and to confront and influence the barriers that they may encounter?
- Do those in the partnership have the authority to make decisions?
- Do they have the resources required in relation to the partnership's remit and their own responsibility to deliver results?
- Are the levels of delegation of control over services/spending matched between partnership organisations?
- Do those involved in governance roles within the partnership have the skills required?
- What particular skills are required in a devolved arrangement? For example, commercial awareness and the ability to negotiate/broker deals. How will such skills be acquired if they are currently not available?
- Do those in governance roles in the partnership know how to deal with apparent competing and/or conflicting demands and interests in respect of the partnership versus their authority role?
- Is training available for them?
- How will difficulties be dealt with?
- Are there any strategic and operational management gaps between organisational boundaries? If so, how will they be managed?

F. Managing risks and performance through robust internal control and strong public financial management

3.22 Partnership working can introduce specific challenges in terms of risks facing partners and the need for effective internal control and public financial management.

3.23 Local authorities need to scrutinise the governance of partnership arrangements closely. Although scrutiny committees may not be permitted to access all the information they would like owing, for example, to contractual arrangements with private sector providers, their oversight of outsourced services and joint operations should still allow for an element of openness and accountability that might otherwise not exist. Good practice in scrutiny is covered in Chapter six of this guide.

- Has an appraisal of the various options been undertaken?
- Is the business case for the proposal sound?
- When considering outsourcing a service has an effective due diligence process been undertaken?
- Are there clear structures and processes in place for balancing innovation and risk?
- Are partnerships reviewed regularly to see how effectively they are working?
- Do contracts with private sector providers include appropriate break clauses that would enable renegotiation if circumstances change?
- Are funding arrangements clearly specified?
- Are appropriate systems in place so that expenditures against milestones and deliverables can be properly managed?
- Do those involved in partnerships between different sectors (such as local government and health) understand the different finance systems, terminology and performance measures used by the other sector?
- How is the risk profile for joint ventures considered prior to agreement?
- How are risks associated with the partnership identified and managed?
- Are the risks facing each organisation carefully considered and monitored as part of joint work, particularly any shared risks?
- How are risks shared?
- Has a risk share agreement been drawn up?
- How are the following dealt with:
  - cost overruns
  - different performance and financial frameworks in place in partner organisations?
- Does the partnership provide for consistent monitoring and measurement?
- How are partnerships scrutinised?
- How will the budget be scrutinised and monitored in a devolved arrangement?
- What is the impact of a devolved arrangement on management reporting?
- How effective is the scrutiny?

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- Does the partnership report on its performance on a regular basis?
- Are partnerships covered in the annual governance statement?

Further guidance

- The Commissioning Joint Committee Guide to Alternative Bases of Service Provision (CIPFA, 2012)
- Crossing the Border: Research into Shared Chief Executives (Local Government Association, 2012)
- The Excellent Finance Business Partner (CIPFA, 2015)
- Fischbacher-Smith M (2015) Minding the Gaps: Managing Difference in Partnership Working, *Public Money and Management*, *35*, 195–202
- Johnson K (2015) Public Governance: The Government of Non-state Actors in 'Partnerships', *Public Money and Management*, *35*, 15–22
- Local Government Governance Review 2015: All Aboard? (Grant Thornton, 2015)
- Responding to the Challenge: Alternative Delivery Vehicles in Local Government (Grant Thornton, 2014)
- Shared Chief Executives and Joint Management: A Model for the Future? (IDeA, 2009)

SHARED CHIEF EXECUTIVES AND MANAGEMENT TEAMS – QUESTIONS TO CONSIDER

3.24 The following section highlights questions that members and officers in an authority might consider (in the light of the good governance principles) when looking at, implementing and reviewing arrangements for sharing chief executives and management teams.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Consideration and implementation stages

- Should authorities declare their non-negotiable issues/areas early on to help build trust?
- Do the authorities have similar cultures (management as well as organisational)? If not, would it be beneficial to consider how they might be brought closer together?
- In the event of talks breaking down, how will the authorities ensure that they retain a good relationship in the future?

Review stage

- Has an atmosphere of mutual trust between the authorities and key players been maintained? How can officer support assist here?
- Have any problems arisen as a result of different cultures? How have they been resolved?
- Are members and officers personally committed to the initiative?

B. Ensuring openness and comprehensive stakeholder engagement

Consideration and implementation stages

- Has there been an open debate between the senior officers and members of the authorities about the costs and benefits of the proposed scheme?
- How can momentum be maintained during talks?
- Do the authorities have an agreed media management policy in place for communicating with the public?
- How will successes be communicated to the public?
- What communication channels will need to be established to reach all levels of the authority? How will they be enacted to ensure updates on a regular basis, for example a weekly bulletin or regular emails communicating successes and future plans? These can be used to build relations with new members/officers.

Review stage

- Has effective communication been maintained at all levels?

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

Consideration and implementation stages

- Has a common vision of the outcome of the shared service/shared chief executive arrangement been agreed by all parties?
- Has the vision been agreed between the authorities prior to working out the detail of the arrangement?
- Are the plans locally driven?
- How can a clear and consistent political will be encouraged?
- Would it be helpful for the authorities to agree a set of joint priorities?
- What will be the outcome/benefits for the community of sharing the chief executive/other shared arrangements?
- Is there a clear exit strategy if required and how would it be triggered?
- How will the on-going support of the members be secured? How will that support be used for promoting the initiative to staff and the wider public?

Review stage

- Have the outcome/benefits for the community of sharing the chief executive/other shared arrangements been realised?
- Are the authorities now under different political control? What particular challenges did this introduce and how were they overcome?
- Is there a common vision of the outcome of the shared service/shared chief executive arrangement that has been agreed by all parties?

- Where benefits have not been realised, how will this be resolved?

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Consideration and implementation stages

- Are the proposed arrangements sufficiently flexible so that they enable the authorities concerned to be able to access the managerial expertise they require in-house on a sustainable basis?
- How will expectations be managed regarding what can be delivered in relation to shared chief executive arrangements and other shared services? Has the use of technologies that might overcome problems regarding logistics been fully considered?
- Will the shared chief executive have access to appropriate resources – such as a personal assistant at each local authority – to ensure he/she can work effectively?
- What arrangements will be put in place to evaluate the success of the shared arrangements and to identify areas for improvement?

Review stage

- Have the arrangements to evaluate the success of the shared arrangements worked effectively?

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Consideration and implementation stages

- Are there opportunities for the chief executives and leaders concerned to develop good relationships with other authorities with the potential to share services prior to more detailed discussions?
- How can equity between the authorities be assured so that the initiative is not perceived as a takeover or one council appearing too self-interested (for example, in relation to officer appointments)?
- How will fears be allayed that in the chief executive structure, one authority might be prioritised over another?
- Would it be helpful for members to be able to voice concerns/expectations on a regular basis possibly with members from the other authority?
- How will the shared chief executive retain a connection with staff?
- How will fears by members about loss of officer support be allayed?
- How will the authorities ensure that the shared vision is followed through?

Review stage

- Has staff morale been maintained?
- Is there still clear and robust leadership which focuses on outcomes?
- Has organisational efficiency been maintained?
- Do members receive effective officer support?
- Is the structure sufficiently flexible? Will it accommodate changes in the partners' circumstances?

F. Managing risks and performance through robust internal control and strong public financial management

Consideration and implementation stages

- Has political buy in been secured at an early stage?
- Are the estimated savings on which the plans are based 'realistic'?
- Are the services between the authorities sufficiently aligned to enable synergies to work?
- Has the scheme secured the support of officers?
- How will a balanced process involving officer appointments between the authorities in the case of a shared management team be managed?
- How have the risks of the proposed approach been assessed? How will they be managed?

Review stage

- Is there still political and officer support for the initiative?
- Were the estimated savings on which the plans are based 'realistic'?
- Have any unexpected problems materialised? How were they dealt with?

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- How will the authority ensure that accountabilities remain clear to the public?
- Is the authority's leadership clear to all stakeholders?

CHAPTER FOUR

Practical examples and case studies

CASE STUDIES FROM LOCAL GOVERNMENT

4.1 A number of authorities have supplied material, illustrated below, on how they have tackled governance issues across a range of areas:

- Essex County Council – embedding good governance across the organisation.
- Broxtowe Borough Council – an ethical mind set.
- Conwy County Borough Council – an entrepreneurial council.
- Cardiff City Council – various issues.
- Staffordshire County Council – governance framework illustrated in a single sheet.
- West Midlands Pension Fund – good practice in stakeholder engagement.

Essex County Council – embedding good governance across the organisation

This case study outlines Essex County Council's actions to improve its governance arrangements and establish a culture of good governance.

INTRODUCTION

In 2010, Essex County Council ('the council') made a solid commitment to enhance its corporate governance arrangements in support of its transformation process. The council's reputation was under the spotlight following the departure of the previous leader during the House of Lords expenses scandal. Both matters led to the establishment of a corporate governance project championed by the subsequent leader of the council and the then chief executive. In time, this has led to a robust 'business as usual' culture of good governance across the authority.

The project first identified gaps in the council's systems and processes by inviting external auditors to carry out two 'ethical governance audits'. Their findings were combined with those from internal assurance services to create a programme of work, outlined each year in the council's annual governance statement.

The initial phase of the project saw a focus on making improvements in the structure, clarity and robustness of systems and policies. Once the bulk of that was underway to give the work a foundation, the project's focus shifted to cultural and behavioural considerations, and to working out how to embed those improvements across the whole of the organisation. A key goal was to enshrine good governance as a responsibility for all leaders, not just those few charged with specific governance roles.

LEADING FROM THE TOP

The council established a corporate governance steering board chaired by the leader of the council. Its membership includes the leaders of the three main political groups. Supported by a bespoke corporate governance performance report, the board monitors governance arrangements and helps to identify areas for improvement. Influential elected members are thereby seen to set the standard for others to follow.

The project was sponsored by the chief financial officer, providing senior leadership from among the officer corps. In time it was handed to the council's monitoring officer to embed the new processes and culture across the council under 'business as usual'. The monitoring officer remains responsible for the council's assurance framework.

DEDICATED RESOURCE

The council committed appropriate funding to the project to ensure it was adequately resourced and could bring about a real step change in the control environment. The project was run as part of the council's transformation programme, recognising that good governance is key to successful organisational change.

One of the benefits realised by the project was the establishment of a permanent resource dedicated to co-ordinating the council's governance arrangements after project closure. This is not a compliance role but one of analysis and co-ordination, maintaining the council's focus on this key area, bringing together people from across the council in shared responsibility.

ASSURANCE FUNCTIONS

Some years ago, the council brought together all its assurance functions (other than finance) into a single team led by the monitoring officer. This created a strong and cohesive team, made up of professionals from various disciplines, to work together to improve and embed good governance. The team brings together corporate lawyers, auditors, strategic risk advisers, democratic services officers, officers from scrutiny, equalities, health and safety, business continuity planning and member support. The team works together and with others to identify areas of weakness and deliver improvements which benefit the council and its residents.

CHANGING BEHAVIOURS

The latter part of the project and subsequent work was aimed at influencing attitudes, values and behaviours. The improvement project was as much about this as it was about changing the 'nuts and bolts'. A tone was set by the leaders of the organisation which was then echoed through all subsequent internal communication as improvements were implemented, line managers 'walked the talk' through extremely high completion rates of the governance e-learning course, and a major internal consultation and focus on reducing perceived bureaucracy has made it easier for people to knowingly do the right thing.

Some key elements delivered across the council during this time were as follows:

- The creation of a regular 'corporate governance dashboard' to support informed conversations among officers and members about the council's governance.
- The development of bespoke corporate governance e-learning modules, mandatory for all relevant employees and councillors, and publicly endorsed by group leaders and the councillor-led 'member development steering group'.

- The development of enhanced induction arrangements for officers and members which feature corporate governance.
- A review of cabinet and committee governance, including decision-making.
- Raising the profile of freedom of information legislation and complaint handling data to encourage personal responsibility and transparency.
- Implementation of a 'Speak Up!' campaign.
- Updating and strengthening the role of the monitoring officer in the council through the creation of a dedicated corporate governance budget and team.
- A review of the scrutiny function.
- Implementation of automated audit (internal and external) recommendation tracking.
- A 'bonfire of bureaucracy' – a thoughtful employee engagement exercise with a provocative name, encouraging open debate about the role of bureaucracy and bringing about a number of employee-led improvements.

Broxtowe Borough Council – an ethical mind set

Each year the management team at Broxtowe Borough Council undertakes an ethical exercise as part of an away day. The team looks across sectors at high profile cases showing where something has gone wrong, for example Volkswagen and Operation Yewtree. The team asks itself if something similar could occur at the authority and if it did, would it have been uncovered by the current governance framework? The authority has found this approach to be a creative way of undertaking a governance enquiry using a fundamentally ethical mind set rather than using a checklist.

Extracts from the reports presented at the council's away days are set out below drawing on experiences in the NHS.

LEARNING LESSONS FROM RECENT EXPERIENCE IN THE NHS

Purpose of the report

To stimulate a discussion about what relevant lessons can be learnt from NHS experience, various parts of which have been the subject of a number of critical reports following major failings in patient care, with a view to incorporating lessons which can be learnt into our management practice within Broxtowe.

Detail

The management failings in a number of NHS trusts have been examined in some detail to identify the key aspects of poor, unsafe or dangerous practice. Within this report each inquiry is examined in turn, identifying the main management failings associated with each, and questions for reflection are set out to aid our discussion. There are three overarching themes which are summarised below.

1. **Inadequate use of data**

In each case, those responsible for running the establishment should have known of failings which were only fully uncovered following external review. Good management analysis of data which was already available would have highlighted dangers, signals and problems. However, through:

- fragmentation (an inability to piece together data which existed in different places)
- a pursuit of other priorities which were thought at the time to be more important
- a lack of urgency
- an inability to use the data to create momentum for change

the problems which should have been identified and dealt with continued to the detriment of patient care.

2. **Insufficient emphasis on customer (patient) care and insufficient knowledge about what was happening on the front line**

Managers became detached and insulated from the problems at each establishment, with the result that they:

- either did not know or did not care sufficiently
- did not adequately prioritise the problems which existed
- were not strongly enough motivated to urgently put problems right.

In most cases they 'lost the plot' – forgetting the main purpose of their management activity and putting other goals, particularly financial ones, ahead of patient care.

3. **Accountability**

In each case the opprobrium heaped on the aforesaid failing managers is tangible. There is a new clamour for managers to be held to account for their past failings. New models with which to measure effectiveness are being used and are being used retrospectively to identify specific failings and individual culpability. The use of data (quantitative and qualitative) and the rigour with which we as managers hold responsible officers (and each other) to account for quality service delivery will be increasingly demanding and relevant to local government in the coming days, particularly where lives are at risk.

NHS HOSPITAL

A television documentary by Panorama in May 2011 exposed the shocking routine mistreatment of people with learning disabilities.

The failings identified included the following:

- Almost half of patients were placed far away from home (not within easy reach of relatives).
- Average length of stay was 19 months – predominantly people were admitted after a crisis but there was no urgency relating to move on plans.
- There were a very high level of recorded physical interventions (restraint which could not under any circumstances have been considered 'normal').
- Opportunities to pick up failings in quality of care were repeatedly missed, eg patients attended A&E on 78 occasions; police had 29 reported incidents and there were 40 safeguarding reports to the local Council.
- Routine healthcare needs were not attended to, for example dental problems.
- There was little opportunity for outsiders to observe daily living, which enabled the development of a closed and punitive culture.
- A failure of provider to pick up on any of the above markers or provide a focus on clinical governance or key quality markers.
- Adult safeguarding systems failed to link together disparate pieces of information.
- Serious failings in commissioning led to failure to assess the needs of individuals and promote their rehabilitation back home. There was a lack of evidence that people had meaningful activity during the day.
- Mental Health Act Commissioner failed to follow up referrals and the Care Quality Commission (CQC) did not respond to whistleblowing.

QUESTIONS TO REFLECT ON:

- Do our performance management arrangements alert managers to 'danger signals'?
- Do our systems (particularly concerning vulnerable people) enable us to piece together information from multiple sources?
- Do we have clear 'quality models' we can benchmark services against?
- Do we reflect on the quality of our commissioning processes and learn lessons when we go wrong?

- Do our complaints and whistleblowing processes work properly in all situations, eg in retirement living?
- Do we need to promote the complaints system and promote advocacy and/or independent visiting arrangements?
- Should we do more to promote feedback on service quality especially where vulnerable people are involved?

KEOGH REVIEW INTO THE QUALITY OF CARE AND TREATMENT PROVIDED BY 14 HOSPITAL TRUSTS IN ENGLAND

Sir Bruce Keogh was asked by the prime minister to conduct a review into the quality of care and treatment provided by hospital trusts with persistently high mortality rates. This was prompted by the fact that the failures at Mid Staffordshire NHS Foundation Trust were associated with failures in all three dimensions of quality: clinical effectiveness, patient experience and safety. He selected 14 hospitals for investigation based on the fact that they were outliers for the previous two years on the hospital mortality index or standardised mortality index.

Sir Bruce Keogh adopted a methodology which included looking at hard data and combining that with soft intelligence. The model combined a clear trigger for action followed by detailed data analysis leading to key lines of enquiry rather than an inspection based on a predetermined framework. He used a multidisciplinary diverse team 15 to 20 strong (including patients, front line doctors and nurses) to go into the hospitals to get under the skin of each hospital. There were no rigid tick box criteria. Staff and patient focus groups were important in the new process.

FINDINGS

- Poor hospitals regard listening to staff and patients and engaging them in improving services as a low priority.
- Poor hospitals have limited capability to use data to drive quality improvement.
- Boards had not grasped the quality agenda because they were chasing other targets, such as waiting times. Often financial challenges took a higher priority than dealing with quality issues.
- Some trusts were acting in professional isolation. This meant that they were ‘behind the curve’ and not in touch with best practice.
- There was a lack of value and support given to front line officers.
- Some boards used data simply for reassurance rather than the forensic sometimes uncomfortable pursuit of improvement.

QUESTIONS FOR REFLECTION

- Do we run the risk of ‘hitting the target but missing the point’?
- Do we have any areas of in-attentional blindness?
- Do we have an over-emphasis on overcoming the financial challenge we face at the expense of quality failing or customer failing?
- Are we sufficiently well in touch with best practice?
- Do we use data for reassurance rather than the ‘forensic sometimes uncomfortable pursuit of improvement’?

- Do we place sufficient emphasis and value on what front line staff think of our progress/ service delivery quality?

Conwy County Borough Council – Entrepreneurial Council 2015

The following case study demonstrates how Conwy County Borough Council ('the council') considered the outcomes it wished to achieve and was able to take advantage of an innovative opportunity to assist towards the achievement of its vision. The project was to develop a strategic approach for delivering major events in order to use them to raise the profile of the area and create an economic benefit for the county.

In 2010, the council recognised that events are an important part of the area's economy, which led to the development of the first events strategy. The strategy acts as a key economic driver, with the corporate events programme being seen as an essential part of the council's regeneration work across the county.

THE PROJECT'S OBJECTIVES

In addition to the desire to raise the profile of the area and provide an economic boost, the council wanted to maximise the use of built and natural key assets, eg water sports, outdoor activities, cultural events, Theatr Colwyn, Venue Cymru, Porth Eirias and Eirias. Central to the approach has been to get Conwy County noticed on the world map, and this was achieved through attracting a certain calibre of events and the partners involved, such as international motor sports who organise and run Wales Rally GB, the thirteenth round of the World Rally Championship.

THE COUNCIL'S APPROACH

The council's strategy does not sit on a shelf but rather is a 'way of life'; it's about doing the best for the area in which people work and live. It's called the **three Ps!:**

1. **Place** – what we have to offer.
2. **People** – who we serve and our team.
3. **Passion** – our love of what we do and the beautiful location of Conwy County.

The council saw an opportunity and gap in the market because of other public sector organisations pulling away from supporting events as they considered them not to be core activities. Elected members and senior team showed vision, commitment and a forward thinking outlook. They bought into the strategy and because of this the council has been able to take advantage of the opportunities and increase the number of successful events the county hosts or runs.

Some would say that what the council is doing is bold and brave when the authority is under pressure to protect core services, but the authority sees the work that is done on events as underpinning the economy of the county and an essential part of the council's priorities. The focus over the next few years is to continue to push the boundaries and attract events that generate significant direct economic, social and cultural benefits to Conwy County.

THE PROJECT'S ACHIEVEMENTS

The most significant achievement is the financial return. The council has been able to independently verify that over the last two years, for every £1 in sponsorship that has been invested, the authority has seen a return on investment of over £32.00. On top of the measured financial return there is the considerable coverage that the county receives by hosting world events as well as other measures, such as the events programme definitely contributing to Llandudno being voted the number three destination in the UK to visit behind Edinburgh and London.

Cardiff City Council – practical examples

The following examples illustrate where Cardiff City Council ('the council') has been able to improve its governance arrangements in various areas.

GOVERNANCE AND ENGAGEMENT PROJECT

As part of an organisational development programme, the council has a governance and engagement project, led by the director of governance and legal services, which reports to the enabling and commissioning board (chaired by the corporate director resources) on a monthly basis. The project aims to ensure that the council has robust governance arrangements by "promoting openness through increased citizen engagement and information sharing, enabling transparent decision making and providing clearer opportunities for people to participate in decision making processes".

IMPROVING SCRUTINY

The council has also adopted an improving scrutiny project, which has formulated 20 development actions, one of which is an annual self-assessment by the council's five scrutiny committee chairs on the conduct and impact of scrutiny. The assessment methodology is based on the Characteristics of Effective Scrutiny in Wales, which makes parallel provisions to parts of the revised governance Framework (and will be reviewed to consider any further changes to reflect the revised CIPFA/Solace Framework).

RELATIONSHIP MEETINGS

We have introduced an arrangement whereby internal audit officers have a 'relationship meeting' with each director every quarter, which is proving to be useful and mutually beneficial. It provides for a regular dialogue between internal audit and senior management to help the understanding of risks, challenges and priorities across directorates, to enable audit resources to be targeted to best effect, thereby ensuring internal audit continues to add value. This also provides an opportunity to discuss matters arising from audits and working together to consider how the internal control environment can be best enhanced, recognising the resource pressures faced by management teams.

SENIOR MANAGEMENT ASSURANCE STATEMENT

All council directors are required to complete a senior manager assurance statement (SMAS) every six months, and internal audit officers offer a challenge to how the statement is completed, seeking more evidence to support a director's view. The council has developed its statement over the years and believes it is very effective in recognising the key role directors play in owning governance arrangements and being held to account for this.

The SMAS has also become a key means of highlighting and monitoring the significant issues within the council, which may or may not be captured as part of the corporate risk management arrangements, so that senior managers as a whole can be made aware of emerging issues and seek a strategic corporate means of mitigating the associated risks. The council intends to introduce a separate assurance statement for the chief executive to complete at year end.

CORPORATE PARENTING AND SCHOOL GOVERNOR APPOINTMENTS

In order to improve the effectiveness with which the council discharges its corporate parenting role for all children in the care of the local authority, the council has established a corporate parenting advisory committee. Similarly, in order to improve the process for school governor appointments, the council has established a local authority governor panel.

Staffordshire County Council – single sheet framework

Staffordshire County Council draws together on a single sheet all its systems, processes and documents that contribute to the authority's governance. The extent to which they are in place and effective is considered as part of the authority's annual review. The document is reproduced below.

Staffordshire County Council Corporate Governance Framework

Principles, Statutory Obligations and Organisational Objectives

Meeting Statutory Obligations	**Implementing Local Vision**	**Working Together to Achieve a Common Purpose**	**Adherence to Ethical Values**
Meeting Organisational Objectives	**Taking Effective Decisions**	**Developing Members and Officers**	**Maintaining a Community Focus**

Corporate Governance comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities

Key Documents: Annual Review/Production

- Annual Outturn Performance and Finance Reports
- Annual Information Governance Statement
- Corporate Information Security Policy
- Corporate Property Strategy
- Corporate Risk Register
- Delegations from/to Directors
- Business Plan
- Innovation & Efficiency Board
- Internal/External Audit Protocol
- ICT Strategy
- Medium Term Financial Strategy
- Members Allowances Scheme
- Prudential Code & Treasury Management Strategies
- Risk Management Policy Statement
- Statement of Accounts
- Strategic Plan
- Staffordshire Strategic Partnership Priorities

Key Documents: Ad-hoc Review/Production

- Anti-Fraud Work Plan
- Business Continuity Plans
- Change Management Framework
- Communications Strategy
- Community Engagement Framework
- Constitution
- Corporate Procurement Strategy & Regulations
- Equality and Diversity Information
- Financial Regulations
- Health and Safety Policies
- Information Governance Framework
- Integrity Policy Statement
- Internet Transparency Pages
- Member/Officer Relations
- Members' Code of Conduct
- Officer Employment Procedure Rules
- Officers' Code of Conduct
- Partnership Policy
- Performance Management Framework
- Record of Decisions
- Whistle Blowing Policy

Contributory Processes/ Regulatory Monitoring

- Annual Governance Statement
- Audit and Standards Committee
- Budget Accountability Statements
- Corporate Governance Working Group
- Corporate H&S Process
- Corporate Intranet
- Council Tax Leaflet/Information
- Customer Feedback Process
- Director of Finance and Resources
- Consultative Forums
- External Audit
- Finance and Resources
- Head of Paid Service
- H&S Champion
- Independent Remuneration Panel
- Inspectorate Reports
- Internal Audit
- Job Descriptions
- Job Evaluation Process
- Law & Governance
- Member Training
- Monitoring Officer
- My Performance Conversation
- Schedule of Council Meetings
- Scrutiny Framework
- Staff Induction
- Staff Surveys
- Staffordshire Web
- Organisational Development
- Safer Recruitment
- Staffordshire Magazine

West Midlands Pension Fund – good practice in stakeholder engagement

This case study looks at the arrangements that West Midlands Pension Fund has in place for effective engagement with its stakeholders. CIPFA carried out a governance assessment at WMPF in 2015 and this case study is drawn from the findings.

INTRODUCTION

West Midlands Pension Fund (WMPF) is one of the larger local government administrated pension funds in the country. Affiliated to Wolverhampton City Council by statute, the fund is an autonomous organisation with its own governance arrangements.

WMPF has over 275,000 members and 450 scheme employers as at 31 March 2015. It has 116 staff and is governed by a pensions committee whose role is to manage, administer benefits and strategically manage the fund's assets. It is a committee of Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions.

STAKEHOLDER ENGAGEMENT

WMPF's stakeholders include recipients of pensions, members who are paying in to the fund, and employing organisations. There is a culture of open and constructive engagement by WMPF with its key stakeholders and the interests of members are at the forefront of the way WMPF is governed and managed.

