TO:- Audit and Risk Committee

Councillor John Michell , Councillor Andrew Adams , Councillor Barry Bond M.B.E. , Councillor Steph Dufty , Councillor Christopher Evans , Councillor Warren Fisher , Councillor Martin Perry , Councillor Sue Szalapski

Notice is hereby given that a meeting of the Audit and Risk Committee will be held as detailed below for the purpose of transacting the business set out below.

Date: Tuesday, 20 June 2023
Time: 16:00
Venue: Council Chamber, Council Offices, Wolverhampton Road, Codsall, South Staffordshire, WV8 1PX

D. Heywood
Chief Executive

A G E N D A

<u>Part I – Public Session</u>

1	Minutes To approve the minutes of the Audit and Risk Committee meeting of 23 March 2023.	**1 - 2**
2	Apologies To receive any apologies for non-attendance.	
3	Declarations of Interest To receive any declarations of interest.	
4	2023/24 Committee Work Programme Report of Corporate Director Finance & Resources (section 151 Officer) and Director Legal & Governance (Monitoring Officer)	**3 - 6**
5	Internal Audit Strategy and Plan 2023/24 Report of Chief Internal Auditor	**7 - 30**

RECORDING

Please note that this meeting will be recorded.

PUBLIC ACCESS TO AGENDA AND REPORTS

Spare paper copies of committee agenda and reports are no longer available. Therefore should any member of the public wish to view the agenda or report(s) for this meeting, please go to www.sstaffs.gov.uk/council-democracy.

Minutes of the meeting of the **Audit and Risk Committee** South Staffordshire Council held in the Council Chamber Community Hub, Wolverhampton Road, Codsall, South Staffordshire, WV8 1PX on Thursday, 23 March 2023 at 16:00

Present:-

Councillor Brian Cox, Councillor Dave Lockley, Councillor John Michell, Councillor Ian Sadler

32 **MINUTES**

RESOLVED: that the Minutes of the Audit and Risk Committee meeting held on 14 February 2023 be approved and signed by the Chairman.

33 **APOLOGIES**

Apologies for non-attendance were received from Councillors Barry Bond, Matt Ewart and Bob Spencer

34 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

35 **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2023/24 - 2027/28**

The Committee received a report of the Corporate Director Finance and Resource.

RESOLVED: That the Audit and Risk Committee approve the following five key elements of the report and recommend to full Council:

1. The Prudential Indicators and Limits for 2023-24 – 2027-28 contained within Appendix A of the report
2. The Minimum Revenue Provision (MRP) Statement contained within Appendix A which set out the Council's policy on MRP
3. The Treasury Management Strategy 2023-24 – 2027-28 contained within Appendix A
4. The Authorised Limit Prudential Indicator contained within Appendix A
5. The Investment Strategy 2023-24 contained in the Treasury Management Strategy (Appendix A) and the detailed criteria (included in Appendix B)

36 **RISK MANAGEMENT REPORT**

The Committee received a report of the Corporate Director Finance and Resources which provided an update on the Councils strategic risks.

RESOLVED: That the Audit and Risk Committee reviewed the Councils Strategic Risk Register.

37 **INTERNAL AUDIT - EXTERNAL QUALITY ASSESSMENT**

The Committee received a report of the Chief Internal Auditor.

RESOLVED: that the Audit and Risk Committee note the results of the external quality assessment undertaken in January 2023 which was carried out by CIPFA.

38 **REVIEW OF INTERNAL AUDIT CHARTER**

The Committee receive a report of the Chief Internal Auditor.

RESOLVED: That the internal Audit Charter 2023 be received.

39 **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED: that the press and public be excluded from the meeting during consideration of the following items on the grounds that they are likely to involve the disclosure exempt information as defined in paragraphs 3 and 7 of Part 1 of Schedule 12 (A) to the Local Government Act 1972.

40 **REVIEW OF THE INTERNAL AUDIT REPORT - LIMITED ASSURANCE**

The Committee noted the review.

41 **REVIEW OF THE INTERNAL AUDIT REPORT - INVESTIGATION REPORT - LEISURE CENTRE CASH THEFT**

This item is exempt in accordance with Schedule 12A Local Government Act 1972

- Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of a crime.

The Meeting ended at: 16:50

CHAIRMAN

SOUTH STAFFORDSHIRE COUNCIL **AUDIT & RISK COMMITTEE – 20 JUNE 2023** **2023/24 WORK PROGRAMME** **REPORT OF THE CORPORATE DIRECTOR FINANCE AND RESOURCES (SECTION 151 OFFICER) AND DIRECTOR LEGAL AND GOVERNANCE (MONITORING OFFICER)**

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

The purpose of this report is to set out a proposed programme of work for the Audit & Risk Committee for the forthcoming year.

2. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	No	Not directly
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	Not applicable
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	On-going	
FINANCIAL IMPACT	No	This work programme does not impact upon the revenue or capital budget of the Council.
LEGAL ISSUES	Yes	The setting of the work programme helps Members meet their responsibilities. For example, the Accounts and Audit Regulations 2015 require the Council to have their audited statement of accounts approved by a resolution of an authorised member meeting. Under the Council's Constitution this power has been delegated to the Audit & Risk Committee.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	The work programme will help the Audit and Risk Committee to plan and coordinate how it gets the assurance it needs.
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

3. 2023/24 WORK PROGRAMME

3.1 The proposed work programme for the Audit and Risk Committee is included as Appendix A.

3.2 The work programme has been developed taking the following into account:

- The content of the Internal Audit Plan for 2023/24
- The External Audit Plan for 2023/24
- The requirements of the Council Constitution
- The requirements of the Accounts and Audit Regulations 2015
- The views of the Audit and Risk Committee Chair, Corporate Director Finance and Resources, Director Legal and Governance and Internal Audit Manager.
- The previous year's work programme

3.3 It is also proposed that some sessions are utilised to provide training for committee members:

11 July - The role of the committee
8 October - External Audit Training - Statement of Accounts
28 November - Training- Treasury Management Advisors

4. IMPACT ASSESSMENT

4.1 None

5. PREVIOUS MINUTES

5.1 Not applicable

6. BACKGROUND PAPERS

6.1 Appendix A – Audit & Risk Committee Meetings – Work Programme 2023/24.

7. RECOMMENDATIONS

7.1 It is recommended that members review and support the programme of work for the Audit and Risk Committee as set out in Appendix A.