WMPF has a variety of ways in which members and organisations are engaged. This is guided by its customer engagement strategy that sets out why and how it engages with its stakeholders and includes:

- Surveys (available online at www.wmpfonline.com, via customer service advisors and in reception) which record feedback on many aspects of customer service including the quality of written material, online communication, in-person customer service, as well as gathering data on whether customers believe they are treated fairly by the fund.
- Quarterly briefing notes and e-newsletters for stakeholders.
- A robust complaints process which is monitored by the compliance and risk function of the fund.
- A self-service officer compliment system where data is captured regarding customer compliments.
- A customer journey mapping programme which ensures stakeholders are involved in changes to internal processes designed to benefit customers.
- Face-to-face contact, for example at WMPF events such as the annual general meeting (for trustees and employer) or roadshow programme or visitors to the reception (available to all members at any time).

QUALITY IMPROVEMENT

WMPF has a culture of quality improvement. For example, the staff forum is the primary vehicle for providing feedback to identify service improvements to customers. Customer service training is provided as core training for front line staff.

In addition, there are defined quality assurance systems, independently accredited such as the customer service excellence award. WMPF established consultation groups to review the

2014 changes to the pension scheme, and they increased the availability of information and presentation services to customers to help raise awareness of the 2014 scheme changes.

WMPF is very open about the services it provides, its performance and decisions that are taken. This information is all easily accessible and available on its website. Pension committee meetings are open to the public (except for reserved business) and minutes are also made available on the council's website.

CASE STUDIES FROM OTHER SECTORS

4.2 Sectors other than local government can be useful in providing learning points, particularly in this era of increased collaboration. Set out below are the following case studies:

- Mid Staffordshire NHS Foundation Trust
- Barnsley College
- Stakeholder engagement
- Includem
- Northern Ireland Events Company

Mid Staffordshire NHS Foundation Trust

Mid Staffordshire NHS Foundation Trust is well known for the failings that occurred prior to 2010 in relation to the operation of the health care system as a whole. The key events and timelines are noted in the following table as concerns about the trust increased.

2001	■ Stafford Primary Care Group wrote a report critical of the Mid Staffordshire General Hospital's management and leadership
2002	■ The Commission for Health Improvement published a highly critical report of the trust's low staffing levels, poor quality of clinical data and poor standards of cleanliness
2003	■ A peer review report into care for critically ill and injured children raised serious concerns about the accident and emergency department
2004	■ The trust received a Healthcare Commission zero star rating after receiving a three star rating the previous year
2005	■ The Barry Report looked into whistleblowing complaints
2006	■ The trust requested £1m for redundancies on two occasions ■ A peer review of critical children's services and the accident and emergency department raised serious safety concerns ■ The trust's auditors raised concerns over risk management and assurance
2007	■ A national report on mortality rates showed that the trust was the second worst outlier in the country ■ Mortality alerts for a number of conditions raised Healthcare Commission concerns ■ The Royal College of Surgeons' report described a dysfunctional surgical department at the trust
2008	■ Mid Staffordshire NHS Trust was awarded foundation trust status ■ The Healthcare Commission launched a full investigation into the trust
2009	■ The Healthcare Commission report revealed: – a chronic nursing staff shortage – equipment problems – poor weekend medical cover – a bullying culture – that targets overrode quality ■ The health secretary announced an independent inquiry into the trust's failings following further reports and calls for a full public inquiry

The following summary outlines some specific governance failings that were noted in the Report of the Mid Staffordshire NHS Foundation Trust Public Inquiry (the Francis report), published in 2013, and how they fit with the respective principles from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014).

A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES, AND RESPECTING THE RULE OF LAW

- There was a negative culture at the trust and one of self-promotion rather than critical analysis.

- An ineffective trust whistleblowing policy meant that warning signs pointing to serious problems were not resolved.
- The regulator fiercely guarded its independence rather than fostering good relationships with others.
- The local medical community failed to raise concerns until it was too late.

B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT

- There wasn't a culture of openness or stakeholder engagement so instances of poor care were not addressed.
- Staff and patient surveys continually gave signs of dissatisfaction but no effective action was taken.
- Problems indicated by formal assurance systems were ignored and put down to poor record keeping.
- Insufficient priority was given to communication with regulatory and supervisory bodies.

C. DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL, AND ENVIRONMENTAL BENEFITS

- The trust pursued the wrong priorities and prioritised finances and the foundation trust application over care quality.
- The regulator focused on corporate governance and financial control without properly considering issues of patient safety and poor care.

D. DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES

- The board permitted a mismatch between the resources allocated and the needs of the services to be delivered.
- There was no detailed scrutiny by the oversight body regarding the impact of the trust's financial plan and associated staff cuts on patient care.

E. DEVELOPING THE ENTITY'S CAPACITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT

- The trust lacked a sense of collective responsibility for ensuring quality of care.
- Poor leadership, recruitment of staff and training led to declining professionalism and tolerance of poor standards.
- The trust board took false assurance from good news and tolerated/explained away bad news.
- Senior clinical staff were disengaged from the trust's leadership.

F. MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT

- Priority was given to ensuring the trust's books were in order for its foundation trust application.
- The purchaser/commissioning function was re-organised but a system to manage the inevitable risks was not put in place.
- Metrics focused on patient safety and outcome based performance measures were replaced with more indirect ones.

- It was unclear who had responsibility for following up peer review recommendations.

G. IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY, REPORTING, AND AUDIT, TO DELIVER EFFECTIVE ACCOUNTABILITY

- The regulator relied on the trust's assurances regarding quality issues.
- External agency responsibilities and accountabilities were not well defined resulting in 'regulatory gaps'.
- Serious concerns raised by auditors were not picked up by the regulator and the Department of Health.
- Local scrutiny committees failed to appreciate the seriousness of the signs indicating the trust's deficiencies.

Barnsley College – a further education college in the North East of England

BACKGROUND

Barnsley College is a large tertiary college serving Barnsley and surrounding areas in South Yorkshire. In 2013/14 it had 9,550 students and generated an operating surplus of £1.35m.

Over recent years Barnsley College has undergone a massive redevelopment, with many superb new facilities available to students. Work on the Old Mill Lane campus was completed in 2011 and this now serves as the main campus building. The college invested just over £8.8m in capital projects in 2013/14.

In 2010, governance at Barnsley College was judged to be outstanding according to its inspection report. This case study describes the characteristics of this college's governance.

OVERVIEW – THE PROVIDER'S MESSAGE

Chair of Governors:

Following the crisis in 2000, three successive principals brought their particular focus and specialisms into play, until the college was judged outstanding in 2010. Along the way, the make-up, delivery and practice of governance changed too. But the biggest series of changes to the governing body and to governance itself has occurred since 2008.

THE GOOD PRACTICE IN DETAIL

Governance at Barnsley College was judged good in 2003 and 2007, and outstanding in 2010. The chair of governors at that time, Frank Johnston, was appointed in 2009, having been vice-chair for the previous seven years. He identified the catalyst for the transition from good to outstanding as a change to the practice of governance. There is a participative approach in which the chair, the board and the principal work together to achieve common goals. This partnership model is also central to the principal's approach to the wider leadership and management of the college.

The 2003 inspection report stated that "governors and senior managers set a clear strategic direction and give strong leadership", and the 2007 report that "the college is well led and governance is good, the principal and governors have reviewed the mission and strategic aims which now focus more clearly on learners and their achievements."

By 2010 the inspection report made it clear that governance had moved up a gear to outstanding:

Governors make a valuable contribution to setting a clear strategic direction and ambitious targets for the college. They understand the college and its context extremely well and monitor academic and financial performance rigorously. The full governing body considers curriculum and quality matters, which enables governors to have a clear strategic oversight of performance.

In the words of the chair:

The governing body is more concerned with outcomes than protocols; its model of governance is that the college is a business, the governors are non-executive directors and the principal is the executive director.

To make it work, the board embraced a participative, team-based approach in which governance is dynamic, business-minded and community-focused. The board's essential role remains traditional in the sense that it sets and reviews the college's mission, values and strategic priorities, but the framework within which it operates has been changed. It is highly structured and focused and incorporates the following features:

- The annual process of setting strategy begins with a two day governors' strategic seminar held in January. The seminar is the start of the process of updating the development plan, which is the key strategic document.
- The senior management team (SMT) formally proposes the college's strategic priorities to governors at the March board meeting. Once the strategic priorities are agreed, the SMT produces the following year's development plan which is presented to the board for approval in July.
- The development plan provides a challenging framework and articulates the strategic priorities agreed by the board in March.
- Progress against the development plan is monitored regularly by governors, the SMT and other managers. Throughout the year governors receive updates on specific developments such as external inspections and progress reports relating to specific strategies and action plans.

Within this structure, there is much else that is good practice. For example:

- Board papers and reports are as succinct as possible, as are most documents produced for governors' consideration.
- Governors receive briefing packs on events and progress between board meetings.
- A link governor scheme involves governors making one or more linked visits to the college each year after which governors provide written feedback for the governing body and the principal. Each visit is linked to a strategic priority.
- Governors undergo a formal interview process and their skills are assessed against a skills matrix. Vacancies are advertised and targeted at community groups or employers when specific skills are sought.
- Individual appraisals for governors have been introduced.
- Governors produce an annual self-assessment report using a ten-point checklist.

Stakeholder engagement

The following is taken from an example provided by the Institute of Internal Auditors – Australia. It shows how an organisation can develop a stakeholder relationship and communication plan.

A public sector entity introduced a plan to identify and categorise its stakeholders. Stakeholder power was determined along with attention and influence. By initiating communication and stakeholder management, the entity can now identify and manage mutual interests more effectively while accomplishing organisational objectives.

The benefits of a stakeholder management system include the following:

- The most influential stakeholders are identified and their input can then be used to support the entity.
- Support from the most influential stakeholders will assist the entity in achieving its objectives.
- By frequently communicating with stakeholders, the entity can ensure that it fully understands the benefits offered as well as the associated costs.
- The entity can anticipate likely reactions of stakeholders to organisational communications and progress more effectively, and can build into its strategy the actions that will be needed to capitalise on positive reaction while avoiding or addressing any negative reactions.
- The entity can identify conflicting objectives among stakeholders and develop a strategy to resolve any issues that arise.

Includem

This case study illustrates how a small charity in Scotland ensures that its values are embedded across the organisation. CIPFA carried out a governance assessment at Includem in 2015 and this case study is drawn from the findings.

BACKGROUND

Includem is a registered charity constituted as a limited company under the Companies Act 2006. It has an annual turnover of £3.8m and employs 90 staff mainly in the west of Scotland. It provides one-to-one support to society's most vulnerable and troubled young people, providing intensive support in the community to around 400 young people each year across Scotland. It works primarily to support young people aged 12 to 18 who are subject to formal measures of care and who are looked after at home or in other community placements. Most of Includem's work is commissioned by local councils and grant awarding bodies.

Includem recognises the need not just to be a supplier of services to local government, but also to share the same values as its client councils and seek common outcomes for citizens.

EMBEDDING CORE VALUES

Includem's values are explicit, easily understood and memorable. The application of those values is apparent in the following ways:

- Testing candidates during recruitment exercises to see if they share the same values. This involves staff at different functions and levels (not just line managers) in the selection process.
- Reviewing again knowledge of values during annual appraisals and monitoring behaviours and staff conduct to ensure consistency with those values.
- Using a monitoring system specifically designed to oversee the welfare and protection of young people (one of the main risks at Includem).
- Involving all staff (including 'back office' personnel) in annual events who engage with their young people and their families, to celebrate success and share in positive outcomes which helps to further the entity's values.
- Ensuring the values and purpose of Includem are widely known by all staff and board members.
- Ensuring that at board meetings young people are the main focus of discussions and that decisions taken are about sustaining the services provided to them.

Northern Ireland Events Company

This case study illustrates what can happen when an organisation loses sight of its core purpose. It highlights the risks when setting up new public bodies and problems with strategic drift.

Analysis of The Northern Ireland Events Company (2015), a report produced by the Northern Ireland Audit Office (NIAO), shows that the Northern Ireland Events Company (NIEC) displayed weaknesses in almost all aspects of governance, including:

- a lack of scrutiny and oversight
- examples of conflicts of interest
- deficits caused by financial mismanagement
- failure to uphold ethical standards
- an unacceptable level of performance and accountability by the accounting officer.

Among a catalogue of failure was that NIEC lost sight of its original purpose. It was incorporated as a limited liability company with a remit to support major events in Northern Ireland. Its main source of funding was provided by central government and it was controlled by a board of publicly appointed non-executive directors. Day to day management was carried out by an executive management team, headed by a chief executive, who was also appointed accounting officer by the sponsor department.

Originally, NIEC was established because government believed that a separate events organisation, sponsored and funded by a government department, could attract private sector investment and be at 'arm's-length' from government. It was therefore established as a private company limited by guarantee.

A major contributing factor to the failure of NIEC was a change in strategic direction to take ownership of and promote events, as well as to grant fund events. Initially, NIEC primarily provided grant funding to external event organisers who took the bulk of the risk relating to events and limiting any losses to the amount of grant provided to organisers. However, within five years of being established, NIEC began to become involved in promotional activities related to major events, motocross events being one example. In promoting events NIEC contracted directly with, and paid fees to, rights holders. It also contracted directly with and paid suppliers for goods and services. This change in strategic direction greatly increased the financial risk to which NIEC was exposed.

Investigations, notably by company inspectors appointed by the Department of Enterprise, Trade and Investment (DETI) under Article 425(2) of the Companies (Northern Ireland) Order 1986, found no evidence that the change in strategic direction from grant funder (with limited liabilities) to a promoter (with unlimited liabilities) was supported by a NIEC board decision or approved by the sponsor government department. Instead, it appears that the change came about as a result of 'strategic drift' over a period of time. According to the auditors, some board members told company inspectors that they were unaware that NIEC was promoting events. Having failed to identify the significant change in business activities, the board did not recognise the increased financial and operational risk that this change brought with it.

ANNUAL GOVERNANCE STATEMENTS

Reporting

4.3 Local authorities are required to prepare a governance statement in accordance with *Delivering Good Governance in Local Government: Framework* and to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the governance and internal control framework of an organisation.

4.4 Key good practice features of an annual governance statement are described below:

- The statement has been properly approved.
- It is regarded as a valuable means of communications which will enable stakeholders to understand the authority's governance arrangements.
- It is easily accessible by authority members and members of the public, for example:
  - through its prominent display on the authority's website
  - publishing it with, but separately from, the statement of accounts.
- It has been clearly thought out and reflects the vision, character and structure of the authority, ie the big picture and not the detail.
- It demonstrates ownership by the authority and has a high status within senior management.
- It is a genuinely shared effort with wide input from outside the finance and audit functions.
- It is a key document for showing how the authority is achieving its strategic objectives.
- It is in an open and readable style.
- It demonstrates challenge.
- Issues are clearly articulated and it communicates a clear and concise message.
- Weaknesses together with areas for improvement are highlighted.
- It clearly communicates what has been done to resolve significant control issues and what remains to be done.
- Actions identified are specific, measurable, achievable, realistic and time-related (SMART).
- Responsibility for those actions is clearly identified.
- It is a 'living' document, ie it is not focused exclusively on year end and communicates significant issues which may change from year to year.

4.5 Other innovative features might include the following:

- Good use of diagrams to communicate the message more effectively and reduce the need for text.
- Use of hyperlinks to key governance documents to facilitate a brief and more user friendly statement.

Examples

4.6 Set out below are some recent annual governance statements (AGSs) from the following organisations that illustrate some of the points summarised above:

- London Borough of Lewisham
- Milton Keynes Council
- Huntingdonshire District Council
- Kent Fire and Rescue Service

London Borough of Lewisham – extract from AGS 2014/15

HOW HAS THIS STATEMENT BEEN PREPARED?

Every year a review of the effectiveness of the council's governance framework is conducted by the annual governance statement working party which comprises a team of policy, legal and audit officers with expertise in governance and internal control matters. The group meets quarterly to collate and evaluate governance evidence and identify areas requiring action, and is responsible for analysing CIPFA/Solace guidance in relation to the development of this statement and ensuring that the statement is approved via the council's key control mechanisms.

WHAT ARE THE COUNCIL'S GOVERNANCE ARRANGEMENTS?

The council's governance arrangements aim to foster:

- effective leadership and high standards of behaviour
- a culture based on openness and honesty
- an external focus on the needs of service users and the public.

Lewisham's directly elected mayor provides the council with clear strategic direction and effective leadership, but the council also benefits from the perspectives and contributions of its 54 councillors.

The council's constitution clearly defines the roles of councillors and officers, and this clarity contributes to effective working relationships across the council. The constitution working party, the standards committee and the audit panel monitor and challenge the governance arrangements and ensure their robustness. The council has worked closely with its partners, both strategic and operational, primarily through the Lewisham congress, which had its first annual meeting in October 2014.

The council has two statutory partnership boards:

1. The safer Lewisham partnership, which works to protect the community from crime and help people feel safer.
2. The health and wellbeing board, which works to identify local health challenges and lead on the activity necessary to address them.

Milton Keynes Council – extract from AGS 2013/14

Annual Governance Statement Action Plan 2013/14

	Issue	Action	Outcome	Lead Officer	Completion Date
1	There is a budget gap as identified in The Medium Term Financial Plan	Effective process used for managing budgets and monitoring and achieving identified savings	2014/15 outturn in line with budget and forecasts Balanced budget set for 2015/16 Action plan in place to address budget gap for future years	Corporate Director Resources/ AD Financial Management	March 2015
2	There will be a new administration after several years	Cabinet members are fully briefed on relevant issues. Officers and members are aware of, and conform to, the member/officer protocol.	Effective transition of Leadership	CLT/ Council Leader	September 2014
3	Officers working across new boundaries	Council processes aligned to the new boundaries	Members issues are referred to the correct member in the first instance	CLT	June 2014
4	A significant number of new members	Effective training delivered to all members. Clarity of roles and responsibilities to be provided.	Role profiles agreed and in place. Newly elected members in receipt of personal development plans and to have received appropriate training	AD Law & Governance/ Member & Electoral Services Manager	December 2014
5	Overview and Scrutiny arrangements are not effective in holding the Executive to account and developing policy.	To undertake a review of existing arrangements, and agree on issues, solutions and way forward.	Agreed timescale for implementation of proposal	AD Law & Governance/ Committee Services & Scrutiny Manager	January 2015
6	Transition resulting from appointment of a new Chief Executive and a further four members of the Senior Leadership Team	Processes are in place to manage the changes at Senior level to ensure new officers fully deliver their roles and responsibilities effectively.	Senior Officers in post on permanent appointments. Seamless transition for the Council with no adverse impact to service delivery.	CLT/ HR Service Delivery Manager	December 2014
7	The Council's Code of Corporate Governance has not been updated since 2010.	A review of the Council's Code of Corporate Governance to be undertaken to ensure that it describes the Council's governance framework and the arrangements through which this is delivered.	A fit for purpose Code of Corporate Governance which is complied with.	CLT/ Corporate Director Resources	March 2015
8	Increased reliance on a wide range of Partners to work with the Council to deliver key services e.g. health	The process for overseeing and monitoring key partnerships is effective	Annual review provides assurance of effective partnership governance arrangements	CLT/ Head of Policy & Performance	January 2015
9	An increasing number of core services are being delivered though large and complex contracts.	Arrangements for effective contract management are in place.	Internal Audit to provide at least a satisfactory opinion on audits of large contracts	CLT/ AD Public Realm	December 2014
10	There is a need to demonstrate that proposed benefits are achieved from major programmes and projects.	Arrangements are in place to formally evaluate benefits gained from all major programmes and projects.	Benefits realisation review undertaken providing at least satisfactory opinion	CLT	December 2014

Huntingdonshire District Council – extract from AGS 2013/14

The following action has been taken:

- The programme and project management toolkit was approved by the project management working board and launched in June 2014.
- The managing director attended the July 2014 panel meeting and explained how a culture of compliance was being promoted and that the new management team would be charged with delivery of the audit actions as a priority.
- The management team formally consider all audit reports that have been given 'limited' or 'little' assurance opinions and agree with the relevant manager those improvements that need to be made.
- The head of resources has appointed temporary staff to the debtors team to deal with the issues identified by internal audit.
- Each year the panel considers how effective it has been in overseeing the council's governance arrangements.

This governance statement is reported to council once it has been approved. The chair of the panel submits a report to the same council meeting which summarises the work of the panel, so allowing the council to take comfort that key governance processes are being reviewed.

Kent Fire and Rescue Service – extract from AGS 2014/15. Principle 5: Develop the capacity and capability of Members and Officers to be effective and to deliver services effectively

Principle 5: Develop the capacity and capability of Members and Officers to be effective and to deliver services effectively		
How We Meet these Principles	**Where You Can See Governance in action**	**Assurance Received and Issues Identified**
• We provide all staff with role maps or job descriptions setting out their duties clearly and document the personal qualities and attributes required for each post. • We operate an appraisal scheme for all staff to identify development and skills needs and assess performance. • We produce a Workforce Strategy setting out the key objectives for developing and training our staff. • We operate a protocol to govern the relationship between Members and officers that ensures access to appropriate information. • We treat everyone fairly and equally. • We take the Health and Safety of our Staff extremely seriously. • We provide new Members with induction training on appointment. • We evaluate the training needs of Members and run briefings on key topics to ensure they have the knowledge and information to make effective decisions.	Our Current Vacancies Adverts Workforce Strategy 2013-2017 Convention on Member/Officer Relations Equality and Diversity Vision and Objectives Corporate Health Indicators Member Training Programme	A programme of training and briefing sessions for elected Members has been agreed to ensure Members remain up to date with current issues, are clear about their roles, and have sufficient information to make informed decisions. The qualifications, skills, behaviours and personal attributes required by staff in their roles are identified and documented, and reviewed annually. All employees receive annual appraisals which include an assessment of future training and development needs. The current economic situation is likely to continue to see a reduction in the number of staff employed by the Authority. We have identified that this presents a potential risk to our ability to retain the skills and experience needed, and to identify suitable candidates for promotion in the future. Measures are being implemented to combat this risk.

EMBEDDING GOOD GOVERNANCE – GENERAL POINTS

Introduction

4.7 Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) notes that it is crucial that governance arrangements are applied in a way that demonstrates the spirit and ethos of good governance which cannot be achieved by rules and procedures alone. Effectively, good governance needs to be embedded in an organisation. It needs to permeate every aspect of the organisation's culture. Therefore 'hearts and minds' must be won over – the need for and value of good governance must be explicit.

4.8 This section of the guidance notes provides some issues to consider in ensuring that good governance is appropriately embedded.

Issues to consider

- How is governance perceived in your organisation? Is it regarded as an enabler in terms of innovation or a barrier to it?
- How has the organisation tried to embed good governance in its culture? Has this been successful?
- Are the benefits of good governance transparent in your organisation? For example:
  - better informed and improved decision making
  - clear demonstration of integrity and probity
  - clear focus on outcomes
  - developing a risk management culture.
- How are the benefits of good governance communicated to those who may not be aware of them including some members and senior officers?
- How does the organisation engage with its members on governance issues? How might this be improved?
- Do managers and officers feel free to raise any concerns that they might have?
- Is the organisation's code of governance accessible? Is it easy to understand?
- How are good governance principles communicated to the organisation's contractors and partners? How effective is that communication?
- How is the importance of maintaining standards communicated? Is it successful?
- Is appropriate induction and training available to those who need it?
- Does the concept of good governance have support from the top of the organisation – the chief executive and leader? How do they demonstrate this?
- How are the political groups involved in developing and maintaining good governance?
- How does the organisation ensure that governance structures continue to be up to date and relevant? For example, decision making frameworks, roles and responsibilities and schemes of delegation.
- What is the monitoring officer's role in enabling and facilitating good governance?

USE OF INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

4.9 Reinforced by the use of appropriate social media and other communication and consultation techniques, ICT can promote good governance in three basic ways, according to Information Technology for Good Governance (2001):

1. Increasing transparency, information, and accountability.
2. Facilitating accurate decision making and public participation.
3. Enhancing the efficient delivery of public goods and services.

4.10 Deployment of new technology can also pose serious risks, however, and cause many problems when either the technical or organisational aspects of its implementation and operation are not properly planned and managed. The right skills will be required both during and after implementation. The governing body should approve the ICT strategy and ensure there is appropriate oversight of ICT projects. It should also make sure that senior management sufficiently addresses ICT security, and specifically cyber security, whether developed in-house or outsourced.

CHAPTER FIVE

Schedule to assist in putting the principles into practice

5.1 The following section looks at examples of the systems, processes and documents that might be cited by an authority as evidence of compliance with good practice.

5.2 The illustrative table below includes the following:

- Columns 1 and 2 reproduced from Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) illustrating:
  - the core principles and sub-principles of good governance and the behaviours and actions that demonstrate good governance.
- Column 3 outlining:
  - examples of systems, processes and documentation and other evidence that may be used to demonstrate compliance (for illustration purposes only)
  - self-assessment tools and sources of further guidance.

5.3 If using this approach, it should be stressed that authorities will need to assess how far their processes and documentation meet the criteria suggested, otherwise the exercise will become a box-ticking process rather than a qualitative exercise. One way to make the exercise more challenging would be to score the authority's arrangements on a scale of 0 to 10, where 10 represents very best practice. This could be done by adding two extra columns – one for a self-assessment score and one to add plans for improvement.

5.4 Authorities might find this a practical way of approaching the task. Authorities should not, however, feel constrained by either the format or the examples listed.

Schedule to assist in putting the principles of good governance into practice

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
Acting in the public interest requires a commitment to and effective arrangements for:		
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.	**Behaving with integrity** ■ Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation	■ Codes of conduct ■ Individual sign off with regard to compliance with code ■ Induction for new members and staff on standard of behaviour expected ■ Performance appraisals
	■ Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)	■ Communicating shared values with members, staff, the community and partners
	■ Leading by example and using these standard operating principles or values as a framework for decision making and other actions	■ Decision making practices ■ Declarations of interests made at meetings ■ Conduct at meetings ■ Shared values guide decision making ■ Develop and maintain an effective standards committee
	■ Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively	■ Anti-fraud and corruption policies are working effectively ■ Up-to-date register of interests (members and staff) ■ Up-to-date register of gifts and hospitality ■ Whistleblowing policies are in place and protect individuals raising concerns ■ Whistleblowing policy has been made available to members of the public, employees, partners and contractors

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
		■ Complaints policy and examples of responding to complaints about behaviour ■ Changes/improvements as a result of complaints received and acted upon ■ Members and officers code of conduct refers to a requirement to declare interests ■ Minutes show declarations of interest were sought and appropriate declarations made
	Demonstrating strong commitment to ethical values ■ Seeking to establish, monitor and maintain the organisation's ethical standards and performance	■ Scrutiny of ethical decision making ■ Championing ethical compliance at governing body level
	■ Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation	■ Provision of ethical awareness training
	■ Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values	■ Appraisal processes take account of values and ethical behaviour ■ Staff appointments policy ■ Procurement policy
	■ Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation	■ Agreed values in partnership working: – Statement of business ethics communicates commitment to ethical values to external suppliers – Ethical values feature in contracts with external service providers ■ Protocols for partnership working
	Respecting the rule of law ■ Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations	■ Statutory provisions ■ Statutory guidance is followed ■ Constitution

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	■ Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements	■ Job description/specifications ■ Compliance with CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* (CIPFA, 2015) ■ Terms of reference ■ Committee support
	■ Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders	■ Record of legal advice provided by officers
	■ Dealing with breaches of legal and regulatory provisions effectively	■ Monitoring officer provisions ■ Record of legal advice provided by officers ■ Statutory provisions
	■ Ensuring corruption and misuse of power are dealt with effectively	■ Effective anti-fraud and corruption policies and procedures ■ Local test of assurance (where appropriate)
		Further guidance ■ Statement on the Role of the Chief Financial Officer in Local Government (CIPFA, 2015) ■ Illustrative Text for Local Code of Conduct (DCLG, 2012) ■ LGA Template Code of Conduct ■ Code of Ethics for Local Public Service Managers – Consultation (Solace, 2015) ■ Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Code of Practice on Managing the Risk of Fraud and Corruption: Guidance Notes (CIPFA, 2014) ■ Ethics in Practice: Promoting Ethical Standards in Public Life (Committee on Standards in Public Life, 2014) ■ Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
B. Ensuring openness and comprehensive stakeholder engagement Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.	**Openness** ■ Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness	■ Annual report ■ Freedom of Information Act publication scheme ■ Online council tax information ■ Authority's goals and values ■ Authority website
	■ Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided	■ Record of decision making and supporting materials
	■ Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear	■ Decision making protocols ■ Report pro-formas ■ Record of professional advice in reaching decisions ■ Meeting reports show details of advice given ■ Discussion between members and officers on the information needs of members to support decision making ■ Agreement on the information that will be provided and timescales ■ Calendar of dates for submitting, publishing and distributing timely reports is adhered to
	■ Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action	■ Community strategy ■ Use of consultation feedback ■ Citizen survey

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	Engaging comprehensively with institutional stakeholders	
	■ Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably	■ Communication strategy
	■ Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively	■ Database of stakeholders with whom the authority should engage and for what purpose and a record of an assessment of the effectiveness of any changes
	■ Ensuring that partnerships are based on: – trust – a shared commitment to change – a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit	■ Partnership framework ■ Partnership protocols
	Engaging stakeholders effectively, including individual citizens and service users	
	■ Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.	■ Record of public consultations ■ Partnership framework

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	■ Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement	■ Communications strategy
	■ Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs	■ Communications strategy ■ Joint strategic needs assessment
	■ Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account	■ Communications strategy
	■ Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity	■ Processes for dealing with competing demands within the community, for example a consultation
	■ Taking account of the interests of future generations of tax payers and service users	■ Reports ■ Joint strategic needs assessment
		Further guidance ■ Good Governance Principles for Partnership Working (Audit Scotland, 2011) ■ Community Planning Toolkit – Working Together, Community Places through the Support of the Big Lottery Fund (2014)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in local government also requires effective arrangements for:		
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.	**Defining outcomes** ■ Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions	■ Vision used as a basis for corporate and service planning
	■ Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer	■ Community engagement and involvement ■ Corporate and service plans ■ Community strategy
	■ Delivering defined outcomes on a sustainable basis within the resources that will be available	■ Regular reports on progress
	■ Identifying and managing risks to the achievement of outcomes	■ Performance trends are established and reported upon ■ Risk management protocols
	■ Managing service users expectations effectively with regard to determining priorities and making the best use of the resources available	■ An agreed set of quality standard measures for each service element and included in service plans ■ Processes for dealing with competing demands within the community

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	Sustainable economic, social and environmental benefits ■ Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision	■ Capital investment is structured to achieve appropriate life spans and adaptability for future use or that resources (eg land) are spent on optimising social, economic and environmental wellbeing: – Capital programme – Capital investment strategy
	■ Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints	■ Discussion between members and officers on the information needs of members to support decision making ■ Record of decision making and supporting materials
	■ Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs	■ Record of decision making and supporting materials ■ Protocols for consultation
	■ Ensuring fair access to services	■ Protocols ensure fair access and statutory guidance is followed **Further guidance** ■ Building Partnerships: Insights from the Devolution Summit (CIPFA/Grant Thornton, 2015)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
D. Determining the interventions necessary to optimise the achievement of the intended outcomes Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.	**Determining interventions** ■ Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided	■ Discussion between members and officers on the information needs of members to support decision making ■ Decision making protocols ■ Option appraisals ■ Agreement of information that will be provided and timescales
	■ Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts	■ Financial strategy
	Planning interventions ■ Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets	■ Calendar of dates for developing and submitting plans and reports that are adhered to
	■ Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered	■ Communication strategy
	■ Considering and monitoring risks facing each partner when working collaboratively including shared risks	■ Partnership framework ■ Risk management protocol
	■ Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances	■ Planning protocols

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	■ Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured	■ KPIs have been established and approved for each service element and included in the service plan and are reported upon regularly
	■ Ensuring capacity exists to generate the information required to review service quality regularly	■ Reports include detailed performance results and highlight areas where corrective action is necessary
	■ Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan	■ Evidence that budgets, plans and objectives are aligned
	■ Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy	■ Budget guidance and protocols ■ Medium term financial plan ■ Corporate plans
	Optimising achievement of intended outcomes ■ Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints	■ Feedback surveys and exit/ decommissioning strategies ■ Changes as a result
	■ Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term	■ Budgeting guidance and protocols

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	■ Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage	■ Financial strategy
	■ Ensuring the achievement of 'social value' through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes"	■ Service plans demonstrate consideration of 'social value' ■ Achievement of 'social value' is monitored and reported upon

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfill its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.	**Developing the entity's capacity** ■ Reviewing operations, performance use of assets on a regular basis to ensure their continuing effectiveness	■ Regular reviews of activities, outputs and planned outcomes
	■ Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently	■ Utilisation of research and benchmarking exercise
	■ Recognising the benefits of partnerships and collaborative working where added value can be achieved	■ Effective operation of partnerships which deliver agreed outcomes
	■ Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources	■ Workforce plan ■ Organisational development plan
	Developing the capability of the entity's leadership and other individuals ■ Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained	■ Job descriptions ■ Chief executive and leader pairings have considered how best to establish and maintain effective communication
	■ Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body	■ Scheme of delegation reviewed at least annually in the light of legal and organisational changes ■ Standing orders and financial regulations which are reviewed on a regular basis

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	■ Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority	■ Clear statement of respective roles and responsibilities and how they will be put into practice
	■ Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:	■ Access to update courses/ information briefings on new legislation
	– ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged	■ Induction programme ■ Personal development plans for members and officers

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1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	– ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis	■ For example, for members this may include the ability to: – scrutinise and challenge – recognise when outside expert advice is required – promote trust – work in partnership – lead the organisation – act as a community leader ■ Efficient systems and technology used for effective support
	– ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external	■ Arrangements for succession planning
	■ Ensuring that there are structures in place to encourage public participation	■ Residents' panels ■ Stakeholder forum terms of reference ■ Strategic partnership frameworks
	■ Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections	■ Reviewing individual member performance on a regular basis taking account of their attendance and considering any training or development needs ■ Peer reviews
	■ Holding staff to account through regular performance reviews which take account of training or development needs	■ Training and development plan ■ Staff development plans linked to appraisals ■ Implementing appropriate human resource policies and ensuring that they are working effectively

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	■ Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing	■ Human resource policies
		Further guidance ■ Devo Why? Devo How? Guidance (and Some Answers) About Governance Under English Devolution (Centre for Public Scrutiny, 2015) ■ Responding to the Challenge: Alternative Delivery Models in Local Government (Grant Thornton, 2014) ■ The Excellent Finance Business Partner (CIPFA, 2015)

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1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
F. Managing risks and performance through robust internal control and strong public financial management Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability. It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.	**Managing risk** ■ Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making	■ Risk management protocol
	■ Implementing robust and integrated risk management arrangements and ensuring that they are working effectively	■ Risk management strategy/ policy formally approved and adopted and reviewed and updated on a regular basis
	■ Ensuring that responsibilities for managing individual risks are clearly allocated	■ Risk management protocol
	Managing performance ■ Monitoring service delivery effectively including planning, specification, execution and independent post implementation review	■ Performance map showing all key activities have performance measures ■ Benchmarking information ■ Cost performance (using inputs and outputs) ■ Calendar of dates for submitting, publishing and distributing timely reports that are adhered to
	■ Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook	■ Discussion between members and officers on the information needs of members to support decision making ■ Publication of agendas and minutes of meetings ■ Agreement on the information that will be needed and timescales

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	■ Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible (OR, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making	■ The role and responsibility for scrutiny has been established and is clear ■ Agenda and minutes of scrutiny meetings ■ Evidence of improvements as a result of scrutiny ■ Terms of reference ■ Training for members ■ Membership
	■ Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement	■ Calendar of dates for submitting, publishing and distributing timely reports that are adhered to
	■ Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)	■ Financial standards, guidance ■ Financial regulations and standing orders
	Robust internal control ■ Aligning the risk management strategy and policies on internal control with achieving the objectives	■ Risk management strategy ■ Audit plan ■ Audit reports
	■ Evaluating and monitoring the authority's risk management and internal control on a regular basis	■ Risk management strategy/ policy has been formally approved and adopted and is reviewed and updated on a regular basis
	■ Ensuring effective counter fraud and anti-corruption arrangements are in place	■ Compliance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	■ Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor	■ Annual governance statement ■ Effective internal audit service is resourced and maintained
	■ Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body: – provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment – that its recommendations are listened to and acted upon	■ Audit committee complies with best practice. See Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013) ■ Terms of reference ■ Membership ■ Training
	Managing data ■ Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	■ Data management framework and procedures ■ Designated data protection officer ■ Data protection policies and procedures
	■ Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies	■ Data sharing agreement ■ Data sharing register ■ Data processing agreements
	■ Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring	■ Data quality procedures and reports ■ Data validation procedures

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	Strong public financial management	
	■ Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance	■ Financial management supports the delivery of services and transformational change as well as securing good stewardship
	■ Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls	■ Budget monitoring reports
		Further guidance ■ From Bolt-on to Built-in: Managing Risk as an Integral Part of Managing an Organization (IFAC, 2015) ■ Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Code of Practice on Managing the Risk of Fraud and Corruption: Guidance Notes (CIPFA, 2015) ■ Whole System Approach to Public Financial Management (CIPFA, 2012) ■ Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.	**Implementing good practice in transparency** ■ Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate ■ Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand	■ Website ■ Annual report
	Implementing good practices in reporting ■ Reporting at least annually on performance, value for money and the stewardship of its resources	■ Formal annual report which includes key points raised by external scrutineers and service users' feedback on service delivery ■ Annual financial statements
	■ Ensuring members and senior management own the results	■ Appropriate approvals
	■ Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement)	■ Annual governance statement
	■ Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate	■ Annual governance statement

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
	■ Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations	■ Format follows best practice
	Assurance and effective accountability ■ Ensuring that recommendations for corrective action made by external audit are acted upon ■ Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon	■ Recommendations have informed positive improvement ■ Compliance with CIPFA's Statement on the Role of the Head of Internal Audit (2010) ■ Compliance with Public Sector Internal Audit Standards
	■ Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations	■ Recommendations have informed positive improvement
	■ Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement	■ Annual governance statement
	■ Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met	■ Community strategy

1. Principles of good governance (in bold)	2. Sub-principles (in bold) and behaviours and actions that demonstrate good governance in practice	3. Examples of systems, processes, documentation and other evidence demonstrating compliance (also includes self-assessment tools and sources of further guidance)
		Further guidance ■ Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013) ■ Get in on the Act: The Local Audit and Accountability Act 2014 (LGA, 2014) ■ Governance Mark of Excellence (CIPFA)

CHAPTER SIX

Other governance issues

SCRUTINY

Introduction

6.1 The Local Government Act 2000 brought in arrangements that defined a scrutiny role for elected members. By sitting on the overview and scrutiny committees they hold the politicians who form the executive or cabinet to account, and scrutinise the work of other agencies providing local services. The Act introduced a clear distinction between the executive's role in proposing and implementing policies, and the role of non-executive members in reviewing policy and scrutinising executive decisions.

6.2 The overview and scrutiny committees were given powers to study decisions and policies of bodies other than councils operating in their areas and to require council officials and cabinet members to attend and answer questions. They are able to make recommendations and propose changes to be considered by the executive. Challenge and scrutiny contribute to good governance by being a key part of transparent and accountable decision making, policy making and review.

6.3 Through the scrutiny process, councillors have been given significant power to hold their partners to account. The Health and Social Care Act 2001 gave councils responsibility for scrutinising local NHS trusts, including primary care trusts. Powers were further expanded by the Police and Justice Act 2006, which provided powers to scrutinise the work of crime and disorder reduction partnerships. The Local Government and Public Involvement in Health Act 2007 gave powers to local government to scrutinise other partner organisations, including bodies such as the Environment Agency. It also brought in other provisions that affect how scrutiny committees work, including powers over the creation of joint committees and powers to resolve local problems through the 'councillor call for action'.

6.4 The Localism Act 2011 consolidated the content of the 2000, 2001, 2007 and 2009 Acts. It involved some minor amendments, particularly in the powers of district councils and the role of scrutiny in relation to local partners.

6.5 Through the 2011 Act, the government has encouraged greater use of the directly elected mayor model of governance; a role focusing on long-term strategic decisions bringing together different agencies to facilitate improved public services. A partnership focused mayoral model needs to be accompanied by strong overview and scrutiny of partnerships. At the same time, the 2011 Act permits local authorities to choose to introduce a committee system for decision-making purposes which may (although this is not a requirement) operate a system for scrutiny and review.

The importance of effective scrutiny

6.6 It is essential that local authorities, whatever form of governance structure they choose, should benefit from a culture of (and structure for) scrutiny which is effective at challenging the way an authority operates. The increase in the use of alternative delivery models and vehicles, including outsourcing and complex joint arrangements for service provision, means that scrutiny committees are a crucial mechanism for ensuring oversight.

6.7 Authorities electing to adopt a committee system need to ensure that they are able to exercise effectively their scrutiny powers around healthcare, social care and health improvement, crime and disorder and external partners, as well as independent challenge to decisions made by their committees. Authorities need to think through how a system of checks and balances will exist in order to ensure their committees drive forward improvements while mitigating risks.

6.8 Overview and scrutiny structures should play an important role in facilitating accountability in devolved regions and in relation to elected mayors.

Principles of good scrutiny

6.9 The Centre for Public Scrutiny has established four core principles of good scrutiny:

- Provides critical friend challenge to executive policy makers and decision takers.
- Enables the voice and concerns of the public.
- Is carried out by independent-minded councillors who lead and own the process.
- Drives improvement in public services.

6.10 Local authority overview and scrutiny committees have the power to summon members of the executive and officers of the authority before it to answer questions, and are able to invite other persons to attend meetings to give their views or submit evidence.

The role of scrutiny

6.11 The role of scrutiny is to review policy and to challenge whether the executive has made the right decisions to deliver policy goals. The scrutiny committee is able to provide a long-term view of strategic issues and also to look in detail at key aspects of the authority's operations. This is different from the role of the audit committee, which exists to provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the authority, including the scrutiny function, is operating effectively. That said, an audit committee's judgements may well be informed by the results of scrutiny within the authority.

6.12 The scrutiny function has the following legislative roles:

- Holding the executive to account.
- Policy development and review.
- External scrutiny – scrutiny committees have the power to consider matters that are not the responsibility of the local authority, but which affect the authority's area or its inhabitants.

6.13 Scrutiny and overview committees have other key roles, which include:

- providing satisfying and meaningful roles for non-executive members
- considering budget proposals
- considering general performance, management and review
- ensuring corporate priorities are met
- monitoring and revising the constitution
- engaging partner organisations, the public and the press
- holding partnerships to account.

Making scrutiny effective

6.14 An effective scrutiny function is characterised by the following:

- It has a clearly defined role within the authority's governance structure.
- It has clear terms of reference that set out its role in respect of independent scrutiny of decisions and performance.
- It is adequately resourced and appropriately structured with access to independent advice.
- Meetings are held on a timely basis.
- The authority's leadership is willing to be challenged and regards robust (and resourced) challenge as a necessary part of good governance.
- It is led and owned by members who are committed to improving their own performance and skills.
- It is understood and valued throughout the authority and public awareness is high. It is clear that it is not a substitute for an audit committee.
- There is a willingness to look beyond the boundaries of the authority to all agencies that affect the locality.
- The chair and members are willing to challenge the executive through questioning on topics of local relevance where there is a realistic prospect of influencing change.
- The chair and vice-chair work with the scrutiny officer in deciding how to structure meetings, who to invite and how an investigation should be conducted.
- The chair and members have the necessary skills, training and confidence to allow them to scrutinise and challenge effectively.
- The chair is:
  - not a member of the political administration
  - appropriately knowledgeable and skilled to be able to manage the meeting
  - firm and tactful with those answering questions
  - able to understand technical issues quickly
  - able to lead, inspire and motivate the team
  - a visible champion for scrutiny, raising its profile internally and externally
  - proactive.

- It is not, or seen to be, controlled by the executive.
- The executive receives reports from the committee sympathetically and acts upon them as appropriate in order to effect improved outcomes in service delivery.
- The committee presents reports with sound recommendations based on the best evidence available and with all-party support wherever possible.
- Scrutiny has effective support from capable officers. Their duties are likely to include:
  - working with the committee chair and vice-chair
  - planning research
  - preparing background reports
  - inviting and briefing witnesses
  - writing draft reports.
- Scrutiny officers have:
  - excellent research skills
  - knowledge of the local area
  - an interest in local and general affairs
  - a diplomatic approach.
- Participants are willing to share and expect something constructive from the process.
- Concerns are taken seriously and where relevant incorporated into appropriate recommendations.

Further guidance

- Building Partnerships: Insights from the Devolution Summit (CIPFA/Grant Thornton, 2015)
- Coulson A and Whiteman P (2012) Holding Politicians to Account? Overview and Scrutiny in English Local Government, *Public Money and Management, 32*, 185–192
- Devo Why? Devo How? Questions (and Some Answers) About Governance Under English Devolution (Centre for Public Scrutiny, 2015)
- The Good Scrutiny Guide (Centre for Public Scrutiny, 2nd Edition)
- Leadership of Place: The Role of Overview and Scrutiny (Leadership Centre for Local Government)
- Musical Chairs: Practical Issues for Local Authorities in Moving to a Committee System (Centre for Public Scrutiny, 2012)
- Raising the Stakes: Financial Scrutiny in Challenging Times: A Guide for Welsh Local Authorities (Centre for Public Scrutiny/Grant Thornton, 2014)

FRAUD

Introduction

6.15 Fraud costs the public sector around £21bn annually and of this total, approximately £2bn is specifically in local government. Fraud can be a major risk to councils both financially and reputationally and needs to be considered as part of formal risk management processes.

6.16 Local authorities are urged to make use of the guidance, toolkits and websites available to them in developing robust processes for countering fraud.

CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

6.17 In October 2014, CIPFA published its Code of Practice on Managing the Risk of Fraud and Corruption. The Code sets out five key principles that define the governance and operational arrangements necessary for an effective counter fraud response. These are as follows:

- **Acknowledge the responsibility of the governing body for countering fraud and corruption**

  The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

- **Identify the fraud and corruption risks**

  Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

- **Develop an appropriate counter fraud and corruption strategy**

  An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

- **Provide resources to implement the strategy**

  The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

- **Take action in response to fraud and corruption**

  The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud. There should be a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions should be featured in the annual governance statement.

6.18 The Code sets out the steps each authority should take in order to to embed effective standards for countering fraud and corruption in their organisation. The Code is underpinned by a set of guidance notes that explain the importance of the principles and help organisations to apply them in practice. An assessment tool is also available to help organisations assess the strength of their arrangements against the Code.

6.19 The Code can be used to present to audit committees as a measure of what actions need to be taken to improve counter fraud arrangements, building counter fraud work into good governance for organisations.

Local government counter fraud and corruption strategy

6.20 Fighting Fraud and Corruption Locally 2016 (FFCL) is the local government counter fraud and corruption strategy. It is endorsed by central government, the Local Government Association and Solace. It was researched by the CIPFA Counter Fraud Centre (CCFC) and written by local authorities for local authorities. The CCFC hosts the day to day operations of FFCL for its independent board and it has a dedicated website with a good practice bank.

6.21 The FFCL Strategy 2016–2018 has two parts:

- The Strategy, which contains top level messages, is aimed at chief executives, finance directors and those charged with governance.
- The Companion, which is aimed at those involved in the day to day operations in counter fraud in local authorities.

6.22 The Strategy contains recommendations for chief executives to ensure their authority addresses the areas raised in the Strategy in order to create a robust response to tackling fraud and corruption. The Companion document contains good practice as well as a checklist which local authorities should follow and use as self-assessment. The outcome of this assessment should be produced for leadership teams and/or audit committees.

6.23 The CCFC also conducts the CIPFA Fraud and Corruption Tracker (CFaCT), an annual survey of local authorities asking questions devised by the FFCL Board to assess adherence and response to the strategy. The survey is endorsed and supported by the Local Government Association (LGA), the National Audit Office (NAO) and the National Crime Agency (NCA), and it feeds back into the national response for the UK. Those charged with governance should ensure completion of this survey.

Further guidance

- CIPFA Better Governance Forum
- CIPFA Counter Fraud Centre
- CIPFA Fraud and Corruption Tracker (CFaCT)
- Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)
- Code of Practice on Managing the Risk of Fraud and Corruption: Guidance Notes (CIPFA, 2014)
- Counter Fraud Code of Practice Assessment Tool
- Fighting Fraud and Corruption Locally 2016
- National Anti-Fraud Network (NAFN)

MAINTAINING STANDARDS

Introduction

6.24 The Localism Act 2011 repealed most of the standards provisions in the Local Government Act 2000, including the statutory code of conduct, the Standards Board and the legal requirement to have a standards committee. The 2011 Act instead imposes a duty on local authorities to promote and maintain high standards of conduct by members and co-opted members and an obligation to adopt a code of conduct consistent with the Nolan Principles. The 2011 Act otherwise provides wider flexibility, reflecting localism principles, for authorities to meet the duty structurally, and through arrangements for investigating complaints. Criminal offences were also created dealing with the non-notification and non-disclosure of 'disclosable pecuniary interests', improper participation in authority business and the provision of false and misleading information.

6.25 It is essential that despite financial constraints authorities continue to prioritise and monitor ethical standards.

Duty to promote and maintain high standards of conduct

6.26 This duty included in the 2011 Act links with the first principle of the CIPFA/Solace Framework: *Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law* and its supporting principles. Shared values that become integrated into the culture of an organisation and are reflected in behaviour and policy are hallmarks of good governance.

Code of conduct

6.27 CIPFA believes that codes of conduct are an essential component of good corporate governance for all public service bodies, as they define the values and standards of behaviour expected of individuals. In our view nationally set codes of conduct can be used to promote consistent standards of conduct and probity, and to provide assurance for community stakeholders. Their existence helps minimise lapses and provides a framework for personal accountability. Basic standards and practices should be consistent across the sector.

Members

6.28 The Department for Communities and Local Government (DCLG) has published an Illustrative Text for Local Code of Conduct (2012) setting out what a council's code of conduct might look like under the 2011 Act.

6.29 The Local Government Association (LGA), with support from Solace and the Association of Council Secretaries and Solicitors (ACSeS), has published a Template Code of Conduct based on the seven principles of public life.

Officers and staff

6.30 Local authorities are free to decide to institute a code of conduct for their own staff. CIPFA is working with Solace and a range of professional bodies to develop a new code of ethics for professional leaders in local public services. The code of ethics will outline the principles of behaviour that promote and reinforce the highest standards from everyone in senior professional leadership roles across the local public services.

6.31 The code is an overarching statement of ethics, based upon behaviours and therefore focuses on the individual, as opposed to groups or organisational culture. It is intended to be applicable to all those who hold senior management roles in local public services led by locally elected politicians. The new code will be published in 2016.

6.32 A number of senior professionals within local public services are already subject to specific professional codes of ethics and behaviour, and the new code does not replace these professional codes which are likely to be more detailed in nature.

Standards committee

6.33 Local authorities are required by the Localism Act 2011 to have in place a mechanism to investigate alleged breaches of the members' code of conduct. At least one 'independent' person must be appointed to advise an authority before a decision regarding the allegation can be made. Although no longer a legal requirement, a standards committee at a local level can provide an effective mechanism for complaints to be investigated. It should act as a disincentive to misconduct through objective overview and complaints handling. Local standards committees, among other things, should help promote confidence in local democracy. To be effective they must be chaired by an independent person, appointed through open competition, who is able to command the trust of all political parties and of the public.

Duty to promote and maintain standards

6.34 As well as ensuring compliance with the provisions of the 2011 Act, authorities should consider how they will fulfill the duty to promote and maintain standards. The following actions will help support the achievement of this duty:

- Embedding high ethical standards in the culture of the authority.
- Reinforcing high standards through positive leadership.
- Ensuring ethical awareness is addressed as part of the induction and training programme for all members/co-opted members and providing regular updates.
- Providing guidance to members on the application of codes of conduct and other aspects of the authority's ethical framework when participating in partnership bodies or other representative roles.
- Ensuring that there are systems and appropriate sanctions in place to deal robustly with instances of bullying and harassment which make clear to whom and how both members and staff may complain.
- Ensuring that an effective whistleblowing policy is in place.
- Specifying ethical requirements in contracts with suppliers responsible for delivering public services.
- Undertaking periodic surveys of members and key officers who interact with members to obtain their views on the application of ethical values in practice and to identify any concerns or learning points.

- Providing a system to record gifts and hospitality and to advise on acceptable limits. The register should be subject to regular review and public reporting.
- Ensuring that an effective system for declaring and registering interests is in place.
- Ensuring effective scrutiny of standards through mechanisms such as peer review.
- Ensuring that financial constraints do not reduce management support for the promotion of high ethical standards.
- Ensuring that the annual governance statement provides clear accountability for fulfilling the duty.
- Properly and effectively applying arrangements for investigating and deciding on allegations of breach of code made against members.

Further guidance

- Ethics in Practice: Promoting Ethical Standards in Public Life (Committee on Standards in Public Life, 2014)
- Ethical Standards for Providers of Public Services: Guidance (Committee on Standards in Public Life, 2014)
- Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)

LOCAL AUDIT AND AUDIT COMMITTEES

The Local audit and Accountability Act 2014

6.35 The Local Audit and Accountability Act 2014 requires that local authorities must appoint their own auditors from 2018 when their existing audit contracts expire. This means that:

- local authorities will need to appoint an auditor by 31 December preceding the financial year for which the accounts are to be audited
- the length of the audit contract should be no longer than five years
- the same auditor may be reappointed at the end of the five year period
- the authority must publish its choice of auditor
- the decision to appoint the auditor must be made by the full council
- authorities may choose to let audit contracts jointly with other authorities
- the authority must publish an annual governance statement alongside the accounts and a narrative commenting on the authority's economy, efficiency and effectiveness
- authorities are required to appoint an 'independent auditor panel'.