Report prepared by:

Lorraine Fowkes – Director Legal and Governance (Monitoring Officer) and Pete Shakespear – Corporate Director Finance and Resources (Section 151 Officer)

APPENDIX A

Audit & Risk Committee Meetings – Work Programme 2023/24

Meeting Date	Planned Agenda Items
20 June 2023	• Proposed Internal Audit Strategy & Plan 2023/24 • Quarter 4 – Treasury Management Update • Accounting judgements and estimation uncertainty • Audit & Risk Committee work plan for 2023/24
11 July 2023	• Incident Preparedness Report • Annual Internal Audit Outturn • Quarter 1 - Treasury Management Update • External Audit Plan 2023/24
8 October 2023	• Quarter 1 - Internal Audit Progress Report • Statement of Accounts 2023/24 • Annual Governance Statement • External Audit Annual Letter
28 November 2023	• Quarter 2 – Treasury Management Update • Quarter 2 – Internal Audit Progress Report
6 February 2024	• Quarter 3 – Treasury Management Update • Quarter 3 – Internal Audit Progress Report • Risk Management Report • Treasury Management Strategy and Prudential Indicators 23/24 – 2025/26
2 April 2024	• Internal Audit Strategy and Plan 2024/25 • Review of the Internal Audit Charter • Annual Report of the Audit & Risk Committee

SOUTH STAFFORDSHIRE COUNCIL

AUDIT & RISK COMMITTEE – 20th JUNE 2023

PROPOSED INTERNAL AUDIT STRATEGY AND PLAN 2023/24

REPORT OF THE CHIEF INTERNAL AUDITOR

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

This report presents the proposed Internal Audit Strategy for approval and the Internal Audit Plan and Counter Fraud Plan 2023/24 for consideration.

2. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The work of the Audit & Risk Committee can aid the achievement of the Authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements. The delivery of the Annual Internal Audit Plan and Counter Fraud Plan provides management with assurances that their service objectives which support the Council's priorities are being achieved. The work of Internal Audit covers those priorities contained with the Council's Plan 2020-2024.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	The work of the Audit & Risk Committee is not considered to have any adverse implications to equal opportunities and diversity policies.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	20th June 2023	
FINANCIAL IMPACT	Yes	There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium Term Financial Strategy as are the costs of insurance covers to mitigate the cost of any

		financial loss arising from the failure of internal controls.
LEGAL ISSUES	Yes	Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 A sound system of internal audit, and monitoring of the same, assists in compliance with the above statutory duties. The results of Internal Audit's work feed into the Council's Annual Governance Statement.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	Internal audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers.
IMPACT ON SPECIFIC WARDS	No	No impact.

PART B – ADDITIONAL INFORMATION

3.1 As part of its responsibilities, the Internal Audit Service is responsible for conducting independent reviews of the Council's internal control systems as a contribution towards the proper, economic, efficient and effective use of the Council's resources. The Section's duties are laid out in legislation, the Accounts and Audit Regulations 2015 which requires every local authority to maintain an adequate and effective internal audit.

3.2 Internal Audit is also a key source of independent assurance for management, designed to add value and improve how the Council operates. The results of Internal Audit's work feeds into the Council's Annual Governance Statement.

The Internal Audit Strategy 2023/24

3.3 The Internal Audit Strategy confirms how the audit universe is determined, the risk assessment used and the key principles applied to determine how audit resources are to be utilised. An explanation covering how the overall annual audit opinion given by the Head of Internal Audit (HIA) on the Authority's control environment will be determined is also provided.

3.4 The proposed Annual Audit Opinion Methodology was revised and agreed in 2022/23 to take account of the level and categories of audit work included in the Internal Audit and Counter Fraud Plans and to ensure that the methodology continued to be representative of the Council's control environment. No further amendments to the Methodology have been identified for 2023/24.

Proposed 2023/24 Internal Audit Plan and Counter Fraud Plan

3.5 The proposed Internal Audit Plan and Counter Fraud Plan 2023/24 have been discussed with members of the Corporate Leadership Team (CLT) and are presented to Members for final endorsement.

3.6 The Internal Audit Plan and Counter Fraud Plan has been prepared in accordance with the Internal Audit Strategy.

3.7 It is recognised that the Internal Audit Plan needs to be reviewed continuously and remain sufficiently flexible to ensure that it is focused fully on the Council's principal risks (both current and emerging); hence it may change throughout the year. Any major revisions will be reported to future meetings of the Audit & Risk Committee.

3.8 The Internal Audit Strategy, Internal Audit Plan and Counter Fraud Plan 2023/24 are attached as **Appendix 1** to this report.

4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

4.1 None identified

5. PREVIOUS MINUTES

5.1 Not Applicable

6. BACKGROUND PAPERS

Appendix 1 – Internal Audit Strategy & Plan 2023/24

7. RECOMMENDATIONS

7.1 To approve the Internal Audit Strategy for 2023/24

7.2 To review the proposed coverage of the Internal Audit Plan and Counter Fraud Plan 2023/24

7.3 To recommend approval of the Internal Audit Plan and Counter Fraud Plan for 2023/24 to the s151 Officer.

Report prepared by: *Susan Bluck*
Audit Manager

Staffordshire County Council

South Staffordshire Council

Appendix 1

Internal Audit Strategy & Plan

2023/24

CONTENTS Page No

Introduction

1. This report summarises the proposed work of Internal Audit for 2023/24. The aim is to give an overview of areas to be covered during the year and to provide an opportunity to comment on the proposed coverage.