Auditor responsibilities

6.36 The National Audit Office (NAO) has set out the responsibilities of local auditors. In relation to financial statements, auditors are required to provide an opinion on whether the audited body's financial statements:

- give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question
- have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

6.37 Auditors also have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

6.38 In relation to the annual governance statement, auditors must:

- review whether it has been presented in accordance with requirements
- report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware.

6.39 In doing so, auditors must bear in mind the knowledge they have acquired through auditing the annual accounts and reviewing the authority's arrangements for securing value for money.

The independent auditor panel

6.40 The new arrangements include the ability of authorities to appoint their own local public auditors on the advice of an auditor panel and this may be done either individually or jointly with one or more other authorities.

6.41 The function of the independent auditor panel is to ensure that when an authority appoints its own auditor the independence of the external auditor is maintained. The panel is therefore responsible for advising the authority on its relationship with its external auditor. The panel is required to:

- publish its advice on the authority's choice of auditor
- advise the authority in the event of the auditor resigning or being removed
- advise the authority on whether or not to draw up a policy regarding the provision of non-audit services (such as consultancy) by the external auditor.

6.42 In addition, the authority must notify the panel if a public interest report is produced by the auditor.

6.43 The independent auditor panel must have at least three members. A majority must be independent members, one of which must be the panel chair. 'Independence' is further defined in the Local Audit (Auditor Panel Independence) Regulations 2014, summarised as follows:

The main areas through which independence may be impaired are where the panel member has:

- previous experience within the last five years as a member or officer with the authority or another, connected authority or an officer or employee of a connected entity
- a relationship (familial or friendship) with a member or officer of the authority or a connected authority or with an officer or employee of a connected entity
- a contractual (commercial) relationship with the authority – either as an individual or via a body in which the panel member has a 'beneficial interest'
- a possible conflict of interest through being a prospective or current auditor of the authority or, within the previous five years, is or has been:
  - an employee of such a person
  - partner in a firm or
  - director of a body corporate that is a prospective or current auditor of the authority at the given time.

6.44 Authorities are permitted to share an auditor panel and are also able to designate an existing committee, such as the audit committee or standards committee as an auditor panel. However, if such a committee is designated as the auditor panel it must satisfy the regulations and provisions for auditor panels such as the requirements concerning independence. Therefore, if the auditor panel function is performed by an existing committee or sub-committee of the authority, the committee must ensure that its auditor panel duties are discharged separately.

6.45 Authorities will need to consider carefully the advantages and disadvantages of the options available to them in setting up an independent auditor panel. Where an independent auditor panel is established and an audit committee already exists, the authority or authorities will need to look at the areas where the functions of an independent auditor panel and audit committee will overlap and how they will be managed.

Some issues to consider

- How will the new auditor panel fit within the overall governance structure of the authority, and with the audit committee in particular?
- How will the independence of the auditor panel be assured? Should independence be wider than that specified in the regulations? For example, should it also prevent a recently retired auditor from an audit firm being a member?
- What will be an effective composition for the panel?
- What are the skills and experience that the auditor panel will require?
- How will training and induction for the new members be provided?
- How will the auditor contract be monitored?
- If the external auditor is asked to carry out additional non-audit work, how will the authority ensure that the nature of the work does not impair the independence of the external auditor?
- Where an authority contracts out its internal audit service, there is potential for conflicts of interest if the same firm was responsible for providing both internal and external audit

services which would need to be carefully managed. It is worth noting that the national audit agencies will not appoint as an external auditor a firm currently undertaking internal audit work at a council.

- Potential for conflicts of interest should be carefully considered in respect of partnership arrangements. For example, where the external auditor was also the internal auditor of a partner organisation or a key provider of consultancy services at a partner organisation.

6.46 A comprehensive Guide to Auditor Panels (2015) has been published by CIPFA/DCLG setting out:

- the options available to local authorities in England for establishing an auditor panel
- what form such a panel can take
- the operation and functions of the panel
- the main task of the panel.

Introduction to audit committees

6.47 Audit committees are a key component of an authority's governance framework. Their purpose is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

6.48 Audit committees in local authorities satisfy the wider requirements for sound financial management. In England, according to the Accounts and Audit (England) Regulations 2011, local authorities are responsible "for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk". Section 151 of the Local Government Act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs".

6.49 The Cities and Local Government Devolution Act 2016 requires combined authorities to have an audit committee. Careful thought will be required regarding how they will fit with existing structures.

Functions of the audit committee

6.50 Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013) sets out in detail the core functions of an audit committee. Key points are summarised below.

- Overseeing the authority's local code of governance and annual governance statement:
  - reviewing the local code of governance and any changes to the arrangements in the year
  - reviewing the annual governance statement and considering whether it:
    - – properly reflects the authority's risk environment together with actions required
    - – demonstrates how governance supports the achievements of the authority's objectives.

- Overseeing and promoting the effective use of the authority's internal audit function.
- Considering the effectiveness of risk management arrangements and the control environment, including partnerships with other organisations.
- Monitoring arrangements for ensuring value for money and for managing exposure to the risk of fraud and corruption.
- Considering reports and recommendations from external audit and inspection agencies and their implications for governance, risk management and control.
- Ensuring that there are effective relationships between external audit, internal audit, inspection agencies and other relevant bodies.
- Reviewing the financial statements, external auditor's opinion and reports to members, and monitoring management action in response to the issues raised by external audit.

The audit committee and the auditor panel

6.51 The auditor panel and the authority's audit committee will need to have a close working relationship in respect of some of the panel's duties. The main areas where their respective duties may overlap are outlined below:

- Monitoring quality and effectiveness of external audit provision.

  The work undertaken by the audit committee should feed into the panel's contract monitoring.
- Selection and rotation of the auditor.

  The audit committee should be able to express an opinion.
- Non-audit work carried out by external audit.

  The audit committee has a role reviewing the authority's policy on non-audit work carried out by external audit whereas the auditor panel has to advise the authority on the contents of any non-audit work policy and whether the authority should adopt such a policy.

6.52 Further information on this issue is covered in Guide to Auditor Panels (CIPFA/DCLG, 2015).

Characteristics of a good audit committee

6.53 CIPFA's guide notes that the characteristics of a good audit committee include the following:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council. However, it is important to achieve the right mix of apolitical expertise.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong, independently minded chair who displays a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in and knowledge of financial and risk management, audit, accounting concepts and standards and the

regulatory regime are also essential. A specialism in one of these areas would be an advantage.

- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

Benefits of an audit committee

6.54 An effective audit committee can:

- promote the principles of good governance and their application to decision making
- help to ensure an authority achieves value for money
- give additional assurance through a process of independent and objective review
- help achieve the authority's objectives by assisting in improving the adequacy and effectiveness of risk assessment, risk management and internal control
- reinforce the objectivity, importance and independence of internal and external audit and therefore the effectiveness of the audit function
- raise awareness of the need for sound control and the implementation of recommendations by internal and external audit
- assist the authority in implementing the values of ethical governance including effective arrangements for countering risks of fraud and corruption
- ensure effective arrangements exist for enabling a whistleblower to report irregularities
- promote measures to improve transparency and accountability and for effective public reporting to the authority's stakeholders and local community.

Further guidance

- Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)
- Better Governance Forum – Audit Committee briefings
- Guide to Auditor Panels (CIPFA/DCLG, 2015)
- Local Government Governance Review 2015: All Aboard? (Grant Thornton, 2015)

APPENDIX A

Comparison with Framework published in 2007

The following table compares the principles from the Framework (2007) with those included in the revised Framework (2016).

Principles from 2016	Principles from 2007
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law ■ Behaving with integrity ■ Demonstrating strong commitment to ethical values ■ Respecting the rule of law	**Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour** ■ Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance ■ Ensuring that organisational values are put in place and are effective
B. Ensuring openness and comprehensive stakeholder engagement ■ Openness ■ Engaging comprehensively with institutional stakeholders ■ Engaging with individual citizens and service users effectively	**Engaging with local people and other stakeholders to ensure robust public accountability** ■ Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships ■ Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership, or by commissioning ■ Making the best use of human resources by taking on active and planned approach to meet responsibility to staff

In addition to the overarching requirements for acting in the public interest in principles A and B (2016 Framework), achieving good governance in the public sector also requires effective arrangements for the following:	
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits ■ Defining outcomes ■ Sustainable economic, social and environmental benefits	**Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area** ■ Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcomes for citizens and service users ■ Ensuring that users receive a high quality of service whether directly, or in partnership or by commissioning ■ Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money
D. Determining the interventions necessary to optimise the achievement of the intended outcomes ■ Determining interventions ■ Planning interventions ■ Optimising achievement of intended outcomes	

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it ■ Developing the entity's capacity ■ Developing the capability of the entity's leadership and other individuals	**Developing the capacity and capability of members and officers to be effective** ■ Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles ■ Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group ■ Encouraging new talent for membership of the authority so that best use can be made of individuals skills and resources in balancing continuity and renewal **Members and officers working together to achieve a common purpose with clearly defined functions and roles** ■ Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function ■ Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of authority members and officers are carried out to a high standard ■ Ensuring relationships between the authority and the public are clear so that each knows what to expect of the other
F. Managing risks and performance through robust internal control and strong public financial management ■ Managing risk ■ Managing performance ■ Robust internal control ■ Managing data ■ Strong public financial management	**Taking informed decisions which are subject to effective scrutiny and managing risk** ■ Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny ■ Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs ■ Ensuring that an effective risk management system is in place ■ Using their legal powers to the full benefit of the citizens and communities in their area

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- Implementing good practice in transparency
- Implementing good practices in reporting
- Assurance and effective accountability

APPENDIX B

Principles of good governance (summary)

This Appendix summarises key reports that have influenced the development of good governance in local government.

THE CADBURY REPORT (1992)

The Report of the Committee on the Financial Aspects of Corporate Governance (the Cadbury Report) identified three fundamental principles of corporate governance as follows:

- **Openness**

  An open approach is required to ensure all interested parties are confident in the organisation itself. Being open in the disclosure of information leads to effective and timely action and lends itself to necessary scrutiny.

- **Integrity**

  This is described as both straightforward dealing and completeness. It should be reflected in the honesty of an organisation's annual report and its portrayal of a balanced view. The integrity of reports depends on the integrity of those who prepare and present them which, in turn, is a reflection of the professional standards within the organisation.

- **Accountability**

  This is the process whereby individuals are responsible for their actions. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.

  The Cadbury Report defined these three principles in the context of the private sector, and, more specifically, of public companies, but they are as relevant to public service bodies as they are to private sector entities.

REPORTS FROM THE COMMITTEE ON STANDARDS IN PUBLIC LIFE (1995 – PRESENT)

Aspects of corporate governance in the public services are addressed by the Committee on Standards in Public Life, which was established in 1994 to examine concerns about standards of conduct by holders of public office.

Standards of conduct are regarded as one of the key dimensions of good governance. The Committee's first report, *Standards in Public Life*, published in May 1995, identified and defined seven general principles of conduct which should underpin public life, and recommended that all public service bodies draw up codes of conduct incorporating these principles.

6.55 A revised description of the principles of public life is included in the Committee's report Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (2013). They are as follows:

- **Selflessness**

  Holders of public office should act solely in terms of the public interest.

- **Integrity**

  Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

- **Objectivity**

  Holders of public office must act and take decisions impartially, fairly and on merit using the best evidence and without discrimination or bias.

- **Accountability**

  Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

- **Openness**

  Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for doing so.

- **Honesty**

  Holders of public office should be truthful.

- **Leadership**

  Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

GOOD GOVERNANCE STANDARD FOR PUBLIC SERVICES (2004)

In 2004, the Independent Commission on Good Governance in Public Services published a set of common principles that it wants all public sector organisations to adopt. The commission, set up by CIPFA in conjunction with the Office for Public Management, says there should be a common governance standard for public services similar to the private sector's UK Corporate Governance Code (formerly the Combined Code).

The Good Governance Standard for Public Services (2004) builds on the principles of public life by setting out six core principles that it recommends should underpin the governance arrangements of all public service bodies. These are summarised below:

- A clear definition of the body's purpose and desired outcomes.
- Well-defined functions and responsibilities.
- An appropriate corporate culture.
- Transparent decision-making.
- A strong governance team.
- Real accountability to stakeholders.

INTERNATIONAL FRAMEWORK: GOOD GOVERNANCE IN THE PUBLIC SECTOR (2014)

In July 2014 CIPFA, in association with the International Federation of Accountants (IFAC), published the International Framework: Good Governance in the Public Sector. The international framework supersedes the 2004 CIPFA/OPM *Good Governance Standard for the Public Services*. It places the attainment of sustainable economic, societal and environmental outcomes as a key focus of governance structures and processes and stresses the importance of taking account of the impact of current decisions and actions on future generations.

The core principles and sub-principles from the International Framework have been interpreted for a local government context in Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016).

APPENDIX C
Glossary

Accountability

The obligation of public sector organisations to citizens and other stakeholders to account, and be answerable to, democratically chosen supervisory bodies, for their policies, decisions, and actions, particularly in relation to public finances.

Annual governance statement or report

The mechanism by which an organisation publicly reports on its governance arrangements each year.

Arrangements

Includes political, economic, social, environmental, legal, and administrative structures and processes, and other arrangements.

Assurance

An assurance engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, on the outcome of the evaluation or measurement of a subject matter against criteria. Under the IAASB's International Framework for Assurance Engagements, there are two types of assurance engagements a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. For more information, see the IAASB's Glossary of Terms in the 2013 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.

Audit committee

The governance group independent from the executive charged with providing oversight of the adequacy of the risk management framework, the internal control environment, and integrity of financial reporting.

Benefits

Outcomes that are to the benefit of a public sector organisation's stakeholders that can be of an economic, social, or environmental nature.

Budget documents

Financial expressions of service plans that set the limits of expenditure authorisation for managers.

Capabilities

The professional knowledge, professional skills, and professional values, ethics, and attitudes required to demonstrate competence.

Capacity

The underlying governance and staffing structures of a public sector organisation necessary to remain fit for purpose – being able to deliver the planned services.

Capital(s)/resource(s)

Stocks of value on which all organisations depend for their success as inputs to their business model, and which are increased, decreased, or transformed through the organisation's business activities and outputs. The capitals are categorised in the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) as financial, manufactured, intellectual, human, social and relationship, and natural.

Code of Conduct

Principles, values, standards, or rules of behaviour that guide the decisions, procedures and systems of an organisation in a way that contributes to the welfare of its key stakeholders and respects the rights of all constituents affected by its operations.

Commissioning

Depending on the context, either:

- the process of deciding what work or services are needed, whether they should be sought by delegation, the use or setting up of some new body, or by competition, and, if by competition, what sort of contract to use
- in care, the collective term for all the process involved in meeting an assessed need; deciding which service is needed to meet it, and specifying this service, procuring it and monitoring it.

Conformance

Compliance with laws and regulations, best practice governance codes, accountability, and the provision of assurances to stakeholders in general. The term can refer to internal factors defined by the officers, shareholders, or constitution of an organisation, as well as external forces, such as consumer groups, clients, and regulators.

Cyber security

A specialised form of ICT security specifically focused on (external) networks and internet connections (addressing threats from 'cyber space').

Effectiveness

The relationship between actual results and service performance objectives in terms of outputs or outcomes. Effectiveness describes the relationship between an organisation's actual results and its service performance objectives.

Efficiency

The relationship between inputs and outputs, or inputs and outcomes. An efficiency indicator can be used to show when a service is being provided more (or less) efficiently compared to previous reporting periods, expectations, comparable service providers, or benchmarks derived, for example, from best practices within a group of comparable service providers.

Ethical values

Standards or principles that are commonly considered to be good. Ethical values can change over time and differ between societies or cultures.

Ethics

A system of moral principles by which human actions may be judged.

Executive

Executive management and/or chief executive.

External audit

Independent, qualified person(s) who carry out a review to give assurance to external stakeholders on an organisation's financial statements, systems, and processes.

Governance

Comprises the arrangements (including political, economic, social, environmental, administrative, legal, and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

Governing body

The person(s) or group with primary responsibility for overseeing an organisation's strategic direction, operations, and accountability. This is the full council in a local authority.

Independence

a. **Independence of mind** – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism.

b. **Independence in appearance** – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional scepticism has been compromised.

Input(s)

Capitals/resources used to generate and deliver services to achieve intended outcomes.

Institutional stakeholders

The other organisations/bodies with which a public sector organisation needs to work to improve services and outcomes, or organisations to which it is accountable.

Integrated report

A concise communication about how an organisation's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value in the short, medium, and long term.

Integrated reporting

A process that results in communication by an organisation, most visibly through a periodic integrated report, about value creation over time.

Integrated services

Two or more services which are functions of different bodies, when provided seamlessly by one of them, or by a joint body.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any such interests and relationships.

Internal auditing

An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal control

The term 'internal control' can have multiple meanings, including the following:

- **A system or process**
  The entirety of an organisation's system of internal control, ie an organisation's internal control system.
- **An activity or measure**
  The actual measure to treat risks and to effect internal control, ie individual internal controls.
- **A state or outcome**
  The outcome of the internal control system or process, ie an organisation achieving or sustaining appropriate or effective internal control.

See Evaluating and Improving Internal Control in Organizations (IFAC, 2012) for a more detailed definition.

Interventions

The means by which the public sector achieves its outcomes. These include:

- enacting legislation or regulations
- delivering goods and services
- redistributing income through mechanisms such as taxation or social security payments
- the ownership of assets or entities, such as state-owned enterprises.

Joint boards

Joint bodies set up by order to discharge specified functions of specified local authorities.

Joint committees

Joint bodies set up by agreement to discharge functions and carry out activities jointly on behalf of local authorities or their executives.

Joint venture agreements

These specify what each partner will do to further the venture, and at what stage.

Joint ventures

Enterprises in which two or more partners join, and in which they share the risks and rewards.

Leadership team

Comprises the governing body and management team.

Local authority company

A company in which a local authority has shares, rights to appoint some or all of the directors, or other legal interests.

Management

Person(s) with executive responsibility for the conduct of the public sector organisation's operations.

Management team

Group of executive staff comprising senior management charged with the execution of strategy.

Memorandum of association

The registered objectives of a company.

Outcome(s)

The impacts on society, which occur as a result of the organisation's outputs, its existence, and operations. There may be a strong, direct causal link between an organisation's actions and its achievements with respect to outcomes, but this will not always be the case. Factors beyond the organisation's control may intervene to either hinder or facilitate the achievement of outcomes.

Outcome target/service performance objective

A description of the planned result(s) that an organisation is aiming to achieve expressed in terms of inputs, outputs, outcomes, efficiency, or effectiveness. Service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes, efficiency, or effectiveness.

Output(s)

The services provided by an entity to recipients external to the organisation.

Performance

An organisation's achievements relative to its strategic objectives and its outcomes in terms of its effects on the capitals.

Performance indicators

Quantitative measures, qualitative measures, and/or qualitative discussions of the nature and extent to which an organisation is using resources, providing services, and achieving its service performance objectives. The types of performance indicators used to report service performance information relating to inputs, outputs, outcomes, efficiency, and effectiveness.

Performance management system

Mechanisms to monitor service delivery throughout all stages in the process, including planning, specification, execution, and independent post-assessment review.

Public financial management

The system by which financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public service goals.

Public interest

The net benefits derived for, and procedural rigor employed on behalf of all society in relation to any action, decision, or policy.

Public sector services

All the outputs of a public sector organisation, such as products, services, or regulation geared toward achieving certain outcomes.

Reporting process

The people and processes involved in the preparation, review, approval, audit (when relevant), analysis, and distribution of a public sector organisation's reports, both internal and external. All sections in the process need to be robust and closely connected to yield effective reports.

Risk

ISO Standard 31000:2009 – Risk Management defines risk as "the effect of uncertainty on objectives", which can be positive or negative.

Risk management

ISO Standard 31000:2009 – Risk Management defines risk management as "co-ordinated activities to direct and control an organization with regard to risk".

Rule of law

Observing legal requirements. The rule of law also implies having effective mechanisms to deal with breaches of legal and regulatory provisions.

Social enterprise

A body which:

- carries on a business for some specified social or environmental purpose
- devotes the greater part of any surpluses to achieving this purpose
- depends primarily on trading for this purpose and not on grants, covenants or donations.

Social value

Social value is concerned with social, economic and environmental wellbeing. In England and Wales, the Public Services (Social Value) Act 2012 requires public bodies to consider how the services they commission and procure might improve the economic, social and environmental wellbeing of the area.

Staff mutual

A loose collective term for bodies formed by buy-outs in which staff have had some part.

Stakeholder

Any person, group, or entity that has an interest in a public sector organisation's activities, resources, or output, or that is affected by that output. Stakeholders can include regulators, shareholders, debt holders, employees, customers, suppliers, advocacy groups, governments, business partners, and society as a whole.

Stakeholder engagement

Communication and consultation between a public sector organisation and the internal and external stakeholders it engages with.

Strategic planning

A process by which an organisation's vision is translated into defined objectives and associated steps to achieve them.

Strategy

Long-term plan or policy.

Stewardship

Responsible planning, management, and accountability of the use and custody of a public sector organisation's resources.

Sustainability

The capacity of an individual entity, community, or global population to continue to survive successfully by meeting its intended economic, environmental, and social outcomes while living within its resource limits.

Tone at the top

The words and deeds of an organisation's governing body and senior management that determine its values, culture, and the behaviour and actions of individuals; also defined as 'leading by example'.

Transparency

Openness about the outcomes a public sector organisation is pursuing, the resources necessary or used, and the performance achieved.

Useful information

Information that is relevant to users and faithfully represents what it purports to represent. The usefulness of information is enhanced if it is comparable, verifiable, timely, and understandable.

Value for money

Achieving 'value for money' is often described in terms of economy, efficiency, and effectiveness.

Values

What an entity and individuals stand for; also described as standard operating principles.

Whole-system approach

Based on the argument that public financial management (PFM) will be more effective and more sustainable if there is a balance across the full range of PFM processes, buttressed by effective national, sub-national, and supra-national organisations and, in the context of international development, supported by relevant donor contributions. It defines how the key constituent parts (such as external assurance and scrutiny, financial reporting, and audit standards) contribute to the integrity of the whole system.

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This report is public	
Capital, Investment and Treasury Management Strategies 2025-26	
Committee	Accounts, Audit and Risk Committee
Date of Committee	15 January 2025
Portfolio Holder presenting the report	Portfolio Holder for Finance, Property and Regeneration, Councillor McLean
Date Portfolio Holder agreed report	19 December 2024
Report of	Assistant Director of Finance (S151 Officer)

Purpose of report

To submit the draft Capital and Investment Strategy and Treasury Management Strategy for 2025-26 for recommendation by the committee to the Executive

1. Recommendations

The Accounts, Audit and Risk Committee resolves:

1.1 To recommend the draft Capital and Investment Strategy for 2025-26 (Appendix 1) and draft Treasury Management Strategy for 2025-26 (Appendix 2) to Executive.

2. Executive Summary

2.1 The Capital and Investment Strategy and Treasury Management Strategy must be approved by Full Council annually and must satisfy the requirements of government legislation and CIPFA guidance.

2.2 Draft strategies are brought to the Accounts, Audit and Risk Committee for review and comment, and to be recommended to Executive.

Implications & Impact Assessments

Implications	Commentary
Finance	There are no financial implications arising directly from this report. However, the strategies lay out the council's approach to capital, investments and treasury management which all are vital to ensuring the council remains in a strong financial position. Joanne Kaye, Head of Finance, 6 January 2025
Legal	The requirement for the strategy documents stems from: Section 15(1) Local Government Act 2003;

	Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. As a result the Council is required to have regard to: Statutory Guidance on Local Government Investments Statutory Guidance on Minimum Revenue Provision (MRP) CIPFA's Prudential Code CIPFA's Treasury Management Code Shiraz Sheikh, Monitoring Officer/ AD Law & Governance, 6 January 2025			
Risk Management	It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided. This and any other risks related to this report will be managed through the service operational risk and escalated to the leadership risk register as and when necessary. Celia Prado-Teeling, Performance Team Leader, 6 January 2025			
Impact Assessments	Positive	Neutral	Negative	Commentary
Equality Impact				N/A
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?				N/A
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?				N/A
Climate & Environmental Impact				N/A
ICT & Digital Impact				N/A
Data Impact				N/A
Procurement & subsidy				N/A
Council Priorities	N/A			
Human Resources	N/A			

Property	N/A
Consultation & Engagement	None

Supporting Information

3. Background

3.1 The **Capital Strategy** demonstrates how the council takes capital expenditure decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.2 The **Investment Strategy** relates only to non-treasury management investments. The purpose of the strategy is to demonstrate how the council:

- Makes investment decisions (governance, advice taken etc)
- Demonstrates investments are tied to corporate objectives
- Assesses and monitors risk
- Assesses and monitors return
- Ensures there is appropriate capacity, skills and culture to support its strategy

Investments which are covered by this strategy include such things as:

- Loans to third parties (e.g. subsidiaries, charities, businesses) [Service loans]
- Purchase of shares (in subsidiaries, businesses etc)
- Property

3.3 The **Treasury Management Strategy** sets out the Council's risk appetite and associated priorities in relation to security, liquidity and yield in respect of returns from various financial instruments.

4. Details

4.1 The draft Capital and Investment Strategy is attached at Appendix 1, and the draft Treasury Management Strategy is attached at Appendix 2.

4.2 The key changes for the Capital and Investment Strategy 2025-26 in comparison to the strategy for 2024-25 are:

- the annual Minimum Revenue Provision statement has been expanded in line with the new statutory guidance, however the underlying policy and methodology is unchanged. The full statement is included as Annex A of Appendix 1.
- The operational boundary, which is the prudential indicator estimating the maximum level of external debt for the year in the most likely scenario, has been reviewed and reduced from £290m to £200m. More details of this change are included in section A6.2 of Appendix 1.

4.3 There have been no significant changes to the Treasury Management Strategy.

5. Alternative Options and Reasons for Rejection

5.1 There are no alternative options to setting a Capital and Investment Strategy and Treasury Management Strategy as these are required for all local authorities.

6 Conclusion and Reasons for Recommendations

6.1 The Council must establish and approve an updated Capital and Investment Strategy and Treasury Management Strategy that complies with CIPFA's revised Prudential Code for Capital Finance in Local Authorities (2021 edition) and Prudential Code Guidance Notes for Practitioners (2021 edition), CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021 edition) and revised Statutory Guidance on Local Government Investments (Third Edition). Guidance requires the Strategy to be approved by Full Council on an annual basis and, moreover, that any mid-year material changes to the Strategy must also be subject to Full Council approval.