2. The audit plan has been developed to allow sufficient flexibility to respond to change which will happen during the year. Whilst every effort is made to deliver the plan as shown there will always be the need to respond to emerging risks and changing circumstances. The plan is therefore a statement of intent – our liaison meetings with senior management will ensure that it is reviewed regularly.

3. Internal Audit is a statutory service required by the Accounts and Audit Regulations 2015. It is also a key source of independent assurance for management, designed to add value and improve how the Council operates. The results of our work feed into the Council's Annual Governance Statement.

4. The work is performed in conformance with the UK Public Sector Internal Audit Standards (PSIAS). These require that the scope of Internal Audit covers the whole range of the Council's activities, seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council, which has been established to:
   - Achieve strategic objectives.
   - Ensure effective and efficient operational systems and programmes.
   - Safeguard assets and interests of all kinds.
   - Ensure the reliability and integrity of financial and operational information.
   - Ensure economic, efficient and effective use of resources.
   - Ensure compliance with established policies, procedures, laws, regulations and contracts.

Our Internal Audit Strategy

5. Our Internal Audit Strategy has been developed to take into account management's assessment of risk. This is obtained from the contents of the Strategic Risk Registers; External Audit considerations; detailed discussions with members of the Corporate Leadership Team and Extended Leadership Team relating to emerging risks/areas of concern and fraud risks within their area of control; the outcome of discussions with both the Council's Monitoring Officer and the S151 Officer; and an understanding of other alternative sources of assurance (internal and external).

6. Also, we use our own risk assessment against each activity assessing their materiality, sensitivity, significance and stability – ranking each area as high, medium or low risk. This allows each possible area to be prioritised based on risk, which then determines whether or not it will be included in the audit plan. A copy of the risk assessment methodology is included in **Appendix A**.

7. The plan has been constructed to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit (HIA) opinion.

8. The annual risk based plan is produced based on the following key principles:

   - Assurance reviews with a high risk (i.e. >60%) ranking should be completed. However, it should be noted that each year there may be some high risk areas which will not been included within the plan since they have or will be evaluated by other bodies or are covered by the Authority's own internal management review and scrutiny processes. Internal Audit will seek to place reliance on the outcome of these reviews. Consequently, all other high risk areas will be evaluated.
   - Fundamental Financial systems should be completed irrespective of risk score – reviewed on a cyclical basis.
   - An initial allocation of days to conduct internal Special Investigations.
   - Time to undertake pro-active counter fraud work.
   - Risk based programme of compliance reviews, where appropriate.

9. The work of Internal Audit will continue to correlate with that of the Authority's External Auditor and respond to developments facing the Authority. This ensures that the Council gets the most out of its combined audit resource.

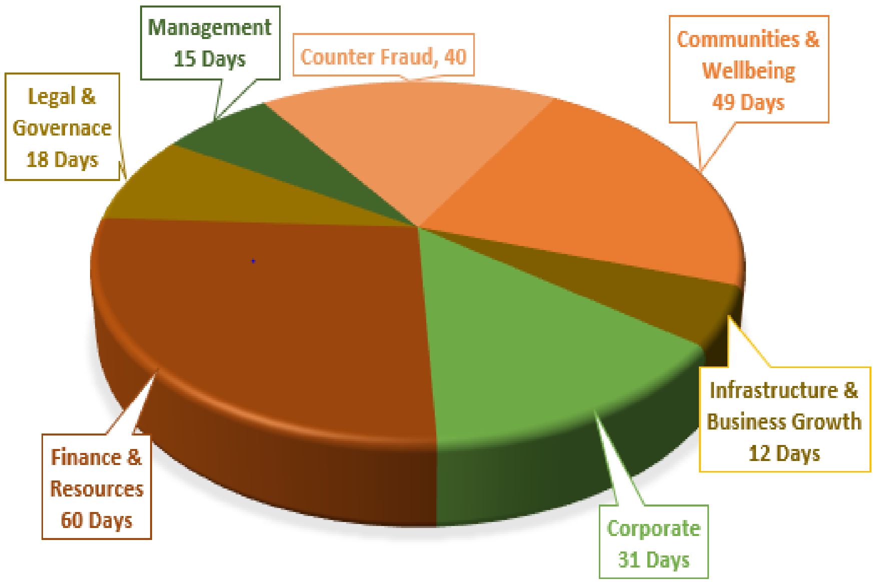
Resources

10. The total resource requirement for South Staffordshire Council in 2023/24 is 225 days. The total days are split across two categories, namely:

    - Internal Audit Plan 2023/24; and
    - Counter Fraud Plan 2023/24.

11. We propose to allocate resources across the organisation as shown in figure 1 below, with further details in **Appendices B & C**:

Figure 1 – Allocation of Internal Audit Plan Resources



12. In addition, internal audit resources contribute towards the Council's Delivery Plan priority areas of Prosperous Communities and Vibrant Communities as well as supporting the five key delivery arms of Financial Stability, Embracing Technology, Flexible & Skilled Council, Working with our Communities and Creating a Business and Community hub.

Internal Audit Plan 2023/24

13. Figure 1 highlights the allocation of audit resources by area. Further details of the Internal Audit Plan are contained in **Appendix B**.

14. Key highlights identified in the proposed 2023/24 Internal Audit Plan are:

- On-going assurance over the Council's key financial systems during 2023/24;
- Contribution to the Council's digital transformation programme including the customer experience improvements;
- Emphasis on the Council's workforce, including wellbeing, employee benefits and ways of working.
- On-going assurance over the Council's cyber security arrangements, including incident recovery and asset security;
- Provision of assistance and support to new areas of risk for the Council, including utilisation of the UK Shared Prosperity Funding; and
- A programme of counter fraud work including the continued development of data analytics to provide wider and real time assurance, as well as continuing to promote an anti-fraud culture across the Council.

Annual Audit Opinion Proposed Methodology

15. At the end of the year, our audit work will be categorised across the following three categories:

- Core Financial Systems;
- Assurance Reviews (other systems audits);
- Counter Fraud & Corruption, including Special Investigations (Internal).