Decision Information

Key Decision	N/A
Subject to Call in	N/A
If not, why not subject to call in	N/A
Ward(s) Affected	All

Document Information

Appendices	
Appendix 1	Capital and Investment Strategy 2025-26
Appendix 2	Treasury Management Strategy 2025-26
Background Papers	None
Reference Papers	None
Report Author	Alex Rycroft, Strategic Finance Business Partner
Report Author contact details	Alex.rycroft@cherwell-dc.gov.uk, 01295 221 541

Corporate Director Approval (unless Corporate Director or Statutory Officer report)	Michael Furness, Assistant Director of Finance (S151 Officer) 19 December 2024

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CAPITAL AND INVESTMENT STRATEGY

2025/2026

Cherwell

DISTRICT COUNCIL
NORTH OXFORDSHIRE

CONTENTS

A. Capital Strategy

A1. Introduction

As part of its annual budgeting cycle, Cherwell District Council proposes a capital programme that sets out the capital expenditure that is expected to take place over the next 5 years. The programme is a series of projects undertaken by service departments for which there has been an identified business need.

Capital expenditure is money spent on acquiring and enhancing non-current assets that are used in the delivery of services and providing economic benefits to the council and its residents.

The council has had, and continues to put forward, an ambitious programme that seeks to deliver on its key corporate priorities as detailed in the 2025-26 Business plan, namely:

- Economic prosperity
- Community leadership
- Environmental stewardship
- Quality housing and place making

The council also incurs capital costs to facilitate the delivery of its support services and smooth running of council functions.

To ensure that the council can deliver upon these priorities, a medium to long-term view is taken of planned capital expenditure to ensure that the programme is prudent, affordable, sustainable, and deliverable.

Owing to the nature of capital spend, there are financial and non-financial factors that need to be evaluated and monitored to ensure council stakeholders and decision makers are kept fully informed, in line with the CIPFA Prudential Code for Capital Finance.

The Prudential Code for Capital Finance sets out that to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Strategy must be approved by Full Council.

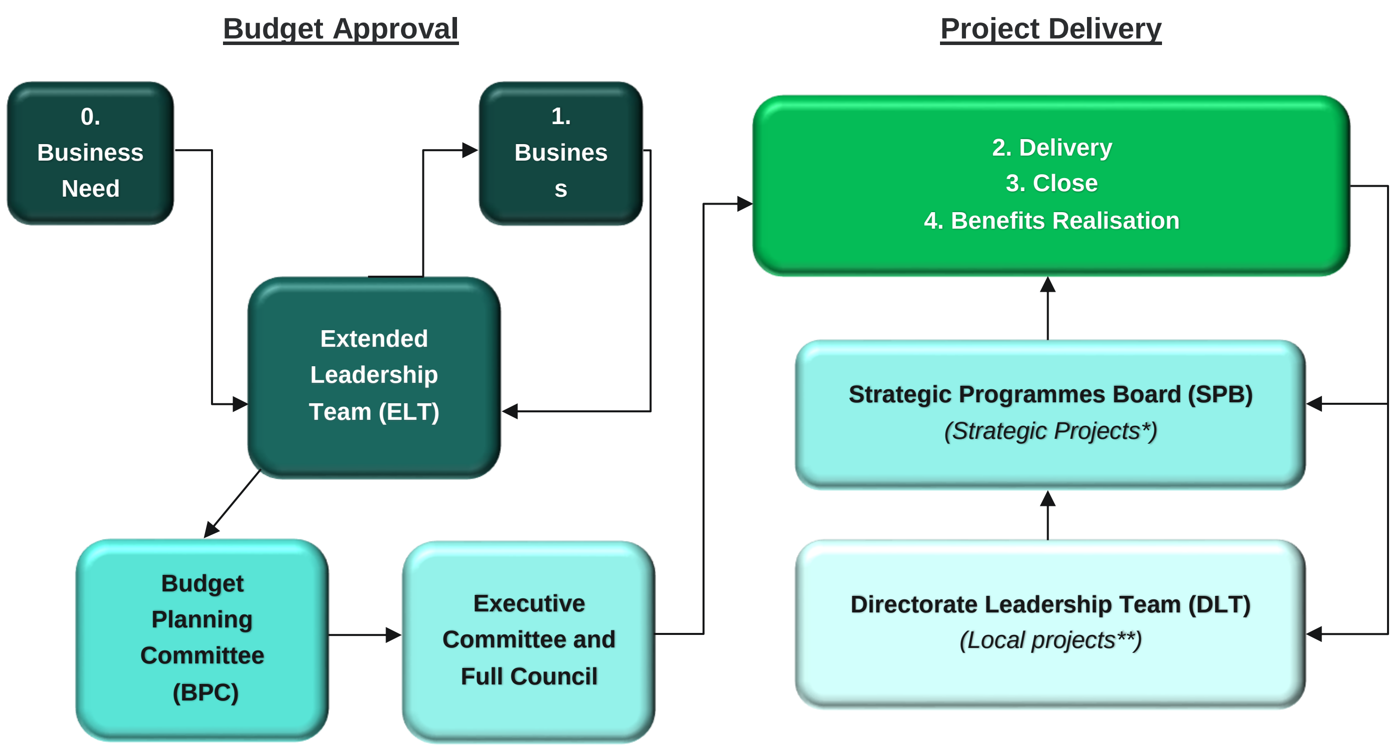
A2. Capital Planning and Project Governance

Starting in the Spring of each new budget cycle for the next financial year, service managers are tasked with conceptualising and developing capital proposals that are linked to corporate or service priorities as part of the Budget & Business Planning process.

For the 2025/26 financial year, the council is adopting an enhanced project framework that seeks to provide improved governance and accountability for capital projects. It is expected that the framework will help to better define and manage the outputs, outcomes and benefits from projects within the capital programme. The framework will complement the capital budget setting process and will help the council to exert effective decision making to manage the financial and technical elements of projects.

In prior years, the Strategic Place Shaping, Transformation and Strategic Programme Boards provided oversight and scrutiny for the capital budget process. Whilst projects are encouraged to be brought to these boards initially, for 2025/26, responsibility for reviewing and progressing capital proposals has transferred to the Extended Leadership Team (ELT), with recommendations considered by the Corporate Leadership Team (CLT) alongside the Budget Planning Committee. Approval of capital projects and the capital programme is made by Full Council. Capital projects may occasionally be approved outside of the annual budget cycle in line with the Council's Financial Regulations but are subject to the same level of scrutiny and appraisal by ELT and CLT.

Diagram A2.1: Capital Project Governance Framework

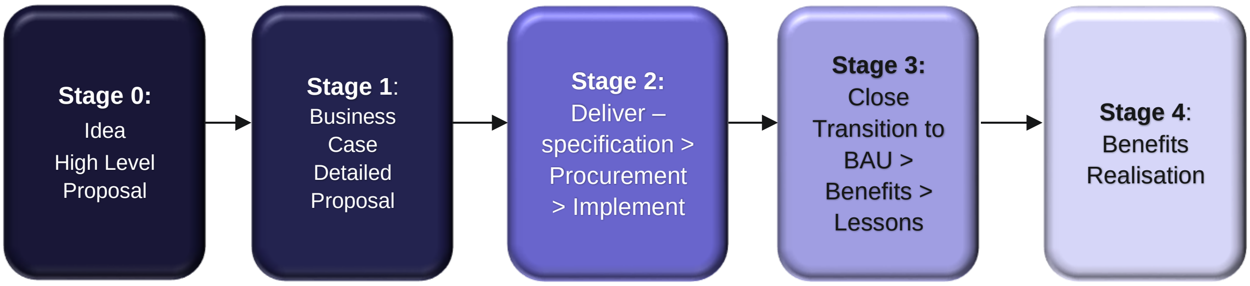


Strategic Projects are those that are identified to be key to achieving a strategic objective or be underpinned by significant financial investment or result in a change on a significant number of customers and/or staff. A project board will be responsible for appropriate project governance to oversee, ensure and support successful delivery.*

***Local Projects** are important to achieving the Council's strategic objectives, but carry less risk and therefore, responsibility for project governance and oversight will be within the directorate and relevant service area.*

The capital five stage process has five stages which are depicted in the diagram below:

Diagram A2.2: Capital Process



Stage 0 - Business Need – High Level Proposal

Capital proposals first and foremost, must have a demonstrable business need. Officers must put forward rationale for why undertaking a project is necessary, including the corporate priorities it aligns with and a high-level budget outline, estimating both capital and revenue impact and any identified sources of capital funding. Bids are first considered by the Directorate Leadership Team level (DLT) and then discussed at the Executive Leadership Team (ELT) meeting, which takes a decision on progression of the scheme to stage 1.

Stage 1 - Business Case: Detailed Proposal

Progression through stage 1 requires the development of a more detailed business case which should include options for the scheme, ensuring that the council can deliver projects that offer value for money. The business case will include information that will assist officers in appraising the project. Within each option, an analysis of the benefits and drawbacks must be provided, alongside a summary of key risks, a project timeline and more detailed budget proposal. The business case must discuss carbon and climate impact, and any stakeholder engagement. ELT will consider business cases and provide feedback to officers, with recommendations made on progression of the project to stage 2. subject to consultation and formal approval by the Executive and Full Council. If the business case requires further work, the project may be paused and reworked for discussion at a future ELT, or postponed. As part of stage 1, finance officers conduct a review of the affordability of the project and prepare revenue budget figures for inclusion in the Medium-Term Financial Strategy (MTFS).

Projects proposed to be included in the Council's capital programme are consulted on externally via public consultation and appraised by the Budget Planning Committee which provides comments to the Executive on the proposals. The Executive then, taking into consideration any comments, propose which schemes to include in the Capital Programme ahead of the final capital programme being presented to Council in February each year. Once approved by Full Council, budgets are uploaded to the financial system and project officers can commence work on the approved schemes.

Stage 2 – Delivery

Approved projects in the capital programme are overseen by project managers that are responsible for delivering projects on time and within budget. This responsibility extends to risk management and escalation of issues to ensure that projects remain on track. Project managers are required to report progress and escalate issues through the Strategic Programmes Board for Strategic level projects, and the Directorate Leadership Team for Local Projects. All capital projects and programmes are reviewed monthly as part of routine budget management, which provides an opportunity to review project costs against budget and escalate potential areas of concern with senior management. The outputs from routine budget management processes feed into the Finance Capital reporting to the Executive, this reporting includes narrative which provides non-financial updates on capital projects.

Stage 3 – Close

When the project has delivered the expected outputs, the project can be closed. At stage 3, the project manager will produce a project closure report that includes a summary of delivery and outputs, a benefits realisation plan, lessons learnt and agreed outstanding actions. The project closure report will be presented to the relevant governance board/group to gain approval to close the project.

Stage 4 - Benefits Realisation

Stage 4 covers benefits realisation. In some cases, projects deliver benefits that can only be measured post closure of the project, the details of which are included in the benefits realisation plan produced at stage 3.

A3. Capital Expenditure

Regulations

Local Authorities operate under a capital prudential framework and under a statutory legal environment through the Local Government Act 2003.

Expenditure can only be capitalised (i.e., recorded as an asset on the Council's balance sheet) under these regulations, if the spend is incurred in:

- Acquiring, constructing, or enhancing physical or intangible assets, such as land, buildings, plant, vehicles, and equipment
- Acquiring share capital in a third party
- Advancing a loan to a third party that would be for capital purposes if incurred by the council
- Granting of funds to a third party which is to be used for a capital purpose
- Purchasing or enhancing assets from which the council does not have the legal right to economic or service benefits from but would otherwise be capital if the council had those rights (Revenue Expenditure Funded by Capital Under Statute).

As part of the capital governance and approval process outlined in section A2, projects are appraised on whether proposed expenditure falls into the above categories. Proposed expenditure that does not meet capitalisation regulations as determined by the Capital Accountant and/or S151 Officer, is then considered as a potential revenue pressure as part of the revenue budget setting process.

Expenditure on assets that are capital in nature and in the same class, but do not aggregately meet the council's capital de minimis threshold of £10,000, are normally charged as a revenue expense. Occasionally the council may be required to capitalise expenditure below this threshold in order to comply with grant conditions.

Project officers are provided with guidance that outlines the requirement for expenditure being treated as capital. The below table demonstrates how the council typically treats expenditure that are related to capital projects:

Table A3.1: Accounting Treatment of Project Expenditure*

Expenditure Type	Accounting Treatment
Feasibility Studies	Revenue Expense
Options Appraisal	Revenue Expense - expenditure incurred on the option that is proceeded with *may* be capitalised e.g., if three options are appraised, 1/3 of the cost may be capitalised
Internal Staff Costs	Revenue unless a direct contribution is made to the progressing of the creation, acquisition, or enhancement of an asset. Officers are required to complete a monthly timesheet signed by a manager or Assistant Director.
Interest Costs on Prudential Borrowing	Revenue Expense
Design, Architect and Engineer Costs	Capital Expense
Contractors Costs	Capital Expense
Legal Fees	Capital Expense (except in relation to conveying the sale of an asset)

**This is not an exhaustive list of expenditure types*

It is therefore vital that project officers correctly classify spend for revenue and capital purposes to avoid unforeseen budget pressures. Aborted projects which no longer meet capitalisation requirements are subsequently charged to revenue.

Capital Programme

The council has a sizeable capital budget with committed spend of £30m across the programme. Projects already in the existing capital programme, prior to the inclusion of 2025/26 proposals, include:

- Transforming Bicester Market Square - £4m
- S106 Community Infrastructure Projects across the District - £3.5m
- Construction of a New Waste Services Depot - £3.9m
- Vehicle Replacement Programme - £5.3m
- Development of Castle Quay - £1.8m

All projects exist to further the Council's delivery against its corporate objectives or to improve service delivery and council operations. A summary of planned capital spend in accordance with the corporate objectives is outlined in table A3.2 below:

Table A3.2: Capital Programme across Corporate Priorities in £m

Corporate Priority	2023/24 Actual	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/29 Budget	2028/29 Budget
Community Leadership	2.3	2.5	2.4	0.1	1.2	0.0
Running the Business	0.5	5.9	4.4	0.0	0.0	0.0
Environmental Stewardship	3.8	1.7	3.6	1.9	0.4	0.1
Quality Housing and Place Making	14.8	5.7	1.5	1.4	1.4	1.2
Economic Prosperity	0.4	1.7	0.9	3.9	0.5	0.5
Total Capital Expenditure*	**21.8**	**17.5**	**12.9**	**7.3**	**3.5**	**1.9**

**Not including pipeline projects for which funding has not yet been received*

As part of the 2025/26 budget setting process, Full Council is requested to approve additions to the capital programme to further progress against corporate objectives. For 2025/26 one project is proposed to be added to the programme:

£0.030m of Spatial Software Upgrades

The council also has projects in the pipeline which are being planned, but for which capital funding has not yet been fully identified or received.

This includes the development of a New Learner Pool at Bicester Leisure Centre (£5.2m) and the BMX Pump Track (£0.2m). It is expected that future S106 receipts will be received to fully fund these projects and enable progress to stage 2. These items are included in the capital programme but are not able to proceed until all funding has been identified for them.

Statement on Leases and IFRS 16

As at the time of publication, the council is finalising its review of assets it has the right to use as a lessee as part of adopting International Financial Reporting Standard 16 (IFRS 16), which became mandatory in the 2024/25 financial year.

Under IFRS 16, all assets the council leases need to be brought on balance sheet unless they are of low value (the asset value is less than £10,000 over the term) or short-term in nature (less than 1 year in duration). The impact of this is that assets previously assessed as being an operating lease (revenue expenditure) under IAS17 become capital expenditure, and therefore transition from revenue into the Council's capital plans.

Practically, for existing leases identified within the revenue account that need to be brought on balance sheet, the revenue rental payments move from the service area's budget to the Council's corporate capital financing revenue budget. Payments are then split between interest (which may be implicit in the lease) and MRP (see A4 and Annex A) which acts as the financing of the principal balance of the lease. The resultant revenue impact of reclassification from revenue to capital is therefore nil.

The assessment made by finance officers on leases to date is that no material impact is expected on the Council's capital financing position. However, should any leases be identified as having a material impact on capital financing, revised prudential indicators will be published as part of the Council's Treasury Management reporting.

A4. Capital Financing and Affordability

Financing the Capital Programme

Capital expenditure included in the capital programme is financed from various sources – these sources can either be external (from third party contributions such as grants and Section 106 contributions) or internal (making use of reserves and capital receipts). Borrowing may be used as a temporary source of finance – as such the council may borrow externally within the prudential framework to acquire and enhance assets, including lease arrangements under IFRS16. Alternatively, it can borrow internally, making use of cash balances it holds in advance of expenditure to temporarily finance its capital spend. Internal borrowing is usually the preferred route - where possible - as interest payable on external borrowing is typically higher than interest receivable on surplus cash balances. A reduction in interest receivable will therefore be outweighed by the cost avoidance benefit in not borrowing externally. More information on this can be found in the Council's Treasury Management Strategy.

Borrowing results in an increase to the Council's Capital Financing Requirement (CFR) which needs to be carefully managed. Table A4.1 shows the expected use of receipts and the effects on the council's need to utilise borrowing as a temporary source of finance:

Table A4.1: Sources of Capital Finance

Financing Source	2023/24 Actual	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/29 Budget	2028/29 Budget
Capital Expenditure	**21.8**	**17.5**	**12.9**	**7.3**	**3.5**	**1.9**
Capital Receipts	(15.1)	(0.4)	(5.9)	0.0	0.0	0.0
Grants	(4.8)	(2.1)	(2.0)	(4.6)	(1.2)	(1.2)
S106 Grants	(0.4)	(1.9)	(2.4)	0.0	(1.2)	0.0
Donated Assets	(1.0)	0.0	0.0	0.0	0.0	0.0
Total Financing	**(21.3)**	**(4.4)**	**(10.3)**	**(4.6)**	**(2.4)**	**(1.2)**
Increase/(Decrease) in CFR *(before MRP)*	**0.4**	**13.0**	**2.6**	**2.7**	**1.1**	**0.7**

**Figures may not match between tables due to rounding.*

Capital receipts are a permanent source of finance i.e., it is funding the council controls and does not have to repay. Capital receipts typically arise from the disposal of a non-current asset. Examples of capital receipts include:

- Proceeds from the sale of land or a building
- Repayment of a capital loan from a borrowing entity
- Disposal of a financial interest in a capital asset, such as a re-sale covenant on a house

Once received, capital receipts can be used to finance new capital expenditure or applied to existing expenditure to reduce the council's need to borrow. The council's default position is to apply capital receipts arising from disposal of assets to the Capital Adjustment Account to reduce debt in the year of receipt. This reduces the Council's need to borrow and corresponding financing costs, which helps to reduce the capital financing burden on the taxpayer. This does not prevent the council from introducing new capital proposals but does ensure that the financial implications of each proposal are fully considered and understood. Application of capital receipts falls under the delegation of the S151 Officer as per the Council's Reserves Policy. Capital receipts may also be used to fund certain revenue costs that deliver ongoing savings or efficiencies under the flexible use of capital receipts direction as laid out by the Ministry of Housing, Communities and Local Government. The council does not currently have plans to use this flexibility, however if the S151 officer feels there would be a benefit to using this direction then a proposed strategy will be brought to Full Council to approve in line with the guidance.

Capital grants are generally received for a specific expenditure purpose and are recognised as a council resource when reasonable assurance has been received that the council will meet any conditions attached to the use of the funds. Capital grants are used for financing in the financial year the spend is incurred, with unspent balances transferred to capital reserves which can be used to finance spend in future years.

To finance capital expenditure that has no permanent source of finance such as capital receipts or grants, and that has utilised borrowing as a temporary source of finance, revenue resource must be provided for over the lifetime of the underlying asset or enhancement made. This is known as the Minimum Revenue Provision (MRP) and is a statutory requirement for councils that have utilised prudential borrowing. MRP is provided for annually and acts to reduce the council's need to borrow money, i.e., its CFR. The MRP charge must demonstrate prudence and be made with due regard to statutory guidance published by central government. The Council's MRP statement can be found in Annex A to this document. The Council's MRP forecast is outlined in table A4.2.

Table A4.2: Minimum Revenue Provision Forecast

MRP (£m)	2023/24 Actual	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/29 Forecast	2028/29 Forecast
Minimum Revenue Provision (MRP)	(4.4)	(3.9)	(4.4)	(4.8)	(5.0)	(5.2)

Capital Financing Requirement

The level of capital expenditure not yet permanently financed is measured through the Capital Financing Requirement (CFR). The CFR indicates the extent to which the council has needed to borrow (incur debt) and is calculated by taking the Council's total spend for capital purposes and deducting capital grants, receipts and revenue resource applied against the expenditure. Forecasting the CFR is a vital part of revenue budget management as it determines the level of prudent MRP.

Table A4.3: Capital Financing Requirement Actuals and Estimates

CFR (£m)	2023/24 Actual	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
CFR	234.4	243.5	241.7	239.6	235.7	231.2

A5. Treasury Management and Prudential Borrowing

Prudential Borrowing

The council as a local authority can borrow for purposes that comply with the CIPFA Prudential Code for Capital Finance. As part of this capital strategy a series of indicators are provided to help demonstrate that borrowing is incurred in-line with the Prudential Code. Prudential indicators are provided in section A6 of this strategy.

Under the revised code, the council *cannot* borrow for commercial purposes i.e., make capital investments primarily for financial return. The council takes decisions on its capital programme with the fundamental principle that the capital project must deliver against corporate priorities as its primary objective. The council will therefore comply with this requirement.

Treasury Management

Treasury management is concerned with the management of the local authority's 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.

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. The council typically has surplus cash in the short-term as revenue income is received before it is spent and has borrowed cash for the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital borrowing requirements to reduce overall borrowing. At 30 November 2024 the Council had borrowings of £180m at an average interest rate of 2.54%, and £35m of investments at an average interest rate of 4.94%. The borrowing position is reported regularly to Accounts, Audit & Risk Committee as part of the Treasury Management reports.

Borrowing Strategy

The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. To meet this objective the council must review the current market conditions alongside the long-term forecasts from its treasury advisors to determine how to structure borrowings. Short term loans, which usually have lower interest rates and offer excellent flexibility, are suitable for stable market conditions or when interest rates are forecast to fall. Medium to long term loans offer a certain cost of finance but are generally more expensive and inflexible. The council must therefore seek to strike a balance between short and medium to long term loans, to meet its objectives, by anticipating both its borrowing need and the forecast interest rates.

A6. Prudential Indicators

Under the Prudential Code, the council is required to ensure that all capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so the council must take into account arrangements for the repayment of debt (including through MRP) and consideration of risk, and the impact and potential impact on the council's overall fiscal sustainability.

A series of prudential indicators are set each year as part of the Capital Strategy to demonstrate that the council has due consideration of these factors when determining its capital programme.

A6.1 Debt and the CFR

The council can only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. The council should ensure that gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and the next two financial years.

Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see table A4.3)

Table A6.1: ***Debt vs CFR (£m)***	**2023/24 actual**	**2024/25 forecast**	**2025/26 forecast**	**2026/27 forecast**	**2027/28 forecast**
Gross Borrowing (incl. PFI & leases)	181.0	180.0	179.0	178.0	173.0
Capital Financing Requirement	234.4	243.5	241.7	239.6	235.7

As per the table, the council expects that its gross borrowing will not exceed its CFR across the MTFS period.

A6.2 Borrowing Boundaries and Limits

The council is legally obliged to determine and keep under review an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" based on the council's estimate of the maximum level of external debt in the most likely scenario is also set. The operational boundary reflects the level above which the council does not expect to require borrowing based on current cashflow projections and capital programme, and so acts as a warning level should there be a sustained or regular trend of external debt above the boundary. The operational boundary and authorised limit set by the council are outlined in table A6.2 below:

Table A6.2: ***Operational Boundary vs Authorised Limit (£m)***	**2024/25 limit**	**2025/26 limit**	**2026/27 limit**	**2027/28 limit**
Operational boundary	290.0	200.0	199.0	198.0
Authorised limit	310.0	310.0	310.0	310.0

As part of the review of the capital and investment strategy for 2025/26 it was identified that the previous operational boundary of £290m was not reflective of the maximum external debt in the most likely scenario. The council has reviewed its approach to setting the operational boundary and has adopted an expected value approach to commitments (such as bonds, guarantees, revolving credit facilities) that are unlikely to materialise in the financial year. Instead of including the total potential liability in the worst case, as the previous approach had, the council estimates the likelihood of the commitment being called upon and the likely amount. An amount based on this assessment is included in the operational boundary to reflect that while it is very unlikely that all of these commitments be called upon in full, there is a likelihood that on average across all the commitments there may be some impact on the council's cashflows. This change to the operational boundary also does not change the council's ability to borrow. It is the most likely maximum level of borrowing based on the council's current capital programme and forecast cashflows. All future capital proposals will be considered on a case-by-case basis and the operational boundary will be reviewed each year to ensure it includes any borrowing required for new capital projects that are considered to be affordable. The authorised limit however remains unchanged.

A6.3 Financing Cost 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. Together these are referred to as financing costs and it is useful to compare this to the net revenue stream, i.e., the amount funded from Council Tax, business rates and general Government grants, to determine that capital financing costs are proportionate and affordable.

Table A6.3: *Financing Costs to Net Revenue Stream (£m)*	2023/24 Actual	2024/25 forecast	2025/26 forecast	2026/27 forecast	2027/28 forecast
Interest Payable	4.0	4.7	4.9	4.5	4.4
Minimum Revenue Provision	4.4	3.9	4.4	4.8	5.0
Total Financing Costs	**8.4**	**8.6**	**9.2**	**9.4**	**9.4**
Net Revenue Stream	29.1	27.0	28.1	23.1	19.9
Total Funding	**29.1**	**27.0**	**28.1**	**23.1**	**19.9**
Ratio of Financing Costs	**28.9%**	**32.0%**	**32.9%**	**40.5%**	**47.2%**

This indicator shows that the ratio of financing costs to net revenue streams is high and increasing across the MTFS, which is primarily due to the forecast in reduction in revenue resources. What this ratio doesn't consider is that a large proportion of the Council's financing costs are offset by the interest from on-lending to the Council's subsidiaries, and income generated by assets acquired as part of the Council's regeneration programme. This "non-treasury investment" income is not included in the net revenue stream as it does not form part of the Council's core funding but is nonetheless a key resource for the council.

A6.4 Net Income from Service Investment Income to Net Revenue Stream

This Indicator shows the financial exposure of the authority to the loss of its non-treasury investment income, i.e., income from financial investments (e.g., share and loan capital in council subsidiaries) and income from property assets:

Table A6.4: *Ratio of Service Investment Income to Net Revenue Stream (£m)*	2023/24 Actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Net Income from Financial Investments	4.5	4.9	4.0	4.0	4.0
Net Income from Property Assets	4.6	5.5	6.9	7.0	7.1
Total Service Investment Income	**9.1**	**10.3**	**10.9**	**11.0**	**11.0**
Net Revenue Stream	29.1	27.0	28.1	23.1	19.9
Total Funding	**29.1**	**27.0**	**28.1**	**23.1**	**19.9**
Ratio of Service Investment Income	**31.3%**	**38.3%**	**38.9%**	**47.5%**	**55.5%**

Investment income represents a significant proportion of the net revenue stream and therefore the risks around loss of this income should be monitored closely. The council conducts regular reviews of projected levels of income as part of monthly budget management and provides regular updates to senior management via performance and aged debt reporting. Risks associated with income loss can therefore be identified early and plans can be implemented to mitigate the impact so the council can continue to deliver a balanced budget.