16. The outcome of work in these categories will be used to form the overall annual audit opinion given by the HIA on the Authority's control environment.

17. It is considered that each separate category of audit work should continue to be assessed against a benchmark of at least 80% of the total number of audits being awarded an opinion of at least "adequate" within each category. For reasons of simplicity, it is considered that each category should attract equal weighting and a simple pass/fail assessment used to differentiate the overall opinion between "Substantial, Adequate and Limited" as illustrated below in Figure 2.

Figure 2 – Annual Opinion

Overall Opinion Level	No. of categories achieving the 80% benchmark
Substantial Assurance	3 out of the 3 categories
Adequate Assurance	2 out of the 3 categories
Limited Assurance	1 and below out of the 3 categories

18. The special investigations component of the Counter Fraud & Corruption category will consist of two elements: firstly, any financial loss and secondly an evaluation of the control environment. The proposed percentage allocations are detailed in Figure 3 below:

Figure 3 – Special Investigations Category

Special Investigations (Column 1)		Evaluation of Control Environment (Column 2)	
£0 – below £50,000 loss	50%	Procurement/ Contract issues	10%
£50,000- £100,000 loss	40%	Cash/Asset Management arrangements	10%
£100,000- £150,000 loss	30%	Payment Mechanisms	10%
£150,000 - £250,000 loss	20%	Payroll/Expenses	10%
Above £250,000 loss	10%	Income	10%

The percentage score calculated for the special investigations will be based on column (1) the total value of fraud for the year (up to maximum score of 50%); and column (2) an evaluation of the control environment giving rise to the fraud (up to a maximum score of 50%). *The larger the financial loss and the more control failings giving rise to the fraud, the lower the % achieved for this category.

Counter Fraud Audit Plan 2023/24

19. We propose to allocate resources to our counter fraud work as per the details in **Appendix C**. This provides a robust response to Central Government's expectations for tackling fraud and corruption. This demonstrates the Council's continued commitment to the delivery of good governance. This work is in addition to the anti-fraud work undertaken by the Revenue and Benefits Team to detect and prevent fraudulent claims and payments and participation in the National Fraud Initiative data matching exercises.

Provision & Structure

20. The Internal Audit Function of the Council is discharged by Staffordshire County Council's Internal Audit Service. The Corporate Director – Finance & Resources via the Chief Internal Auditor (CIA) is responsible for ensuring an Internal Audit Function that collectively possess the necessary knowledge, skills and disciplines to discharge the function effectively. The CIA operates as the Head of Internal Audit.

21. Resources will be available to deliver the audit plans as detailed in Appendices B and C and where it is deemed that elements of the function are best delivered by other external providers the necessary arrangements are made. This helps to ensure that the Council meets the requirements of the Accounts and Audit Regulations 2015 for maintaining an adequate and effective internal audit function and governance, risk and internal control environment.

Performance & Quality Assurance Framework

22. Internal Audit within South Staffordshire Council operates in conformance with standards of best practice applicable to internal audit – in particular the UK Public Sector Internal Audit Standards UK PSIAS) and the CIPFA Local Government Application Note. The Internal Audit team offer a wide depth of knowledge and experience across the Council. We promote excellence and quality through our audit processes, application of the Quality Assurance Framework (**Appendix D**) and the training and development programme for staff.

23. The Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication.

24. The Internal Audit Charter sets out the role, responsibilities and authority of the Internal Audit Service within the Council. This was initially approved in April 2015 and any amendments to its contents are endorsed by the Audit & Risk Committee annually.

25. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that allows them to make impartial and effective professional judgements and recommendations.

26. The Section use a number of ways to monitor performance, respond to feedback and identify ways in which to improve the service provided. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

27. The current performance measures are set out below in Figure 4 for information.

Figure 4 – Current Performance Measures

Performance Indicator	Target
Reports issued to draft report stage	90%
Average scores achieved on Customer Satisfaction questionnaires	4

Appendix A – Planning Risk Assessment Methodology

1. **<u>Materiality X 2</u>**
   a) *Financial value (income/expenditure), materiality, size of budget*
   Score between 1 (up to £50,000) 2 (up to £125,000) 3 (up to £0.5m) 4(up to £2.5m) and 5 (above £2.5m)
   b) *No of transactions*
   Score between 1 (a small number of transactions per year) and 5 (significant numbers of daily transactions)

2. **<u>Impact/Sensitivity X2</u>**
   a) *Links to Strategic Council Plan 2020-2024/Political sensitivity*
   1=No links to Strategic Plan/ and/or no political sensitivity
   2 =No links to Strategic Plan / and/or minimal political sensitivity
   3=Indirect links with Strategic Plan/ and/or low level of political sensitivity
   4=Direct links with Strategic Plan/ and/or medium level of political sensitivity
   5=Direct links with Strategic Plan/ and/or high level of political sensitivity

   b) *Non-financial impact e.g. reputation*
   1= Managed /reported to Service Unit -Local Media (short term duration)
   2= Managed /reported to Departmental Management Team/ Local media (Medium/Long Term duration)
   3= Managed /reported to Corporate Leadership Team and Members Regional media (short term)
   4= Managed /reported to Members and Cabinet Regional/National media (Medium/ Long Term duration)
   5= Third Party intervention Public Interest Group, National/International media (Medium/Long Term duration)

   c) *Contained in the Corporate Strategic Risk Register*
   1 = No
   5 = Yes

   d) *Key Partnership* - This considers how important the partnership is to the achievement of the Council's Outcomes. Failure to deliver the objectives of the partnership poses a significant risk to the Organisation.
   1 = No
   5 = Yes

3. **<u>Audit View - Previous Assurance Category</u>**
   1 = Substantial Assurance
   2 = Adequate Assurance
   3 = No Opinion has previously been given
   4 = Consultancy – system under development
   5 = Limited Assurance

4. **<u>Time since previous audit</u>**
   1 =Audit carried out last year
   2 =Audit carried out 2 years ago
   3 =Audit carried out 3 years ago
   4 =Audit carried out 4 years ago
   5 =Audit carried out 5 years ago or more or where there has been no previous audit coverage

5. **<u>Linkage to Risk Management - Controls Assurance</u>**
   1 = External Assessment reports available – positive assurance provided
   2.= *Internal Controls assurance statement available – positive assurance provided.
   3.=* Internal Controls assurance statement available – significant risks identified.
   4.= External Assessment reports available – control weaknesses identified
   5.= Nothing available
   * or equivalent

6. **<u>Fraud</u>**
   a) *Past experience or occurrence of fraud/irregularity*
   Score between 1 (no knowledge/experience of fraudulent activity/irregularity) and 5 (repeated occurrence of fraud/irregularity or experience of fraud/irregularity with significant financial value
   b) *Inherent risk of fraud within the system.*
   Score between 1 (little known scope for intentional manipulation) and 5 (significant scope for intentional manipulation.)

7. **<u>Stability of the System</u> -**
   1.= Stable system, nothing has changed.
   2.= Stable system, changes proposed in year/ short term
   3.= New System in operation
   4.= System under development – limited to a specific service area
   5.= System under development – complex area affecting the whole of the Council.

Appendix B – Draft Internal Audit Plan 2023/24

Area	Days	Indicative Scope
Corporate		
Workforce Strategy	10	The Workforce Strategy was refreshed in 2022/23. Management have requested a review in 2023/24 to provide assurance that the refreshed Strategy has been communicated and embedded effectively. A sample of workstreams are to be selected for review as part of the audit.
Equality, Diversity & Inclusion	10	Management have requested audit time in 2023/24 to provide assurance that the Council's methodology to ensure equality, diversity and inclusion within the community and the Council's workforce has been rolled out and embedded across the organisation effectively.
Digital Transformation - Customer Experience Improvement Programme	10	Internal Audit time will be required in 2023/24 to support the Digital Transformation programme to provide assurance that the electronic forms, to be launched via the new website, are operating effectively and controls remain in place to ensure that data is captured and distributed appropriately.
Viv Up Employee Benefits	1	Consideration is being given to expansion of the Employee Benefits schemes provided via Viv Up within 2023/24 to include financial products and services, including financial advice and support, as well as access to financial mechanisms such as employee loans. Management have requested audit time in 2023/24 to provide advice and support during the development of the financial offer to ensure that potential risks are identified and mitigated.
Total No. of Days	**31 days**	

Communities & Wellbeing		
Corporate Health & Safety	10	Audit work in 2023/24 will be undertaken to ensure that Health and Safety matters are appropriately managed, monitored and reported, including the impacts of agile working.
Operation & Management of Leisure Centres	10	Internal Audit time required in 2023/24 will review management and operational processes in place across the leisure centres run by the Council. The review will include central and local controls covering management reporting and oversight arrangements as well as booking, cash handling and resource management at the leisure centres.
Energy Bill Support Scheme	3	The government have implemented several schemes to support households with the current cost of living crisis, specifically the increase in energy costs. The Energy Bills Support Scheme Alternative Funding (EBSS AF) is providing support of £400 for energy bills for households in England, Scotland, and Wales without a direct relationship to a domestic electricity supplier. This support is provided by His Majesty's Government and is delivered by local authorities. The scheme is now open to all eligible households across Great Britain until 31 May 2023. Applications are made via the Gov.uk website and are processed and verified centrally. If successful, details are shared with local authorities to administer delivery of the one-off payment directly to the applicant's bank account. Management have requested audit time in 2023/24 to undertake verification activity to ensure that payments have been made correctly and in accordance with the requirements of the scheme.
Disability Facilities Grant – Shared Service Arrangements	10	From April 2023, delivery and management of disability facility grant allocations and associated works will be provided by Stafford Borough Council via a shared service agreement. Management have requested audit time in 2023/24 to provide assurance that the transfer of the service and associated funding has been completed effectively; and applications and work that were in progress at

		the time of the transfer have been completed in full and/or actioned appropriately. *** Assurance going forward to be sought from Stafford Borough Council for effectiveness of systems and controls. Internal processes to be reviewed periodically as part of the South Staffordshire Council audit plan.*
Disability Facilities Grant (DFG) – Grant Verification	8	The internal audit review will include verification of grant expenditure to ensure that conditions attached to the Disabilities Facilities Capital Grant Determination letter have been complied with. A declaration is to be completed and signed by the Chief Executive or Corporate Director - Finance & Resources to be received by Staffordshire County Council by no later than the 31st August 2023 in accordance with the passport agreement.
Housing Benefits – Compliance with Legislation	8	Audit time requested in 2023/24 to provide assurance the Housing Benefits calculations and payments are being undertaken correctly and comply with legislation requirements.
Total No. of Days	**49 days**	
Infrastructure & Business Growth		
UK Shared Prosperity Fund	12	The UK Shared Prosperity Fund (UKSPF) is part of the UK government's Levelling Up agenda. It provides £2.6 billion of new funding for local investment up to March 2025. The primary goal of the UKSPF is to build pride in place and increase life chances across the UK and has three 3 investment priorities: • Community and Place • Supporting Local Business; and • People and Skills

		The Council has been allocated total funding of £3,823,722, which is to be invested in interventions across the three investment priorities. To achieve this an investment plan is submitted for approval by the UK government. Management have requested audit time in 2023/24 to support and verify activities to ensure effective delivery and reporting against the UKSPF investment plan, in accordance with the funding conditions.
Total No. of Days	**12 days**	
Legal & Governance		
Elections	8	Management have requested a review of the processes for the management and operation of elections, including expenditure and the completion of returns for the District and Parish Council elections which took place in May 2023.
Delivering good governance - Management & Review of Council Policies	10	Management have requested audit time in 2023/24 to provide assurance that the policies in place across the Council are subject to oversight and review to ensure that they remain accurate and fit for purpose, including the identification of variations to legislation, accountabilities (including changes to the Scheme of Delegation) and other linked policies.
Total No. of Days	**18 Days**	
Finance & Resources		
Debtors & Debt Recovery	10	Audit work in 2023/24 will review compliance and embeddedness of the redesigned Debt Management processes. This will include a review of the end to end processes relating to the raising and collection of debts (including use of payment mechanisms, such as Direct Debits), Legal Action taken as well as the reconciliation of debtor control accounts.