Whilst financing costs are high, the overall picture is incomplete without factoring the contribution investment income makes towards these costs. Deducting the ratio of net income from Service Investments from the Ratio of Financing costs reveals the affordability ratio, which demonstrates the net revenue impact to the taxpayer as a result of the Council's capital investment decisions.

A6.5 Affordability Ratio

There is no established Local Authorities benchmark for this ratio as activities differ significantly. Interest earned on Treasury investment is not considered in either of the calculations and therefore it is not unexpected to see a positive percentage when the two are netted off against each other.

The affordability ratio shows that after taking into account the income relating to the capital expenditure that is being financed the council has an affordable net cost of capital financing:

Table A6.5: *Affordability Ratio*	2023/24 Actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Ratio of Financing costs	28.9%	32.0%	32.9%	40.5%	47.2%
Ratio of Service Investment income	31.3%	38.3%	38.9%	47.5%	55.5%
Affordability ratio	**-2.5%**	**-6.3%**	**-6.0%**	**-7.0%**	**-8.3%**

The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable, and sustainable.

The council will continue to monitor this ratio and report to senior management and members via its regular Treasury Management review. Should the affordability ratio move adversely, the council will need to review whether this is sustainable and what actions may be required to mitigate the impact to the taxpayer as part of its budget management and Medium-Term Financial Strategy.

A7. Capital Health

To get an indication of the Council's overall capital health, it is useful to examine the ratio of the CFR to the Council's total long-term asset value to determine the extent to which the council's assets could clear its debt through asset disposals, if necessary.

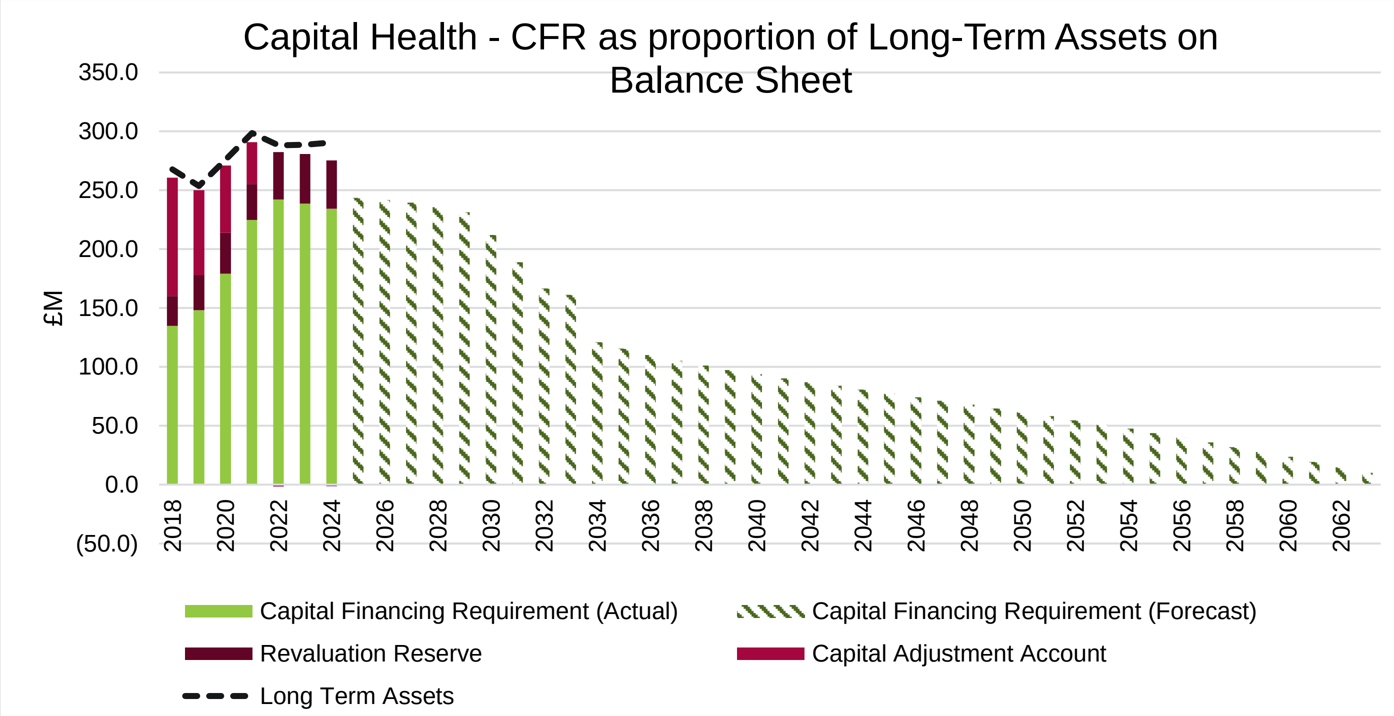
Table A7.1 – Capital Health in £ millions

Capital Health (£m)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Capital Financing Requirement	134.9	148.2	179.2	224.8	242.1	238.6	234.4
Long-Term Assets *(as per statement of accounts)*	267.8	253.6	275.8	298.6	288.2	288.8	290.7
CFR to Long-Term Asset Ratio	**50%**	**58%**	**65%**	**75%**	**84%**	**83%**	**81%**

As of 31st March 2024, the Council's CFR amounted to 81% percent of the value of its total capital worth (Long-term asset value), demonstrating that the Council's total capital worth exceeds its borrowing requirement. It should be noted that under the CIPFA code, assets can be capitalised on balance sheet based on the long-term service potential they provide and not necessarily the economic value they generate on sale, particularly assets held at historical cost e.g. intangible assets. The CFR to Long-Term asset ratio should therefore only be treated as an indicator of capital health.

Figure A7.2 demonstrates how this has changed since the council began borrowing to fund its capital programme and includes a forecast of the Council's CFR up to 2063 based on the current 5-year capital programme and no future additions to this.

Figure A7.2– Capital Health: CFR as proportion of Long-Term Assets



The Council's capital assets are comprised of fixed assets, such as property, and financial assets, such as loan and share capital. Fixed assets and long-term financial assets are less liquid than treasury management investments, as loans and share capital have contractual arrangements and agreed repayment profiles in place, whilst property is utilised in the delivery of corporate priorities. It is important that the council continues to monitor the repayment profiles of loans and valuation of its property assets to ensure that the council can cover its debt obligations through asset sales if required to do so (e.g. in the unlikely event that PWLB refinancing of loans becomes unavailable).

Based on current forecasts, the CFR is expected to be cleared by 2064. This is mainly due to the effects of the annual minimum revenue provision set aside by the council and principal repayment of capital loans and share capital investments, which are to be treated as capital receipts and are expected to be used to clear the outstanding CFR balances associated with these assets. The council continues to ensure that wherever possible, new capital projects are fully funded by capital grants, capital receipts or S106 receipts, keeping additional borrowing requirements to a minimum level and on projects whether there is a demonstrable business need or statutory duty.

A8. Asset Management and Commercial Risk

Asset Management

To ensure that capital assets continue to be of long-term use, the council is in the process of preparing a revised Asset Review, where the purpose of each asset held, is challenged, and these properties will be underpinned by policy documents which detail how each category of property is managed. This is a multi-level approach structured as follows:

- At a property level this will comprise of the preparation of an asset management plan which are then subject to periodic review and updating. This process is ongoing and informs the property strategy as a whole.

- At a tenancy level the Comprehensive Asset Register (a database of key lease events) is being updated and used to identify forthcoming lease events such as expiries, rent reviews and breaks. These are allocated to specific Property Managers to progress whose work schedules are reviewed periodically.

When a capital asset is no longer needed, it may be sold to generate a capital receipt. Receipts from capital grants, loan repayments and investments also classed as capital receipts under Local Government accounting regulations.

Commercial Risk

To drive leadership of place within Cherwell, stimulate growth, pursue economic regeneration and to generate income to support the revenue activity, the council holds commercial property assets that are subject to commercial risks. The council continues to make investments in enhancing and adapting these assets to ensure they remain fit for purpose and to maximise their service and economic potential in what has been a turbulent financial environment for commercial property nationwide in recent years.

The council recognises that the investments made in commercial property are higher risk than treasury investments. The principal risk exposures are listed below in table A8.1 together with an outline of how those risks are managed:

Table A8.1 – Commercial Risk Management

Illiquidity	The council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies: a) The council invests across a range of sectors and its assets are diversified in terms of lot size. b) Some of the Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e., if sold they could be suitable for debt backed investors. c) The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.
Tenant default	The council's portfolio includes both large national concerns, small local businesses (mainly retail or industrial type tenants) and individuals (such as housing tenants). Tenant default risk is managed in two ways: a) Tenants are vetted when entering the portfolio either as new tenants when property is let or as replacement tenants when existing tenants assign their leases. It must be acknowledged that there is less control when a tenant applies for consent to assign, though guarantees may be sought. b) Risk is managed by diversification as only a small proportion of tenants may be expected to fail in any given year. c) A policy contingency budget is held within the Council's annual revenue budget alongside a market risk earmarked reserve which could be made available to meet a shortfall in income that may arise in year due to tenant defaults.
Obsolescence	A significant proportion of the Council's portfolio comprises industrial / warehouse buildings and retail assets which have relatively low obsolescence compared to office premises. This is because offices in general require significant investment to maintain the landlords fit out specification in line with market demands. Where matters of council policy override commercial concerns, the Council's portfolio is more vulnerable. E.g., where significant outlay may be required on plant and machinery at the end of their useful economic lives. This will be considered in the Asset Management plan for each asset.
Capital expenditure	Please see above but also note that the council aims to let space on Full Repairing terms which makes the tenant either explicitly responsible for maintaining the asset or allows CDC to recover the cost of repairs through the service charge provisions of the relevant lease.

Market risk	Two key market risks are falling rents in response to declining economic conditions and extended marketing voids when leases end or tenants fail. These risks are mitigated in three main ways: 1. Lease lengths should be 3 – 5 years + which obviates most market risks during the period of the tenancy. 2. Longer leases which contain regular rent review provisions normally require the rents to be reviewed in an upwards only direction. 3. Tenant failure – see above under Tenant Default, re: vetting and diversification policies plus earmarked reserves held. A further risk is commercial leases with capped service charges meaning the landlord is not able to recover the full amount relating to leased space. The council has a limited number of leases with these clauses and does not routinely agree them unless there is a commercial imperative. An additional risk is over-exposure to town centre retailing as the portfolio's largest assets are the Castle Quay Centre and Waterside in Banbury as well as Pioneer Square in Bicester. The risks arising from these investments will be managed as part of the Strategic Asset Management plan and Asset Actions Plans for each asset.
Returns eroded by inflation	Most properties are let on lease terms which contain upwards only rent reviews and some are indexed linked guaranteeing rental growth. Although in general rental levels lag against inflation (both when rising and falling due to reviews or renewals being generally every 3-5 years) rents are historically considered to be more stable with less fluctuations.
Rising interest rates	Interest rate risks are managed by the Council's Treasury Management function which is supported by professional advisers. The council publishes its approach to interest rate management in its quarterly Treasury Management Report and annual Treasury Management Strategy which should be read in conjunction with this strategy.

Commercial Governance

Decisions on investment in assets with commercial risk are made by Members and Statutory Officers in line with the criteria and limits approved by Full Council in the Investment Strategy. Acquisitions of property are made in-line with strategic priorities of the council, are capital in nature and will therefore form part of the council's capital programme.

The council also has commercial interests in trading companies, indirectly exposing it to normal commercial risks. These risks are managed by the governance structure in place. The Shareholder Committee is regularly informed of the progress of each company. The Shareholder representative meets with the directors both formally and informally to ensure there is a consistent dialog between the companies and the council.

Further details on commercial investments and limits on their use can be found in the Investment Strategy (Section B of this report).

A9. Knowledge and Skills

The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer is a qualified accountant with many years of experience and several other members of the Finance team are CIPFA members and fully qualified accountants. Senior members of the Property team are registered surveyors with the Royal Institute of Chartered Surveyors (RICS). The council also pays for junior staff to study towards relevant professional qualifications, including CIPFA, to support professional development and team resilience. 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.

B. Investment Strategy

B1. Introduction

The CIPFA Prudential Code for Capital Finance outlines that in the Investment Strategy presented to Full Council each year, it should report on all financial investments of the authority, together with other non-financial investments such as those held for service purposes or for financial return.

Local authority investments (including commercial property) may be categorised in accordance with the primary purpose of the investment. The chief financial officer makes a judgement as to the primary purpose of the investment. For the purposes of this strategy, all investments and investment income must be attributed to the following purposes as per the prudential code:

- 'Investments for **treasury management** purposes' (or treasury management investments) are those investments that arise from the organisation's cash flows or treasury risk management activity, and ultimately represent balances that need to be invested until the cash is required for use in the course of business.

- 'Investments for **service** purposes' (or service investments) are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.

- 'Investments for **commercial** purposes' (or commercial investments) are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

In line with the above definitions, the council invests its money for three broad purposes:

- because it has surplus cash as a result 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, such as subsidiaries and local community groups (**service investments**) and

- to deliver against corporate priorities as detailed in the council's annual business plan (**service investments**)

The council does not invest *primarily* for financial return (commercial purposes) – for the council to do so, it is likely the council would need to incur borrowing. The prudential code does not permit borrowing for commercial purposes.

The council realises the benefits of its investments either through direct delivery towards corporate priorities, or by generating additional income that supports service delivery and the revenue budget.

The below table summarises how each type of investment benefits the council and its residents:

Table B1.1: Investment types and Benefits

Investment	Purpose	Examples	Strategic and Service Benefits	Economic Benefits
Treasury Investments	To manage surplus cash balances held in advance of expenditure	Money Market Funds, with the UK Government via the Debt Management Office (referred to as the DMADF), other Local Authorities and fixed deposits with banks	Effective treasury management – i.e. deposit cash in facilities that are secure, liquid and generate a financial return	Interest received can be used to support day-to-day revenue spend the council incurs in delivering its services.
Service Investment: *Purchasing of Share Capital*	To enable subsidiary companies such as Graven Hill to deliver service objectives and be commercially viable enterprises	Graven Hill, Crown House	The subsidiary is provided financial resource to deliver housing for the district	Investing in subsidiaries can help deliver service objectives that impact the local economy and help to stimulate economic growth e.g., in providing housing, attracting businesses, encouraging private investment in the district. The council may receive a dividend payment from the profits generated that can support revenue spend.
Service Investment: *Advancing of Capital Loans*	Loans are advanced to organisations such as the Council's subsidiaries, local parishes and local charities to support local public services and stimulate local economic growth	Graven Hill, Crown House, Local Charities and other organisations	To enable continual delivery of housing and infrastructure to the local community. To enable local groups to deliver objectives and priorities which align with the Council's.	Advancing loans can enable local organisations to facilitate economic growth. The council receives interest on the loan advances. Loans are repaid to the council on maturity.
Service Investments: *Property*	To help the council to deliver services, meet its corporate priorities and generate income to support its revenue activity	Bicester Depot, Castle Quay, Tramway Industrial Estate	A direct impact is made on the district through strategic place shaping, regeneration, and other forms of service delivery	Property investments support public services and help to attract for local and national businesses, driving economic prosperity. The council can generate income from lettings of space that it does not occupy, e.g., retail, and industrial space.

B2. Treasury Management Investments

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 be an average of £27.56m during the 2025/26 financial year.

Full details of the Council's policies and its plan for 2025/26 for treasury management investments are covered in a separate document, the Treasury Management Strategy.

B3. Service Investments: Loans

Contribution
The council lends money to third parties (e.g., its subsidiaries, local parishes, local charities) to support local public services and stimulate local economic growth. The main loans issued are to the council's subsidiaries – the Graven Hill Village companies and Crown House Banbury Ltd. Graven Hill is a housing development providing significant housing in Bicester. Crown House is a redeveloped derelict office building in the centre of Banbury which is providing significant residential rental opportunities in the town centre.

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:

Table B3.1: Fair Value of Loans

Category of borrower	2023/24 Actuals			2025/26
(£m)	Balance	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	65.6	0.6	65.0	82.6
Parishes	0.0	0.0	0.0	0.0
Local charities	0.0	0.0	0.1	0.1
Other	1.1	0.1	0.9	1.1
TOTAL	**66.7**	**0.7**	**66**	**83.7**

Accounting standards (IFRS 9) 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. The council, however, makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk Assessment
The council assesses the risk of loss before entering into and whilst holding service loans by approaching each loan request individually. The bulk of the council's loans are to its subsidiaries. When the council considers whether or not to create or acquire a subsidiary a full business case is prepared which sets out the optimal financing of the company. This will include an assessment of the market in which it will be competing, the nature and level of competition, how that market may evolve over time, exit strategy and any ongoing investment requirements. External advisors are used where appropriate to complement officer expertise and second opinions from alternate advisors is sought in order to monitor and maintain the quality of advice provided by external advisors.

Other service loans are evaluated against a set of criteria designed to demonstrate:

- Evidence of project objectives and needs analysis is provided
- The loan must have a demonstrable community impact
- The loan would provide up to 50% of the whole project cost

- Such a loan can only be applied for by constituted voluntary organisations with their own bank account; Town or Parish councils; charitable organisations

- The loan cannot be applied retrospectively

- The applicant has provided evidence of its financial stability and of its ability to manage the proposed scheme.

- Appropriate checks have been carried out on the owners of the organisations to be satisfied as to their integrity and to avoid any potential embarrassment to the Council.

- The applicant has demonstrated that the proposed scheme has been developed following good practice in terms of planning, procurement, and financial appraisal.

- The applicant has provided evidence the affordability of their proposed scheme and the loan repayments

- That the project furthers the council's priorities as reflected in its Business Plan

B4. Service Investments: Share Capital

The council invests in the shares of its subsidiaries to support local public services and stimulate local economic and housing growth. The council currently holds shares in Graven Hill Holding Company Ltd, Graven Hill Development Company Ltd and Crown House Banbury Ltd.

One of the risks of investing in shares is that the initial outlay may not be recovered. To limit this risk, upper limits on the sum invested in each category of shares are set as part of the Investment strategy. For 24/25, this limit was raised by £10m to allow for a potential increase in the equity investment in Crown House, however the council decided in 24/25 not to increase this equity investment and so the approved limit has returned to the £35.7m it was previously. Table B4.1 below shows the most recent values and the limit.

Table B4.1: Fair Value of Share Capital Investments

Category of company	31st March 2024 actual			2025/26
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	35.7	0	35.7	35.7
TOTAL				

The council assesses the risk of loss before entering into and whilst holding shares by maintaining close links with the Boards of Directors of the companies through an established Shareholder Committee. Risk is assessed as above in Service Loans.

The maximum periods for which funds may prudently be committed are assessed on a project-by-project basis. The decision will balance both the long-term viability of the subsidiary and the revenue and capital requirements of the council.

Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the Government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

B5. Service Investments: Property

The council invests in local property in two ways: by acquiring new assets and by enhancing existing assets to help provide and meet the needs of its residents and businesses. For example, the council has recently acquired land to relocate and expand its Environmental Services Depot in Bicester to accommodate growth across the district. The Capital Programme includes significant investment over the next five years, which includes:

- Development of the new Bicester Depot
- Transforming Bicester Market Square
- Investing in Solar Panels and Solar Photovoltaic car ports at the Council's leisure and community centres
- Commitment of funding to net zero carbon projects

The council also continues to hold strategic assets that have received significant investment in recent years to regenerate town centres and generate income for the council, the largest of which include,

- Castle Quay Centre and Waterfront, Banbury;
- Pioneer Square, Bicester;
- Tramway Industrial Estate; Banbury.
- Town Centre House, Banbury

Security

Under the statutory guidance on investments published by Central Government, the council should evaluate the security of its investments by conducting a fair value assessment against the capital invested. A fair value assessment is possible for assets held at fair value, i.e. properties valued annually as investment property (IAS 40 as adapted by the CIPFA code) or operational assets valued under Existing Use Value (EUV) where there is an active market for these types of assets.

Under the CIPFA code, operational assets are valued under the Existing Use Value approach. Existing Use valuations are conducted on assets that have service benefits, such as in provision of housing or in the delivery of regeneration objectives. Existing Use (EUV) valuations may in some circumstances be lower than Market Value due to EUV disregarding potential alternative uses of the asset. An assessment of the security of these assets is therefore made against valuations in Existing Use where Market Value is unavailable. Table B5.1 shows the latest fair value assessments of the council's high value strategic investments made in recent years:

Table B5.1: Fair Value of High Value Investments in the Council's Strategic Assets

Asset Name	Investment Cost (£m)	Book Value *31/03/2023* (£m)	Movement in Book Value (Revaluation + Depreciation) (£m)	Book Value *31/03/2024* (£m)	Gains/(Losses) in Book Value Recognised in Accounts (£m)	Last External Valuation Date
Castle Quay Waterfront, Hotel and Supermarket	68.3	29.4	(3.7)	25.7	(42.6)	31/03/2024
Castle Quay Shopping Centre	64.7	13.8	0.7	14.5	(50.2)	31/03/2024
Tramway Industrial Estate	9.6	9.1	(0.2)	8.9	(0.7)	31/03/2023
Pioneer Square	8.2	4.4	0.9	5.3	(2.9)	31/03/2024
Totals	**150.8**	**56.7**	**(2.3)**	**54.4**	**(96.4)**	

The decline in book values have been driven by multiple factors, particularly the changing nature of town centres and the retail market nationwide.

Book gains and losses are recognised in the Council's statutory accounts to reflect fluctuations in asset values and represent a snapshot of the Council's financial position as at a balance sheet date. Cash movements against the original capital investment are therefore not realised until an asset is disposed of.

The council recognises that property valuations are important. In the long term, valuations generally increase as a factor of the economy. With careful management of assets and lets, the council anticipates that, over time, income rental yields will improve and be reflected in the valuations. Notwithstanding, the council continues to realise property investment benefits through other non-financial factors such as regeneration and place shaping, and through revenue receipts which will help finance the capital investment.

Whilst strategically important, property valuations do not have a direct impact on the council's day-to-day financial standing. The council has prudently budgeted for the debt servicing costs on these investments and continues to receive income from the assets to support the financing of the investments. Many of the assets are long-term for the council, with current and future service benefits that also need to be taken into consideration in evaluation of the investment. As detailed in section A6 of the capital strategy, the council deems its capital investment plans to be affordable, prudent, and sustainable.

The Council's strategic asset review is still in progress, and whilst no firm decisions have been made, action is being taken to identify ways to maximise the economic and service benefits from the Council's property. Repurposing of space is a key factor the council is considering for its assets. For example, the repurposing of retail units to office space as part of the council office relocation to Castle Quay project, which was approved in the previous financial year, is well underway and due to complete in February 2025. In moving to Castle Quay, it is expected that the Council's current headquarters Bodicote House will be sold to generate a capital receipt. As discussed in section A4 of the Capital Strategy, standard practice is for capital receipts to be used to reduce the Council's existing debt (the CFR).

By reconsidering asset use of and repurposing space to maximise service and economic benefits delivered by property assets, the council anticipates that the corresponding valuations will increase in the future. Valuations will, however, depend on market sentiment and national economic conditions.

It should be noted that the security of investment is not only considered through annual fair value assessment. Assets that generate income to the council contribute to the overall business case and therefore whilst capital values may fluctuate, income generated from property assets may be considered secure in accordance with the lease terms granted, tenant performance, and asset obsolescence.

Risk assessment

The council assesses the risk of loss before entering and whilst holding property investments by cash flow modelling the income and expenditure profile of each investment and interrogating that model across a range of scenarios to test the robustness of the investment. The modelling exercise is informed by the likelihood of tenant default and the chances that individual units will become empty during the hold period.

The property investment market is dynamic, and the council is kept abreast of developments by frequent communication and established relationships with local and national agents, supplemented by in-house investigations and reading of published research. The Council’s focus is on assets that are local and help to deliver the strategic aims of the council.

In all acquisitions the council takes external advice from acknowledged experts in the field and sense-check their input against our in-house knowledge, experience, and expertise. The advice sourced covers market value but also, letting risk, marketability and occupational demand, and likely expenditure over the hold period.

The council uses a number of local and national advisors and cross reference their views periodically. There is no single party or firm which expects to be instructed by the council without competition.

Credit ratings are used on acquisitions, new lettings and when tenants request consent to assign their leases. The council uses D&B ratings as well as reviewing the published accounts of tenants or potential tenants.

A number of other strategies are used to mitigate risk:

- Tenant rent payment histories are analysed on any acquisition.
- Tenant rent payment patterns and arrears are examined in the existing portfolio.
- to the investment.
- Introducing agents advise the council throughout the acquisition process and their advice includes market commentary at a national and a local level and commentary on perceived risks
- In tandem with the above every acquisition is subject to a third-party RICS Red Book valuation by qualified surveyors who are independent i.e., not acting for the council or the vendor on the acquisition.
- Performance of due diligence enquiries about potential incoming tenants and occupiers
- Use of mechanisms such as rent deposits and guarantees to reduce risk.

Liquidity

Compared with other investment types, property is relatively difficult to sell to convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies:

- The council invests across a diverse range of sectors and lot sizes. This affords the council the ability to access a range of purchaser types e.g., small local investors, listed property companies or institutions.

- The council does not invest in high-risk assets which can be the most illiquid of all other than for the purposes of delivering regeneration which has a different investment objective from pure revenue or capital return.

- Some of the Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e., if sold they could be suitable for debt backed investors

- The council does not invest in specialist properties (other than those that are for service purposes, such as community centres), where the market tends to be most illiquid.

- The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.

- The Council's plans do not require the sale of assets (except in the case of relocating council headquarters to Castle Quay, which requires the sale of Bodicote House to fully finance)

B6. Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the council and are included here for completeness.

The council has contractually committed to the following loan, bond, and guarantee amounts:

Table B6.1: Loan Commitments, Bonds and Guarantees

Borrower	Purpose	£m Contractually Available
Graven Hill Village Development Company Ltd	Revolving Credit Facility available to the council's subsidiary until 2026	17.0
Graven Hill Village Development Company Ltd	Bonds and Guarantees in place	1.4
Graven Hill Village Development Company Ltd	Bond and Guarantees agreed in principle	10.3
TOTAL		**28.7**

B7. Capacity, Skills and Culture

Elected members and statutory officers

The senior statutory officers are qualified to degree level and have appropriate professional qualifications. Their shared business experience encompasses both the public, private and third sectors.

Training and guidance are provided to support members in delivering their roles and support effective decision making.

Investments
Negotiations are either undertaken directly by Assistant Directors or at a senior level with Assistant Director direct involvement and oversight, alongside input from Directors and Lead Members where required. Assistant Directors are aware of the regulatory regime and convey that to all junior staff.

Corporate governance
There are appropriate corporate governance measures in place which comprise end to end decision making procedures. These include risk assessments within the organisation; presentation to relevant committees including Members, statutory officers' approvals, and relevant project boards.