Treasury Management	10	Internal Audit time will be required in 2023/24 to provided assurance that processes and controls are operating effective, ensuring treasury management arrangements are in place covering both short and long term investments. The review will include consideration of ethical investments.
Budgetary Control	10	To examine the key controls relating to the Council's revenue budgetary control system to allow budgets to be appropriately set, approved, monitored and reported upon, including the Resources Planning and Prioritisation process to inform budget setting and decision making.
Payroll	10	Internal Audit will continue to review the processes in place within the payroll system to ensure that the control environment is robust and operating as expected including Payroll BACS Payments and payroll control accounts.
Total No. of Days	**40 Days**	
Resource – ICT		
Cyber Security – Incident Recovery	10	The Cybersecurity Strategy and Implementation Plan (CSIP) defines recovery as "the development and implementation of plans, processes, and procedures for recovery and full restoration, in a timely manner, of any capabilities or services that are impaired due to a cyber event." This audit will seek to provide management with assurance that effective cyber event recovery plans, processes, and procedures, with the goal of resuming normal operations in a controlled and timely manner are in place. A follow-up to the recommendations made in the 2022/23 Cyber Preparedness and Response audit will also be undertaken.
IT Asset Management – End User Devices	10	The number of physical devices, such as laptops, being allocated to employees has increased rapidly over previous years to support agile working. This audit will determine whether adequate and effective IT asset management processes and controls are in place, in order to maintain the integrity of the IT

		assets and to provide management with assurance that the IT asset inventory and records are complete and accurate. The scope of this audit will cover the following areas: • Suitable policies and procedures are in place for the management of ICT Assets. • ICT Hardware remains secure whilst not in the possession of the end user and is not put at risk of theft or accidental loss. • An adequate inventory of ICT assets is maintained to allow for effective oversight and management of assets. • Periodic stock takes are undertaken to defy missing stock.
Total No. of Days	**20 Days**	
Internal Audit Service - Management	**15 Days**	Time required to ensure delivery of the Internal Audit Service in accordance with the service level agreement and Contract including attendance at the Audit & Risk Committee
TOTAL DAYS FOR SSC AUDIT PLAN	**185 Days**	

Appendix C – Draft Proposed Counter Fraud Plan 2023/24

Area	Number of Days
Creating an Anti- Fraud Culture	
To keep under review the Council's Counter Fraud & Corruption Policies & Procedures and Fraud Manual (as appropriate).	3 days
Fraud Awareness – May include Fraud watch publication/Awareness Campaigns /staff training/Survey	1 day
Disseminate key points arising from regulatory bodies such as CIPFA, the Cabinet Office TEICCAF etc.	Included in Management Time
Total Days	**4 days**
Deterrence	
Continue to Publicise national and local cases of proven fraud.	Time Included Above
Continue to promote a zero-tolerance culture against fraud.	All work Undertaken
Total Days	**-**
Prevention	
Carry out Fraud Risk Assessment for 2023/24 and identify potential local proactive work to be undertaken in the year.	Included in Management Time
Data Analytics / Pro-active Fraud Exercises During 2023/24, Data Analytics is to be further developed and embedded and will continue to utilise Council data to identify and report errors and/or anomalies expediently and across a wide transactional population. The areas for review via this approach will potentially include; a) Income and Delayed Banking; b) Travel & Fuel Card Transactions; c) Creditors / Invoice Payments; d) Procurement activity – including purchase cards; e) Housing Benefits / Council Tax / NNDR – Claims, Payments and exemptions; and f) Discretionary Housing Payments.	20 days
National Fraud Initiative - NFI Phase 2 (NFI 2022) - Time set aside to process and coordinate the investigation of the returned matches from the Cabinet Office in January 2023 as well as the periodic reporting of this activity to the Audit & Risk Committee.	6 days

Total Days	**26 days**
Investigation	
To undertake investigative work when issues of concern are identified through routine audit, reported by management or via the Council's whistleblowing processes in place.	10 days
Total Days	**10 days**
Other - Liaison, Networking and Knowledge Development	
Representation at the MCCIAG Fraud Sub-group, Staffordshire Counter Fraud Partnership and SCAG working groups	Included in Management Time
Continued liaison with the Corporate Director – Finance & Resources (Section 151 Officer) as and when issues arise	Included in Management Time
Develop Internal Audit’s knowledge of emerging fraud risks through appropriate training.	Included in Management Time
Total Days	**-**
Grand Total (Days)	**40 days**

Appendix D – Quality Assurance Programme

Quality Assurance
Quality outcomes/process designed to deliver a consistently high quality audit service to the Council – fit for purpose/ meets expectations/conforms to PSIAS.

Quality Improvement Plan
CIA reporting to the Audit & Risk Committee on the outcome of quality assurance review, together with the improvement action plan and any significant areas of non-conformance to PSIAS included in the Annual Report/Annual Governance Statement.

Ongoing Monitoring
Quality checks and oversight are undertaken throughout the audit review, ensuring that processes and practice are consistently applied and working well.

Role of the CIA
- To develop and maintain the Quality Assurance Improvement (QAIP) and resultant action plan.
- Focus on evaluating conformance with the Internal Audit Charter.
- Arrange an External Quality Assessment and report assessment outcome to the Audit & Risk Committee.

Role of the Audit Manager
- Obtain on-going assurance that the audit planning, fieldwork conduct and reporting / communication results adhere to audit standard practice (as defined in the internal audit charter and audit manual).
- Undertake audit supervision and review. The extent of supervision needed will depend on the proficiency and experience of the internal auditors and the complexity of the review.