B8. Investment Indicators

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

Total risk exposure
The first indicator shows the council's total exposure to potential losses in investment book value (i.e. losses not already recognised on balance sheet) which 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 and the council's high value property assets. These risks are managed by the council operating within the Treasury Management, Capital and Investment Strategies and strict governance arrangements around the council subsidiary Companies.

Table B8.1: Total investment exposure in £ millions

Total investment exposure	31/03/2024 Actual	31/03/2025 Forecast	31/03/2026 Forecast
Treasury management investments*	21.9	3.8	6.6
Service investments: Loans**	57.2	57.1	56.9
Service investments: Shares	35.7	35.7	35.7
Service investments: Property***	54.4	61.0	61.3
TOTAL INVESTMENTS	**169.2**	**157.6**	**160.2**
Commitments to lend	17.0	17.0	17.0
Bonds & Guarantees in place and agreed in principle	22.4	11.7	3.1
TOTAL INVESTMENT EXPOSURE	**208.6**	**186.2**	**180.3**

**The investment forecast for 2025/26 is as per the MTFS budget and includes a forecast loan necessary for the Council to maintain its professional client status with its providers of financial services. This figure will differ from table 1.3 in the Treasury Management Strategy, as that only takes loans already committed to, into account.*
***Loans as per the investment funded by borrowing (excluding interest income) as per Table B8.2*
****As per the net book value in Table B5.1 for 2023/24 on high value property investments*

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

Table B8.2: Investments funded by borrowing in £ millions

Investments funded by borrowing	31/03/2024	31/03/2025	31/03/2026

	Actual	Forecast	Forecast
Service investments: Loans	57.2	57.1	56.9
Service investments: Shares	35.7	35.7	35.7
Service investments: Property	172.9	168.1	168.7
Total Funded by Borrowing*	**265.8**	**260.9**	**261.3**

**The total funded by borrowing represents the gross expenditure incurred on these types of investments which form part of the Council's CFR. MRP (see Annex A) made to date on these investments has not been included in this total.*

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 by the council. 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

Table B8.3: Investment rate of return (net of all costs)

Investments net rate of return	2023/24 Actual	2024/25 Forecast	2025/26 Forecast
Treasury management investments	5.1%	5.0%	4.5%
Service investments: Loans	7.0%	6.8%	5.9%
Service investments: Property	0.6%	1.3%	1.6%

Treasury management investments are made to deposit cash balances in facilities that offer security, liquidity and a financial return (in that order of priority). Service loan investments are required to be made at a rate of interest that complies with subsidy control regulations, and whilst financial return is not the primary purpose, may generate a higher return than treasury and property investments. The rate of return on property assets represents the return across property service investments in housing, car parks, property bought with regeneration objectives and other property. The council has invested in local housing projects which generate income at a below market rate, e.g., Affordable Housing. It is therefore not unexpected that Property investments may generate a lower return than other forms of investment the council undertakes as set out in this strategy.

Annex A – Annual Minimum Revenue Provision (MRP) Statement

MRP Summary
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). The council is required by statute to charge an amount of MRP to the General Fund Revenue account each year for the repayment of debt. The MRP charge is how capital expenditure which has been funded by borrowing is paid for by council taxpayers. Legislation requires local authorities

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

The statutory guidance [1] on MRP outlines 4 ready-made options for calculating prudent provision:

- Option 1 – Regulatory Method
- Option 2 – CFR Method
- Option 3 – Asset Life method a and b
  - Option 3a –*Straight Line*
  - Option 3b –*Annuity*
- Option 4 – Depreciation Method

Options 1 and 2 can only be used for capital expenditure incurred prior to 1 April 2008 (supported capital expenditure). These options are therefore unavailable to the council as it has no supported capital balances within its Capital Financing Requirement (CFR).

MRP Statement

The council is recommended to approve the following statement:

- For unsupported capital expenditure incurred on fixed assets after 31st March 2008 and not acquired under a finance leasing arrangement, MRP will be determined using **option 3b (Annuity method)** of the statutory guidance on MRP starting in the *year after* the asset becomes operational.

- MRP on the acquisition of share capital in a subsidiary company will also be calculated using **option 3b** of the statutory guidance.

- For capital expenditure incurred in the advancing of loans to third parties that are delivering service objectives on behalf of the council, such as subsidiary companies, MRP will be charged at an amount equal to any increase in expected credit losses on the loans recognised in the financial year in accordance with IFRS 9.

- Repayments of loan principal on capital loans will be treated as capital receipts and applied to the capital adjustment account to clear any unfinanced capital spend associated with the original loan advancement, reducing the Council's overall capital financing requirement.

- Capital expenditure incurred on acquiring assets under finance leases will have an MRP charge made equal to the capital rent payment made to reduce the lease liability in year.

- Capital expenditure incurred in 2025/26 will not be subject to an MRP charge until 2026/27 at the earliest.

For **option 3b,** under statutory guidance:

- "*MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements, using an appropriate rate of interest."* In simpler terms, this is equivalent to the MRP charge matching the capital repayment profile of a mortgage or a finance lease arrangement, with payments taking place over the life of the asset and using an appropriate rate of interest to determine the annual amount.

- Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g., by the application of capital receipts) will be made as necessary.

As external debt balances cannot be directly linked to specific capital expenditure (external debt is a Treasury Management function) the council has determined an *appropriate* interest rate to be the Public Works Loans Board (PWLB) rate available for an annuity-based loan, with a repayment lifetime that matches the estimated useful life of the underlying asset. The PWLB rate used is taken from on the PWLB website [2] and will be the rate available on the first working day of the financial year in which the expenditure is incurred.

Indicative annuity rates used in the Council's MRP calculation are shown below which are then further reduced by 0.2% for use in the MRP calculation, in accordance with the borrowing discount available to Local Authorities:

PWLB Borrowing Rates		***Loan Term/Asset Life***				
Publication Date/Time	***Year***	***10***	***20***	***30***	***40***	***50***
02/04/2024 09:04:00	2024/25	4.88%	5.10%	5.41%	5.48%	5.45%
03/04/2023 09:15:48	2023/24	4.49%	4.60%	4.86%	4.89%	4.82%
01/04/2022 12:19:13	2022/23	2.50%	2.69%	2.85%	2.86%	2.80%
01/04/2021 09:08:50	2021/22	1.43%	1.97%	2.28%	2.41%	2.42%
01/04/2020 12:28:08	2020/21	2.13%	2.32%	2.60%	2.76%	2.77%
01/04/2019 12:13:33	2019/20	1.74%	2.09%	2.44%	2.60%	2.59%
03/04/2018 12:15:35	2018/19	2.07%	2.46%	2.67%	2.75%	2.72%
03/04/2017 12:15:31	2017/18	1.49%	2.18%	2.62%	2.80%	2.78%
01/04/2016 12:15:18	2016/17	1.86%	2.59%	3.08%	3.31%	3.32%
01/04/2015 12:15:49	2015/16	2.13%	2.72%	3.08%	3.29%	3.34%
01/04/2014 12:15:51	2014/15	2.96%	3.95%	4.34%	4.47%	4.50%

Calculation of the CFR

As per the requirements of the CIPFA Prudential Code, the council calculates its Capital Financing Requirement by consolidating the following elements of the balance sheet:

- Non-current tangible assets (i.e. property, plant and equipment, heritage assets, investment properties and non-current assets held for sale);
- Intangible assets – non current;
- Long-term debtors relating to capital transactions (where applicable);
- investments that treated as capital expenditure under proper practices or applicable regulations;
- Revaluation reserve;
- Capital adjustment account;
- Donated assets account;
- Other items on the Balance Sheet that relate to capital expenditure but excluding the underlying liability.

This is known as the balance sheet CFR.

The CFR can also be calculated year-on-year by taking the opening CFR and consolidating with in-year:

- Capital expenditure (acquisitions, enhancements, loans and investments)
- Capital financing applied to the capital adjustment account (capital grants, receipts, loan repayments)
- Donated assets
- Minimum Revenue Provision

This is the method prescribed by the CIFPA code on Local Authority Accounting and is disclosed as part of the Council's annual statement of accounts. Reconciliation of the two CFR methods is undertaken annually as part of year-end accounting procedures.

Amounts in the CFR excluded from MRP

In-line with the revised guidance from government published 10th April 2024[1], the council has opted to not charge MRP in relation to the CFR for service loans to its subsidiary companies beyond the expected credit losses on the loans recognised in year. The council expects all service loans to be repaid in full and therefore the borrowing in relation to these loans will be financed by the capital receipt upon repayment. However, in line with International Financial Reporting Standard 9, the council should make an allowance for expected credit losses – that is an allowance reflecting the risk that the council does not receive all interest and principal due to them under the loan agreement – even if the risk of this is very low. It is therefore prudent to charge minimum revenue provision in line with the expected credit loss allowance to reflect the small chance that the council does not receive all of the principal at the end of the loan and so is not able to repay its borrowing. As the expected credit loss allowance for each loan is remeasured each year, any change in the risk of default is captured and therefore is also reflected in the MRP charge. As the current risk of default is low the council is satisfied that this approach is prudent, however if the risk of default becomes significant then the council would consider whether a further MRP charge would be required.

MRP Factors and Assumptions

As part of the 2023/24 Capital Strategy, Full Council approved a change of MRP approach from option 3a (Straight-line) to 3b (Annuity) for Fixed Assets, Capital Loans and Share Capital investments. The annuity approach helps to more fairly distribute capital financing costs to the taxpayer over the lifetimes of the assets invested in when factoring the time value of money. This was in recognition that the council has primarily invested in assets which are expected to have long-term benefits to the taxpayer, with benefits expected to be realised over 50 years, meaning that the effects of the time value of money are significant.

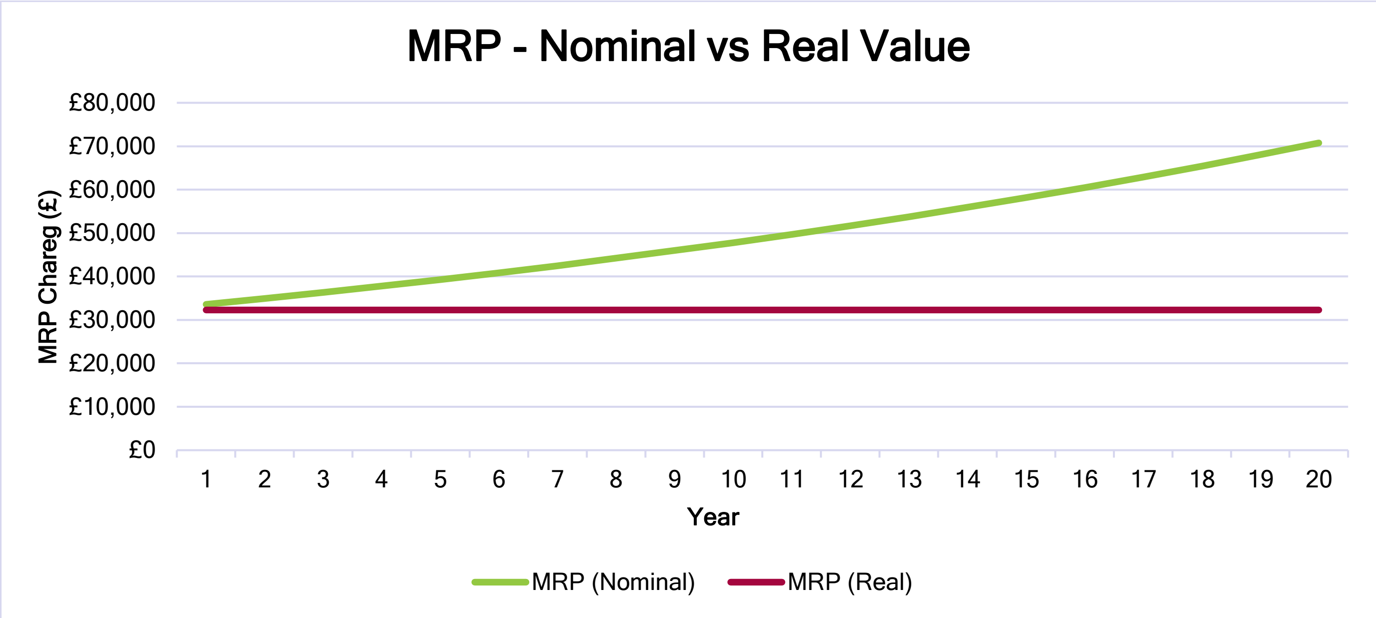
The Time Value of Money

An annuity based MRP approach enables a fairer distribution of MRP across the lives of the assets invested in due to the time value of money – i.e. that the money is worth more today than in the future. The value of money can be thought of in terms of its nominal value, what money is worth in today's terms, and its real value – its actual worth at a given point in the future based on current expectations around interest rates and inflation. When interest rates are high, the effects of the time value of money are more prominent.

MRP is one of two elements that make up the cost of capital financing, the other being interest payable. When examining an annuity approach, it useful to compare the repayment profile to that of a mortgage agreement. Whilst a mortgage has a fixed repayment profile over a given period (assuming a fixed rate of interest), the split between the amount paying off interest (revenue) and the amount paying off the capital element of the mortgage changes with time. At the start of the loan, a greater proportion of the total cost of borrowing is paid towards interest, as the principal balance outstanding on the loan is higher. The interest element decreases over time as the principal balance reduces, and as the interest reduces, more capital is paid towards the principal. MRP therefore represents the capital element of the mortgage in this scenario. The effect of this is that the MRP charge is factoring in the time value of money, and whilst the nominal value of MRP increases with time, its real value remains constant, meaning there is no increased burden on the future taxpayer.

The below table and graph demonstrate this effect for a capital investment of £1m at an interest rate of 5% with an asset life of 20 years.

Figure AN1.0 : Example Financing Costs Graphical Representation



Interest Rates
The assumption made for the MRP calculation is that the interest rate remains fixed over the life of the asset and that it matches the presiding PWLB rate at the time the expenditure was incurred.

In practice, decision on loans from the PWLB are taken as part of the treasury management, therefore actual loans may have different rates of interest, repayment profiles and maturity dates. Loans may not necessarily be repaid in instalments, but instead repaid in full on a fixed maturity date. The council in setting aside MRP, may not necessarily have any loan principal payment obligations until far into the future. MRP therefore acts as provision to repay external debt rather than as an actual repayment. In making MRP independent of actual loan principal repayments, the council is setting aside cash balances that can generate interest receivable. This has the effect of reducing the net capital financing costs to the corporate revenue budget in years when no principal repayments are due, having a similar effect to that of a capital repayment of a loan in instalments reducing interest payable.

The council recognises that the loans it takes from PWLB are in some cases going to mature earlier than when MRP can be fully provided to repay the loan and will therefore require refinancing in the future to meet existing loan obligations. This does expose the council to future interest rate and refinancing risks which are addressed and managed as part of the Council's Treasury Management Strategy and function.

Asset Lives in the MRP Calculations
The statutory guidance on MRP provides maximum useful lives for the purposes of calculating MRP. To simplify the MRP calculation, the council applies approximated useful lives based on the type of expenditure incurred. This results in a less labour-intensive calculation whilst ensuring the MRP is materially accurate and commensurate with the period over which the expenditure is expected to provide benefits. These lives will not exceed the maximum permitted by the guidance.

The useful life ranges are detailed in the table below:

Expenditure Type	Useful Life
Acquisition of Land	50 years
Acquisition of Buildings	20-50 years
Acquisition of Plant	10-20 years
Acquisition of Equipment	5-20 years
Enhancements to buildings (fitting out of space, replacement roofs etc.)	15-20 years

Home Adaptions under the Disabled Facilities Grants Scheme	5-15 years
Acquisition of Share Capital in a Subsidiary	20 years
Acquisition and Enhancement of on-premises Computer Software	1-5 years

Future MRP Considerations

The council recognises that the interest rates and inflation determine the time value of money and are likely to fluctuate over the lifetime of MRP for long-term assets. As such, the council will review the suitability of the annuity based method annually to ensure it remains appropriate. If interest rates decrease significantly, the current annuity model may no longer be the most appropriate methodology.

[1] – Statutory Guidance on Minimum Revenue Provision
https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition/capital-finance-guidance-on-minimum-revenue-provision-5th-edition

[2] – PWLB Lending Facility Rates
https://www.dmo.gov.uk/responsibilities/local-authority-lending/historical-interest-rates/

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Treasury Management Strategy Statement 2025/2026

Index

1. Introduction

The council is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority'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."*

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

1.1 Treasury Management Reporting

The aim of the strategy is to ensure that all the council's elected members fully understand the overall long-term policy objectives and resulting Treasury Strategy requirements, governance procedures and risk appetite.
The council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

All of these reports will first be reviewed Accounts, Audit and Risk Committee before being recommended to council.

a. **Treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers how the investments and borrowings are to be organised and setting treasury indicators

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the Treasury position, prudential indicators, and whether any policies require revision.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Accounts, Audit and Risk Committee.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) has also been required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Accounts, Audit and Risk Committee.

1.2 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers the following Treasury management issues:

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, MHCLG Investment Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.3 Training

The CIPFA Treasury Management Code requires the Section 151 Officer, as the responsible officer, to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making. The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs.

As a minimum, the council should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies. CIPFA's Better Governance Forum and Treasury Management Network self-assessment by members responsible for the scrutiny of treasury management will be used.
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

The training needs of treasury management officers are periodically reviewed.

1.4 Treasury Management Consultants

The council uses MUFG Corporate Markets (previously known as Link Treasury Services) as its external treasury management advisors.

The council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

1.5 Treasury Management Portfolio

1.5.1 The overall treasury management portfolio as at 31.3.24 and for the forecast position as at 31.03.25 are shown below for both borrowing and investments.

Table 1: Overall treasury management portfolio

TREASURY PORTFOLIO				
	actual	actual	forecast	forecast
	31.3.24	**31.3.24**	**31.3.25**	**31.3.25**
Treasury investments	£000	%	£000	%
Banks		0%		0%
Building societies - unrated		0%		0%
Building societies - rated		0%		0%
Local authorities	13,000	59%	5,000	39%
DMADF (H.M.Treasury)		0%		0%
Money Market Funds	8,920	41%	7,821	61%
Certificates of Deposit		0%		0%
Total managed in house	**21,920**	**100%**	**12,821**	**100%**
Bond Funds		0%		0%
Property Funds		0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**21,920**	**100%**	**12,821**	**100%**
Treasury external borrowing				
Local Authorities	15,000	8%	35,000	19%
PWLB	166,000	92%	145,000	81%
LOBOs		0%		0%
Total external borrowing	**181,000**	**100%**	**180,000**	**100%**
Net treasury investments / (borrowing)	**(159,080)**	**-**	**(167,179)**	**-**

1.6 Balance sheet summary and forecast

1.6.1 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.

1.6.2 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.

Table 2: Balance sheet summary and forecast

	31.3.24 Actual £m	31.3.25 Estimate £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
General Fund CFR	234.4	243.5	241.7	239.6	235.7
Less: External borrowing	(181.0)	(180.0)	(179.0)	(178.0)	(173.0)
Less: Service Loans and lease liability	0.0	0.0	0.0	0.0	0.0
Internal/(over) borrowing	**53.4**	**63.5**	**62.7**	**61.6**	**62.7**
Usable reserves	(50.7)	(43.6)	(44.9)	(45.5)	(46.6)
Working capital	(24.6)	(23.6)	(22.6)	(21.6)	(20.6)
Usable reserves and working capital less internal borrowing equals **Investments / (borrowing)**	**21.9**	**3.7**	**4.8**	**5.5**	**4.5**

1.7 Liability Benchmark

1.7.1 The council is pleased to include the Liability Benchmark (LB) as a prudential indicator for 2025/26 in this report. The council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

1.7.2 There are four components to the LB:

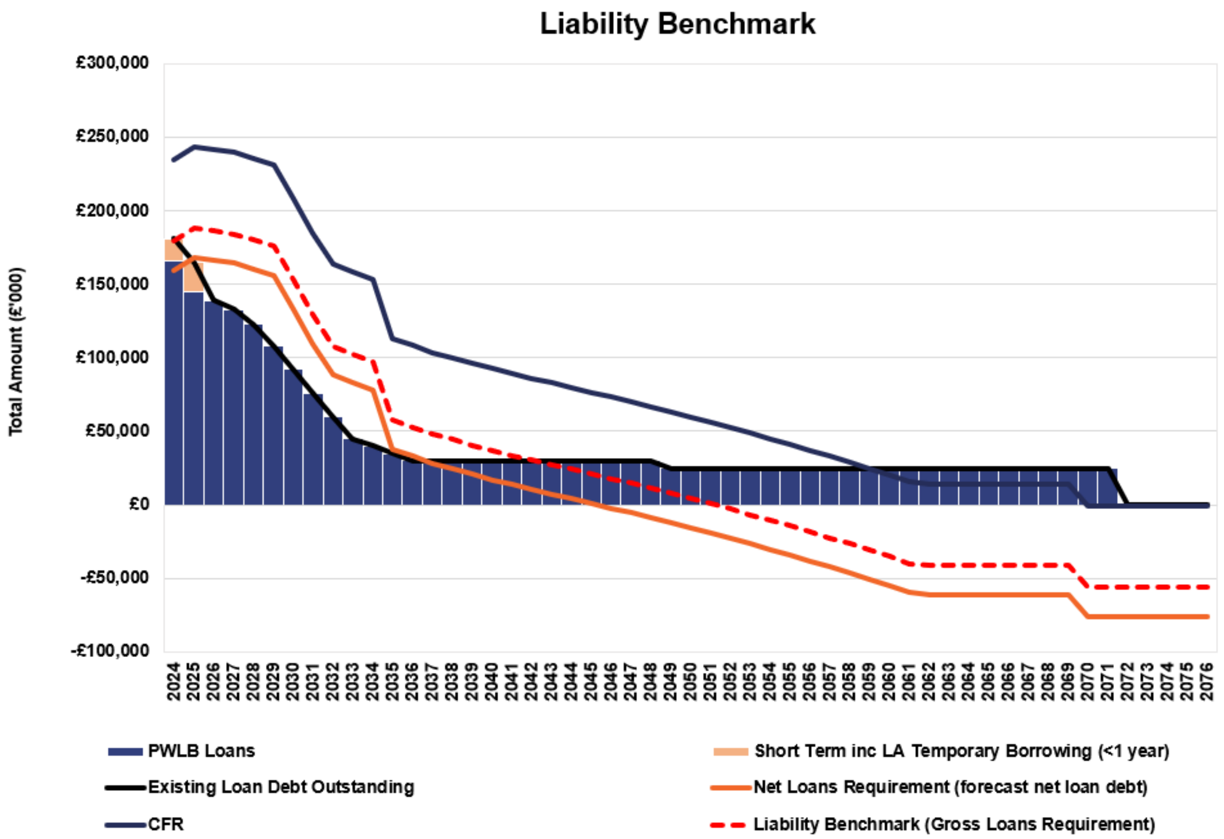
a.) **Existing loan debt outstanding**: the council's existing loans that are still outstanding in future years.

b.) **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP.)

c.) **Net loans requirement**: this will show the council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

d.) **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table 3: Liability Benchmark



1.7.3 This graph is based only on approved activities in the current and proposed capital programme and it therefore assumes there are no future capital investments beyond what is included in the capital programme. This graph is not a forecast but a snapshot of the council's current commitments and loans. The difference between net loan requirement and CFR is made up of internal borrowing.

1.7.4 The LB graph above demonstrates that the council is in an under borrowed position until 2044. Using the current data available the CFR may be nil by 2068 and the estimated internal borrowing currently used to finance the CFR can be invested as the CFR reduces.

1.8 General Balances & Reserves and Expected Investment Balances

1.8.1 Internal borrowing is possible because of the council's General Balances and reserves as laid out in the table below. These funds can be used to finance capital expenditure or other budget decisions to support the revenue budget, but it is important that there is enough liquidity to ensure that should the funds be called upon that the council would not be forced to borrow in an unfavourable position.

1.8.2 The other component within this table is working Capital which is made up of a combination of debtors, creditors, long term liabilities and non-capital deferred credits / receipts.

Table 4: General Balances & Reserves and Expected Investment Balances

Year End Resources £m	**2023/24 Actual**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
Collection Fund Adjustment Account	1.5	**(0.1)**	0.0	0.0	0.0
General Balances	6.1	6.2	6.2	6.2	6.1
Earmarked Reserves	30.9	28.6	29.8	30.4	31.5
Revenue Grants	5.9	5.9	5.9	5.9	6.0
Capital Reserves	6.3	3.0	3.0	3.0	3.0
Usable reserves	**50.7**	**43.6**	**44.9**	**45.5**	**46.6**
Working capital*	24.6	23.6	22.6	21.6	20.6
Internal/(over) borrowing	53.4	63.5	62.7	61.6	62.7
Usable reserves and working capital less internal borrowing equals **Investments / (borrowing)**	**21.9**	**3.7**	**4.8**	**5.5**	**4.5**

*Working capital balances shown are estimated year-end; these may vary midyear

1.9 Treasury Management Indicators

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

1.9.1 **Interest rate exposures for both borrowing and investing**: This indicator is set to control the council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The upper limits on the one-year revenue impact of a 1% rise or a 0.75% fall in interest rates will be:

Table 5: Interest rate exposures for both borrowing and investing in 25/26

Interest rate risk indicator	Impact	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	Borrowing: The revenue impact would only affect the cost of refinancing maturing loans Investments: As the council maintains short investment terms (average 32 days in 24/25) this would increase in revenue for investments	£290,000 £262,500
Upper limit on one-year revenue impact of a 0.75% fall in interest rates	Borrowing: Falling interest rates would result in a savings in the cost of refinancing maturing loans Investments: As the council maintains short investment terms (average 32 days in 24/25) this would decrease investments returns	£217,500 £196,875

*calculations based on the 25/26 budget

1.9.2 **Maturity structure of borrowing**: The council monitors its exposure to refinancing risk with the maturity structure of borrowing indicator. The practice of setting a 'maturity structure of borrowing' aims to profile the maturity dates of borrowing so that loans don't all mature at once as this exposes the council to refinancing risk. As an example, if all of the council's loans had matured in the last 6 months, the council would have been forced to refinance at the higher interest rates than budgeted for. Instead, the council's loan maturity dates are spread out. Even if rates are still high when the council needs to refinance some of the first loans in the portfolio to mature, at least the council is only exposed to the higher interest rates on those loans, and not all loans. The upper and lower limits on the maturity structure of borrowing will be as per Table 6 below:

Table 6: Maturity structure of borrowing limits in 25/26

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%

12 months and within 24 months	50%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	70%	0%
10 years and above	80%	0%

1.9.3 The upper limit should always be reviewed in line with the Liability benchmark to ensure that refinancing risk is mitigated. While it is important to have flexibility to navigate changing market conditions is it critical that loan repayments are spread appropriately. The lower limit has been considered but kept at zero to ensure that the council is not forced into taking borrowings in a particular category that would lock us into an unfavourable borrowing situation. The council feels that having no set lower limit gives officers the best flexibility to react to the economic climate. For example, if a lower limit for 10-year borrowing was set it may force the council to take out loans of that term when rates are high, rather than the council's preferred strategy of borrowing for shorter periods (still spread out) until rates begin to settle at the level the council's advisors believe will be the new "normal".

1.9.4 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 upper and lower limits as shown above provide the scope to accommodate new loan(s) in the most appropriate maturity band at the time of borrowing.

1.9.5 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. The council is asked to approve the following treasury indicator and limit:

Table 7: Long term investment limits

	2024/25	2025/26	2026/27
Upper limit for principal sums invested for longer than 365 days	£5m	£5m	£5m
Current investments as at 31.12.2024 in excess of 1 year maturing in each year	Nil	Nil	Nil

1.10 Financial implication of the 25/26 Treasury budget

1.7.1 The budget for treasury investment income in 2025/26 is £0.886m, based on an average investment portfolio of £26m at an average interest rate of 3.38%. This is a decrease from the £1.150m budgeted for in 2024/25, based on an average investment portfolio of £28m at an average interest rate of 5.08%.

1.7.2 The budget for committed debt interest payable in 2025/26 is £4.851m, based on an average debt portfolio of £179m at an average interest rate of 2.71%. This is an increase from the 2024/25 budget of £4.711m, based on an average debt portfolio of £187m an average interest rate of 2.52%.

1.7.3 If actual levels of investments and borrowing, or interest rates, differ from those forecasts, performance against budget will be correspondingly different.

2 Borrowing

2.1 Borrowing Strategy

2.1.1 The council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure (as detailed in table 4.) This strategy is prudent as medium and longer dated borrowing rates are expected to slowly start reducing until they settle at around 3% in 2027/28.

2.1.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The S151 Officer, using information supplied by the council's Treasury Advisors, will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances for example:

- *if it was felt that there was a significant chance of a sharp FALL in borrowing rates,* then long term borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

It is important to note that decisions can only be taken based on the best information available at the time and cannot be taken with the benefit of hindsight.

2.1.3 Any significant decisions made by the S151 officer will be reported to the Accounts, Audit and Risk Committee (AARC) at the next available opportunity. In addition, the council may borrow further short-term loans to cover unplanned cash flow shortages.

2.1.4 **Forecast of borrowing rates:** It is expected that the Bank of England base rate will slowly reduce from its current forecast rate of 4.50% in March 2025 to 3.75% by March 2026.

2.2 Approved Sources of Long and Short-term Borrowing

	Fixed	Variable
Public Works Loan Board (PWLB) and any successor body	●	●
Any other UK public sector body e.g., other councils	●	●
Any other bank or building society authorised to operate in the UK	●	●
Any institution approved for investments (see below)	●	●
UK private and public sector pension funds (except Oxfordshire County Council Pension Fund)	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Overdraft	●	
Internal borrowing (capital receipts & revenue balances)		●

2.2.1 **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:

	Fixed	Variable
Finance Leases	●	●
Hire purchase	●	●
Private Finance Initiative	●	●
Crowd Funding	●	●

2.3 Policy on Borrowing in Advance of Need

2.3.1 The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be taken in consideration of the forecast Capital Financing Requirement, forecast interest rate changes, and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of investing such funds.

2.3.2 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.4 Debt Rescheduling

2.4.1 As the council's PWLB loan portfolio has an average interest rate of 2.23% the PWLB would currently reward early repayment due to the discount rates on offer. For example, if the council repaid the £25m loan maturing in 2071 the PWLB would offer a 4.43% discount rate which would equate to £13.5m discount. However, a statutory override would require any discount to be amortised to revenue over 10 years, which reduces the initial revenue benefit. In addition, the council is currently in an under borrowed position and premature repayment would be problematic as loans at higher rates would need to be taken and this would create additional revenue cost. The option to reschedule existing loans will be reviewed on a regular basis and any decision making would be supported by a net present value appraisal, which would provide expected whole life net General Fund benefit.

2.4.2 If any loan rescheduling is to be undertaken, it will be reported to the Accounts, Audit and Risk Committee, at the earliest meeting following its action.

3 Investing

3.1 Investment strategy

3.1.1 The council's investment priorities will be **security first, portfolio liquidity second and then yield (return).** The council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the council's risk appetite.

3.1.2 The council's strategy is to have regard to the **Environmental, Social and Governance** ("ESG") risks presented by its Counterparties. The Treasury function will favour any counterparty that offers "ESG" or 'green' investments as long as all investment criteria as laid out in this strategy are met.

It is important to note that excluding any one counterparty, on social norms or standards, will likely mean others will similarly have to be avoided and thus impact the council's capacity to mitigate risk through diversification.

3.1.3 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

3.1.4 This council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

a.) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

b.) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

c.) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.1 (Table 8.)

d.) **Transaction limits** are set for each type of investment in 3.2 (Table 9.)

e.) This council will set a limit for its investments which are invested for **longer than 365 days**, (see point 1.9 Treasury Management indicators).

f.) All investments will be denominated in **sterling**.

g.) As a result of the change in accounting standards from 2022/23 under IFRS 9, this council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

h.) However, this council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Monthly monitoring of investment performance will be carried out during the year.

The above criteria are *unchanged* from last year.

3.2 Creditworthiness policy and approved counterparties limits

3.2.1 The council will only invest with counterparties with a long-term rating of A and above. The council's treasury advisors publish a bespoke approved counterparty list which is updated weekly. There is a limit of £3m per counterparty.

3.2.2 All other councils (Local Authorities) are approved counterparties subject to there not being a Section 114 notice in place. There is a limit of £5m per counterparty.

3.2.3 The council may invest unlimited amounts with the UK Government via the Debt Management Office (referred to as the DMADF.)

3.2.3 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.

Table 8: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£3m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£3m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3 m 4 years	£3m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£3m 4 years	£5m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£3m 3 years	£5m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£3m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£3m 13 months	£5m 5 years	£3m 13 months	£3m 5 years
None*	None	None	£5m 2 years	None	None
Pooled funds		£5m per fund or trust			

** Any other UK public sector body e.g. other councils*

This table must be read in conjunction with the notes below:

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 taken into account.

Banks 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.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they 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 to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and councils 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. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds 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 are available for withdrawal after a notice period, their performance and continued suitability in meeting the council's investment objectives will be monitored regularly.

Financial Derivatives: 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. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Operational bank accounts: The council may incur operational exposures, for example though 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 £50,000 per bank wherever possible e.g. except for overnight balances where funds are received during the day and it is too late to transfer to another counterparty. 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.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the council's treasury advisers, who will notify 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 until it improves sufficiently to meet our minimum criteria,
- consideration of risk of default of existing investments and whether they can be recalled or sold at no cost will be made, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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.

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.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the council 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. The extent of these restrictions will be in line with prevailing financial market conditions. 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 via the Debt Management Office or invested in government treasury bills for example, or with other councils. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: In order that the council's revenue reserves available to cover investment losses are not put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 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.

3.3 Investment limits

3.3.1 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Director of Finance (S151 Officer) and staff, who must act in line with the treasury management strategy approved by council. Reports on treasury management activity are presented to the Accounts, Audit & Risk Committee. The Accounts, Audit & Risk Committee is responsible for scrutinising treasury management decisions.

3.3.2 To reduce risk, investment limits have been set, as laid out in Table 9 below:

Table 9: Monetary limit for investment types

	Investment limit
UK Central Government	Unlimited
Any single organisation, including UK public sector body e.g. other councils	£5m each
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£3m per broker
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£10m in total
Loans to unrated corporates	£5m in total
Money market funds	£20m in total
Real estate investment trusts	£5m in total

3.3.3 The investment limit on money market funds has been increased from £15m in total to £20m. The council currently uses 5 money market funds that offer liquidity at very competitive market rates. The increase in the total investment limit would allow flexibility in determining whether to invest funds overnight in the DMADF (UK Debt Management Office) or in Money Market Funds which have built in diversification, allocating funds invested across at least 10 high credit quality counterparties.

3.4 Related Matters

3.4.1 **Markets in Financial Instruments Directive (MiFID II)**: 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 without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the council's treasury management activities, the Assistant Director of Finance (S151 Officer) believes this to be the most appropriate status.

3.4.2 This requires the council to have a minimum investment balance £10 million and the person making investment decisions on behalf of the council to have at least one year's relevant professional experience. Investments as well as cash deposits are count towards meeting the £10 million threshold.

3.4.3 **General Data Protection Regulation 2018:** Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the act.

4 Appendices

4.1 Interest Rates forecasts 2024-2027

Interest Rate Forecasts								
Bank Rate	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**	**Jun-26**	**Sep-26**	**Dec-26**
Link	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%
Cap Econ	4.50%	4.25%	4.00%	3.75%	3.50%	3.50%	3.50%	3.50%
5Y PWLB RATE								
Link	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%
Cap Econ	5.10%	4.90%	4.80%	4.60%	4.60%	4.50%	4.50%	4.40%
10Y PWLB RATE								
Link	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%
Cap Econ	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.60%	4.60%
25Y PWLB RATE								
Link	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
Cap Econ	5.70%	5.50%	5.30%	5.00%	4.90%	4.90%	4.80%	4.70%
50Y PWLB RATE								
Link	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%
Cap Econ	5.30%	5.20%	5.20%	5.10%	5.00%	4.90%	4.80%	4.80%

4.2 Economic backdrop - 31st December 2024

The Bank of England (BoE) kept Bank Rate unchanged at 4.75% at its December meeting. While the result was in line with market expectations, the vote was not, with two more members voting for a cut. The 6-3 vote provided a dovish tilt to the result, with those in favour of a reduction citing concerns over the economic outlook, which could pull inflation below target over the medium term. The meeting also saw the Bank lower its Q4 growth forecast from 0.3% to 0%.

Regarding higher than expected private sector wage increases in the latest print, the Bank merely noted that this "tends to be volatile". Further, those members who voted for no change also reiterated that they still expected to deliver cuts in 2025, with Governor Bailey saying that "we think a gradual approach to future interest rate cuts remains right, but with heightened uncertainty in the economy, we cannot commit to when or by how much we will cut rates in the coming year." This pushed back on a hawkish shift in market sentiment seen in the run-up to the decision. Market sentiment regards the future policy path did see some fresh extension of rate cut expectations, but the first move has drifted back to the meeting in May. Thereafter, markets expect a second cut by September but remain shy of pricing in a further move before the close of the year.

4.3 Glossary of terms

Counterparties - an opposite party in a contract or financial transaction. This may include the central Government, councils, Banks and Building societies to name a few.

Cost of Carry - The difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash.

Debt Rescheduling - A change in the terms of outstanding loans. The rescheduling can take the form of an entirely new loan, or it could mean repaying the debt early for a discount if the current market rates are higher than the fixed interest on the loan.

General Balances and Reserves – The General balance has been created by keeping aside surplus funds during an accounting period to meet contingencies or offset future losses. Reserves however are created for a specific purpose. This may be funds that have been received and earmarked for a specific purpose in the future.

Internal Borrowing – Instead of taking external loans to fund activities such as Capital expenditure, the council may use income and grants received in advance, to fund these activities. Usually, surplus funds are invested to earn interest, however it is prudent to use these funds instead of loaning money as loans generally cost more than could be earned by investing the funds.

Laddering – is an investment technique that requires investors to purchase multiple financial products with different maturity dates. The aim is to produce steady cash flow by deliberately planning investments.

Liability Benchmark – demonstrates how a council’s existing debt maturity profile and other cash flows affect their future debt requirement. Its aim is to show whether the council is in an over-borrowed position (existing debt maturity profile is greater than their forecast debt requirement) or an under-borrowed position (existing debt maturity profile is less than their forecast debt requirement.) In monitoring this position the council can aim to secure interest rates at the acceptable rates and manage interest payable costs.

This report is public	
Internal Audit Progress Report 2024/25	
Committee	Accounts, Audit and Risk Committee
Date of Committee	15 January 2025
Portfolio Holder presenting the report	Deputy Leader and Portfolio Holder for Finance, Property and Regeneration, Councillor Lesley McLean
Date Portfolio Holder agreed report	16 December 2024
Report of	Assistant Director of Finance (Section 151 Officer)

Purpose of report

This report provides the Accounts, Audit and Risk Committee with an update on delivery of the internal audit work programme for 2024/25, following approval of the programme at this committee's May 2024 meeting.

1. Recommendations

The Accounts, Audit and Risk Committee resolves to:

1.1 Note the progress made in delivering the 2024/25 internal audit work programme.

2. Executive Summary

2.1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the standards, periodic reports on internal audit work are presented to this committee.

2.2 This report provides members with information on the outcomes of completed internal audit work, on current work in progress, future delivery intentions, and the results of follow-up activity.

2.4 The committee is required to consider the progress and outcomes of internal audit work as part of its responsibility for overseeing the internal audit service. The report (contained in appendix 1) provides the information required by the committee to fulfil its oversight role.

Implications & Impact Assessments

Implications	Commentary
Finance	The are no financial implications arising directly from this report.

	Joanne Kaye, Head of Finance (D151), 29 October 2024			
Legal	This report is for information in order that the Committee has oversight of the work to fulfil its responsibilities. The Committee can request further information to more fully understand any aspect of the report if it feels it is required. Alison Coles, Legal Services Operations Manager, 30 October 2024			
Risk Management	The council will be non-compliant with the PSIAS if the performance of the internal audit function, and the results of its work, are not reported to the committee. This could result in external scrutiny and challenge. Celia Prado-Teeling, Performance & Insight Team Leader, 28 October 2024			
Impact Assessments	Positive	Neutral	Negative	Commentary
Equality Impact				N/A
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		N/A
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		N/A
Climate & Environmental Impact		X		N/A
ICT & Digital Impact		X		N/A
Data Impact		X		N/A
Procurement & subsidy		X		N/A
Council Priorities	This report relates to the council's 'continuous improvement' delivery theme which supports the priorities set out in the 2024/25 business plan. Internal audit's contribution to this delivery theme is to provide independent, risk-based, assurance, advice, and insight relating to the council's systems of governance, risk management, and internal control.			
Human Resources	N/A			

Property	N/A
Consultation & Engagement	No consultation has been required in the preparation of this report. The internal audit work programme, on which this report is based, was itself subject to consultation with senior management and with members of the Accounts, Audit and Risk Committee.

Supporting Information

3. Background

3.1 Between May and October 2024, Cherwell District Council's internal audit service was provided by Veritau Limited. On 1 November 2024, the council became a member of Veritau Public Sector Limited (VPS) and has entered into a long-term contract to deliver internal audit services. VPS has taken over responsibility for delivery of current internal audit work. This report summarises progress with delivery of the 2024/25 work programme.

4. Details

4.1 The detailed progress report is included in Appendix 1 – Internal Audit Progress Report 2024/25.

5. Alternative Options and Reasons for Rejection

5.1 The nature of this report is such that alternative options are not appropriate. To discharge its internal audit functions under the terms of reference for the Accounts, Audit and Risk Committee, it is required to note the progress made in delivering the 2024/25 internal audit work programme.

6 Conclusion and Reasons for Recommendations

6.1 The Accounts, Audit and Risk Committee is recommended to note the progress made in delivering the internal audit work programme for 2024/25. This is so that it can fulfil its responsibility for overseeing the work of internal audit. This responsibility is defined in the committee's terms of reference.

Decision Information

Key Decision	N/A
Subject to Call in	No

If not, why not subject to call in	N/A
Ward(s) Affected	All

Document Information

Appendices	
Appendix 1	Internal Audit Progress Report 2024/25
Background Papers	Internal Audit Work Programme 2024/25
Reference Papers	None
Report Author	Connor Munro, Assistant Director – Audit Assurance (Veritau)
Report Author contact details	Connor.Munro@veritau.co.uk 01904 553512
Corporate Director Approval (unless Corporate Director or Statutory Officer report)	Assistant Director of Finance (Section 151 Officer), 16 December 2024

Internal Audit Progress Report 2024/25

Date: 15 January 2025

APPENDIX 1

CONTENTS

BACKGROUND

1 Internal audit provides independent and objective assurance and advice about the council's operations. It helps the organisation to achieve its overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control, and governance processes.

2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.

3 In accordance with the PSIAS the Head of Internal Audit is required to report progress against the internal audit plan (the work programme) agreed by the Accounts, Audit & Risk Committee, and to identify any emerging issues which need to be brought to the attention of the committee.

4 The internal audit work programme was agreed by this committee in May 2024.

5 Veritau has adopted a flexible approach to work programme development and delivery. Work to be undertaken during the year is kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the council.

6 The purpose of this report is to update the committee on internal activity up to 16 December 2024.

INTERNAL AUDIT PROGRESS

7 A summary of internal audit work currently underway, as well as work finalised in the year to date, is included in annex A. Annex A also details other work completed by internal audit during the year.

8 Since our last report to this committee, audit work started in quarter two has progressed well. Both the procurement compliance and corporate health and safety engagements have been finalised. Fieldwork for the risk management engagement has concluded at the time of writing, and we expect to conclude the audit by the end of January.

9 The cybersecurity (network security management) and performance management engagements are both in the planning stage, with fieldwork expected to begin in January. During January and into February, we will also begin work on the IT applications (third party assurance) engagement, and one further engagement, to complete the 2024/25 programme.

10 The planned engagement on the council's information governance arrangements has been postponed. This is because Veritau's information

governance service has been working with the council to develop an improvement action plan. The action plan covers all areas we were expecting to audit. We intend to revisit this area during 2025/26 after changes to processes have been made and have had the opportunity to embed.

11 The proposed audit of the council's arrangements for managing its companies, Graven Hill and Crown House, has been deferred until 2025/26 at the request of officers. We are currently liaising with senior management to identify a replacement to conclude the work programme.

12 In addition to the audits mentioned in paragraphs 8 and 9, we have responded to senior management requests for other work. This work has been fact-finding in nature, providing an independent perspective on current and emerging issues. Draft reports following our work on use of the council's fleet vehicles and the Merton College planning application have been prepared and circulated to the responsible officers. We will be working with officers during January to finalise these.

13 The work programme, showing current priorities for internal audit work, is included at annex B. This shows that the majority of audits in the work programme are underway, with the remaining two audits scheduled for completion during quarter four.

14 The two engagements that have been finalised since the last report to this committee are included in annex C. The annex summarises the key findings from these audits, and includes actions agreed with officers to address identified control weaknesses.

15 Annex D lists our current definitions for finding priorities and overall assurance levels.

FOLLOW UP

16 All actions agreed with services as a result of internal audit work are followed up to ensure that issues are addressed. As a result of this work, we are generally satisfied that sufficient progress is being made to address the control weaknesses identified in previous audits.

17 At the time of reporting, Veritau has continued to follow up actions agreed in audits delivered by the council's previous internal audit provider. Future reports to this committee will include a more detailed breakdown of the follow-up position as actions from Veritau audits become due.

18 In the meantime, Veritau is working closely with the council's Corporate Leadership Team (CLT) to ensure that any significant risks and control weaknesses arising from previous internal audit work are being addressed.

19 A high-level overview of follow-up activity and the current status of agreed actions from previously completed audits is shown in table 1 on the following page.

Table 1: Follow-up activity and action status

Follow-up activity		Action status			
Priority of actions[1]	**Number of actions followed up**	**Completed**	**Superseded / redundant**	**Follow-up in progress**	**Overdue**
1	6	0	0	2	4
2	41	25	1	10	5
Total	**47**	**25**	**1**	**12**	**9**

20 Of the 47 agreed actions followed up since May 2024, 25 (53%) had been satisfactorily implemented, and 1 had been superseded / made redundant. Actions are marked as superseded / redundant where circumstances have changed significantly, and the previous action is no longer appropriate.

21 Follow up work remains in progress at the time of reporting for 12 actions (26%), and 9 actions (20%) have not been implemented by their target timescale and so are overdue. Actions are recorded as overdue where we have not had a full response from the responsible officer to confirm implementation. It is likely, based on correspondence to date, that at least some of these actions will require a revised implementation date. Future reports to this committee will provide an update on this.

22 At the time of reporting, a further 22 actions (i.e. in addition to the 47 included in table 1) are awaiting follow-up as their target implementation dates have not yet passed. This includes 15 actions (68%) where a revised date has been agreed with the responsible officer as part of the follow-up process. Revising an original agreed implementation date is done where the delay in addressing an issue will not lead to unacceptable exposure to risk and where, for example, the delays are unavoidable.

[1] Previous internal audit provider definitions for priority 1 and 2 actions:

- Priority 1: Major issue or exposure to a significant risk that requires immediate action or the attention of senior management.
- Priority 2: Significant issue that requires prompt action and improvement by the local manager.

ANNEX A: INTERNAL AUDIT WORK IN 2024/25

Audits in progress

Audit	Status
Use of fleet vehicles	Draft
Merton College	Draft
Risk management	In progress
Cybersecurity: network security management	In progress
Performance management	In progress

Final reports issued

Audit	Reported to Committee	Opinion
Procurement compliance	January 2025	Reasonable Assurance
Corporate health and safety	January 2025	Limited Assurance

Other work in 2024/25

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.
▲ Follow up of agreed actions. ▲ A review of the use of the council's fleet vehicles. ▲ A review of circumstances surrounding the Merton College planning application appeal. ▲ Attendance at, and support to, the Corporate Oversight Governance Group.

ANNEX B: CURRENT AUDIT PRIORITIES

Audit / Engagement	Rationale
Category 1 (do now)	
Risk management	Key cross-cutting system of governance. Important for annual opinion purposes.
Use of fleet vehicles	Being carried out following a request from management.
Merton College	Being carried out following a request from management.
Cybersecurity: network security management	Risks and controls are changing.
Performance management	Provides coverage of key assurance area. Risks and controls are changing.
Category 2 (do next)	
IT applications: third party assurance	Provides coverage of arrangements for managing the key risk area of IT disruption / unavailability of key systems.
Audit TBC	To be agreed with senior management during quarter four.
Category 3 (do later)	
-	-

ANNEX C: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

System/area (month issued)	Opinion	Area reviewed	Comments / Issues identified	Management actions agreed
Procurement compliance (December 2024)	Reasonable Assurance	This audit sought to provide assurance on the council's compliance with its Contract Procedure Rules (CPRs). It was supported by data analytics techniques to identify instances of non-compliance.	Despite the governance and support arrangements that the council has put in place via its central Procurement & Contracts Unit (P&CU), the audit identified some significant weaknesses with compliance across contracting departments. Data analytics work identified two main areas of non-compliance. These were order / invoice splitting (i.e. around procurement thresholds specified in the CPRs) and contract leakage (i.e. where spend is incurred with other suppliers despite corporate contracts being in place). The P&CU fulfils a business partner role, but it has not yet established mechanisms to periodically review and detect possible instances of non-compliance, such as the ones identified during this audit. In addition, the council has a backlog of legacy contracts which were entered into while it was partnering with Oxfordshire	The P&CU and Finance will work together to link the contracts register to the financial management system to allow periodic compliance analysis to be performed and reported to the Procurement & Contracts Group. Training will be delivered to all contract managers to reinforce the use of CPRs, including the importance of procurement thresholds / routes to market, avoiding contract leakage, and appropriate use of waivers. Legacy contracts will be reviewed for compliance

System/area (month issued)	Opinion	Area reviewed	Comments / Issues identified	Management actions agreed
			County Council, and before the current CPRs were put in place. A number of these contracts are not on the council’s contract register, are a part of this backlog, and have been extended without full engagement with the CPRs.	and continued value for money, and included on the contract register where they are still current. Contracts which have expired will be retendered using the new procurement rules.
Corporate health and safety (December 2024)	Limited Assurance	The purpose of this audit was to provide assurance on the council’s arrangements for complying with its Corporate Health, Safety and Wellbeing Policy and related procedures. Compliance testing undertaken during the engagement reviewed health and safety related activities within a	The corporate health and safety (H&S) team has established multiple procedures, and made guidance available, to embed health and safety management culture within the council. However, our findings relating to member oversight, recordkeeping, accident and incident reporting, and training completion collectively suggest that key health and safety requirements are not consistently being met. Several significant control weaknesses were identified during the audit which can be summarised as follows: • A lack of health and safety compliance and performance reporting to councillors, despite their stated responsibility for the	Senior management representatives from the sampled service areas and those responsible for corporate arrangements have agreed a number of actions to address the identified control weaknesses. In summary, these include: • Annual reporting to AARC on H&S compliance and performance • Development of a more streamlined

System/area (month issued)	Opinion	Area reviewed	Comments / Issues identified	Management actions agreed
		sample of higher risk service areas. These services were Waste Collection, Housing Services, and Development Management.	overall adequacy of arrangements per the Corporate Health, Safety and Wellbeing Policy. • A significant rise in vehicle incidents (22 in 2024/25 year to date, up from 9 in 2023/24). Issues were found with notifying the corporate H&S team of incidents and also with the strength of actions proposed by Environmental Services to address underlying causes. • None of the sampled services have a 100% corporate or role-specific training completion rate, and completion rates varied significantly by service area. Excel-based training records held by the Waste Collection service were incomplete. • Review dates for corporate and service-specific health and safety arrangements (e.g. risk assessments) are not consistently recorded, and evidence could not be provided that reviews have been undertaken. • Services are not retaining signature sheets to demonstrate employees have read and understood procedures or risk	incident reporting process, together with training on the process and implementation of quality assurance checking • Development of a corporate H&S training plan, with regular reporting on completion to CLT. Delivery of required training to office-based staff and operatives. • Ensuring that signature sheets are updated and exploring options for single central storage • Ensuring that the latest key corporate and local H&S documentation is available to all staff,

System/area (month issued)	Opinion	Area reviewed	Comments / Issues identified	Management actions agreed
			assessments. Corporate and local H&S documents are also not readily available to employees who have limited computer access.	including exploration of a digital solution for the council's operatives Given the Limited Assurance opinion reached following this audit, a further follow-up audit will be scheduled for 2025/26. This will assess the completion of agreed actions and effectiveness of any new or changed processes.

ANNEX D: ASSURANCE ENGAGEMENT OPINIONS AND FINDING PRIORITIES

Audit opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on four grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Finding ratings

Critical	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Significant	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Moderate	The system objectives are not exposed to significant risk, but the issue merits attention by management.
Opportunity	There is an opportunity for improvement in efficiency or outcomes but the system objectives are not exposed to risk.

Accounts, Audit and Risk Committee

Work Programme 2024/25

Date	Agenda Items
19-Mar-25	Treasury Management Q3 Update Counter Fraud Update Housing Benefit Risk Based Verification Policy Counter Fraud Work Programme 2025/26
	Internal Audit Work Programme 2024/25
	Annual Governance Statement 2024/25
	Annual Report of AARC External Audit: Final Audit Results Report 2023/24, final letter of rep & final statement of accounts Accounting Policies 2024/25 Work Programme Update

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