Role of Individual Auditors
- Conduct all audit reviews in accordance with the requirements contained in the audit protocol and PSIAS.
- Behave at all times in accordance with the PSIAS Code of Ethics and Code of Conduct.
- Promote the standards and their use throughout the Internal Audit Activity.
- Actively seek feedback for all reviews undertaken.
- Demonstrable commitment to delivering quality services.

Service Plan/Challenges 2023/24
- To produce the annual risk based internal audit plan which is PSIAS compliant and which provides sufficient coverage to provide the Section 151 Officer with assurance regarding the robustness of the governance, risk management and internal control framework operating within the Council.

- To deliver to time the Internal Audit and Counter Fraud Plans 2023/24.
- To continue to develop the data analytics programme across the Council, thereby providing increased levels of comfort in respect of fraud related risks and to assist management in their role as the second line of assurance.
- To continue to raise the profile of the Counter Fraud Work Programme across the Council including regular communications to raise awareness of fraud risks and the availability of the fraud e-learning module.
- To contribute to the development of the digital transformation agenda across the Council to ensure that the control environment remains strong whilst exploiting the opportunities for more streamlined, cost-efficient operations.
- Following implementation of the Internal Audit Service's new integrated Audit Management system and on-line recommendation tracking portal in 2022, to develop meaningful management information and performance reports to facilitate greater transparency over managers' own control environment as well as real-time tracking of audit recommendations.
- To provide an agile internal audit service and high-quality audits to give management valuable insights and real time assurance on things that matter.

Key Contacts

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SOUTH STAFFORDSHIRE COUNCIL **AUDIT AND RISK COMMITTEE 20 JUNE 2023** **QUARTERLY TREASURY MANAGEMENT REPORT: QUARTER 4 – 010123 TO 310323** **REPORT OF THE CORPORATE DIRECTOR FINANCE & RESOURCES (S151)**

PART A – SUMMARY REPORT

1. SUMMARY OF REPORT

1.1 The report presents the 4th quarter summary information relating to treasury management activities and interest during 2022/23. The Council's position at the beginning and end of the quarter was as follows.

- Total on deposit at the start of the quarter £26,700,000
- Total on deposit at the end of the quarter £16,150,000
- Interest earned in the quarter was £247,277 against a budget of £7,500
- Total Borrowing at the start of the quarter was £15,000,000 (long-term borrowing over 40-50 years)
- Total borrowing at the end of the quarter was £15,000,000
- Borrowing costs in the quarter were £57,945 against a budget of £77,500

2. RECOMMENDATIONS 2.1 Members are asked to note the position as set out in the report.

3. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The reporting of financial information on a regular basis contributes to providing value for money and quality services.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	This proposed decision does not give rise to any change in policy nor does it give rise to any new expenditure and it is not considered to have any adverse implications.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	Not applicable	

FINANCIAL IMPACT	Yes	The Council makes assumptions about the level of investment income over the financial year based on the Council's expected cash position and interest rates forecasts provided by its treasury advisors. Delays in the delivery of the capital programme will have an impact on the council's cash position and therefore interest earned, and interest paid. Likewise increases or decreases in interest rates will affect interest earned and paid on investments and borrowings. During the 4th quarter rates have continued to increase past what we had budgeted for, moving from 3.50% at the start of the quarter to 4.25% by the end. In addition to this cash balances remain higher than anticipated due to slippage within the capital programme. As a result, at the end of Q4 year-to-date interest earned was £622,893 against a year-to-date budgetary target of £30,000. The Council undertook some long-term borrowing during 2021-22 to fund the capital programme (£15m). Year to date interest paid is £235,000 against a year-to-date budget of £310,000 up to the end of Q4. It had been anticipated that further long-term borrowing would have been required by now but due to slippage within the capital programme this has not been necessary creating a saving against budget. For monitoring purposes, assumptions are made based on the strategies agreed by Council. The Capital Programme for 2022/23 and future years was approved by Council 22 February 2022.
LEGAL ISSUES	Yes	The proposed actions are in accordance with the Council's Constitution and Financial Procedure Rules.
OTHER IMPACTS, RISKS & OPPORTUNITIES	None	
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

4.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) in its Code of Practice for Treasury Management recommends that members should be updated on treasury management activities at least twice a year. This report therefore ensures this council is implementing best practice in accordance with the Code.

The following items are set out in the report below:

- annual investment strategy/the Council's current treasury position;
- interest earned for Quarter 4;
- the borrowing outturn for Quarter 4;
- compliance with treasury limits;

4.2 Annual Investment Strategy/Current Treasury Position

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, is approved by the Council. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

The Council will aim to achieve the optimum return (yield) on investments while considering levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in higher rates in periods up to 12 months or in some circumstances beyond, with highly credit rated financial institutions.

The Council's position at the beginning and end of quarter dates was as follows:

Investments	31 Dec 2022 £	31 Mar 2023 £
Money Market Funds:		
Federated Investors LLP	7,700,000	1,150,000
CCLA	11,000,000	11,000,000
Total	**18,700,000**	**12,150,000**
Internal Investments:		
Bayerische Landesbank London (ATS)	1,000,000	0
National Bank of Canada (ATS)	1,000,000	0
First Abu Dhabi Bank (ATS)	1,000,000	0
SMBC Bank (ATS)	1,000,000	0
First Abu Dhabi Bank (ATS)	2,000,000	2,000,000
Qatar National Bank (ATS)	1,000,000	1,000,000
Standard Chartered Bank (ATS)	1,000,000	1,000,000
Total	**8,000,000**	**4,000,000**
Grand Total	**26,700,000**	**16,150,000**

*ATS is a service provided by our treasury advisors. By using this facility, it allows us to access investments at higher interest rates and a wider list of counterparties than we would be able to get by going directly to the market.

Investments in Money Market Funds are held to manage the daily cash flows. Surplus funds are placed on short term deposit to meet predicted outflows of funds for example the precept payments to the County, Fire and Police authorities.

Internally managed funds are used to generate a higher return on investments when funds are not required in the very short term. In most cases these investments are kept relatively short term up to a maximum of 1 year.

Due to the timings of these cashflows, balances generally build up during the first three quarters of the year and then fall significantly in quarter 4 due to the profiled collection of taxation revenues for council tax and business rates.

4.3 Details of Investments and Interest during Quarter 4

Post COVID rates were reduced to an all-time low of 0.1% from 0.75%. Since then, rates have steadily increased month on month with the bank of England base rate now at 4.25%, the highest rates seen since November 2008.

This has had a positive impact on the interest earning potential of our investments. Interest earned during Quarter 4 2022/23 was £247,277, £239,777 above budget (£7,500).

A breakdown of interest earnings are detailed in the table below:

Interest Earned	**Quarterly Budget** £	**Quarterly Actual** £
Investment Income Budget	7,500	
Money Market Funds:		
Federated Investors LLP		82,041
CCLA		103,059
Internal Investments		46,471
Bank Accounts		15,706
Grand Total	**7,500**	**247,277**

4.4 Borrowing Outturn for Quarter 4 2022/23

During Q3 of 2021/22 the council made the decision to take out some longer term borrowing to fund the capital programme. Due to the impending rate raise that was expected it was felt that this was the right time to take out a portion of borrowing to take advantage of the historically low rates on offer and reduce the risk of the council undertaking borrowing at much higher rates in the future. As a result, the council took the option to borrow £15,000,000 over 40-50 years at fixed rates ranging from 1.51%-1.62%. For context these rates current stand at approximately 4.96%-5.05% for the same periods.

Loan Amount	Interest Rate	Loan Length	Annual Interest	Repayment Date
5,000,000.00	1.62%	40 years	81,000.00	14/11/2061
5,000,000.00	1.57%	45 years	78,500.00	12/11/2066
5,000,000.00	1.51%	50 years	75,500.00	13/11/2071
			235,000.00	

Additional borrowing will be required in the future to fund further aspects of the capital programme however some of this borrowing may not be required for some time and so whilst rates are still volatile it was felt prudent to leave a portion of the borrowing requirement until a time where we feel it would be most beneficial to the council's long-term finances. With that in mind the council will continue to monitor the markets and take advice from our professional advisors to take advantage of any changes in market conditions. It is likely that once further spend on the capital programme is undertaken further long-term borrowing will be taken in accordance with the approved treasury management strategy.

Details of the Councils borrowing position at the beginning and end of the quarter are detailed as follows:

	31 Dec 22 £	31 Mar 23 £
PWLB	15,000,000	15,000,000
Grand Total	**15,000,000**	**15,000,000**

4.5 Compliance with Treasury Limits

Compliance with the Council's Treasury Management Limits as set out in the Treasury Management Strategy, underpins all investment and borrowing decisions made at all times.

The Table below details the applicable lending limits for investments made during the 4th quarter of 2022/23.

Investments	Institute Rating (at time of investment)	Highest value During Quarter	Monetary Limit (As per TMSS)	Period of Investment	Time Limit as per TMSS
Federated	AAA+	14,550,000	15,000,000	Liquid	Liquid
CCLA	AAA+	11,000,000	15,000,000	Liquid	Liquid
Bayerische Landesbank London (ATS)	A-	1,000,000	1,000,000	6 Months	6 Months
National Bank of Canada (ATS)	AA-	1,000,000	1,000,000	6 Months	6 Months
First Abu Dhabi Bank (ATS)	AA-	3,000,000	3,000,000	1 Year	1 Year
SMBC Bank (ATS)	A	1,000,000	1,000,000	6 Months	6 Months
Qatar National Bank (ATS)	A	1,000,000	1,000,000	6 Months	6 Months
Standard Chartered Bank (ATS)	A+	1,000,000	1,000,000	6 Months	6 Months

The Table below details the applicable limits between fixed and variable rate borrowing during the 4th quarter of 2022/23.

Borrowing	Borrowing in Quarter	Monetary Limit (As per TMSS)
Fixed	15,000,000	44,000,000
Variable	0	15,000,000

5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

None

6. PREVIOUS MINUTES

None

7. BACKGROUND PAPERS

Appendix A – Link Asset Services Q4 2022/23 Report

Report by: Pete Shakespear, Corporate Director Finance & Resources
Steven Johnson, Senior Accountant

QUARTERLY TREASURY MANAGEMENT REPORT

QUARTER FOUR – 1 JANUARY 2023 TO 31 MARCH 2023

Economic commentary on developments during the year ended 31 March 2023

UK. Economy.

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

SOUTH STAFFORDSHIRE COUNCIL

AUDIT & RISK COMMITTEE – 20 JUNE 2023

ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

REPORT OF THE FINANCE MANAGER AND DEPUTY S151 OFFICER

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

The purpose of this report is to:

a) Review and accept the critical judgements used in applying the accounting policies and the assumptions about the future and other major sources of estimation uncertainty.
b) Explain any key changes and provide additional information for items that are considered to require Member's consideration.

2. RECOMMENDATIONS

2.1 It is recommended that members review and accept the critical judgements that have been used in applying the accounting policies along with the assumptions about the future and other major sources of estimation uncertainty detailed at Appendix A.

3. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The values of a customer focussed organisation and also of value for money underpin the Council's priorities – both of which are central to the production and publishing of the Statement of Accounts.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	Accounting policies and critical accounting judgements underpin the preparation of the annual statement of accounts. The reporting of income and expenditure is prescribed by regulation and the

		CIPFA Code and does not directly impact on the delivery of services.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	The statutory date for completion of the audit of the Statement of Accounts is November 30 2023.	
FINANCIAL IMPACT	Yes	The appropriate adoption of accounting policies and application of critical judgements ensures that information within the accounts is relevant and reliable.
LEGAL ISSUES	Yes	The report contributes to Members' ability to discharge their responsibilities under the Accounts and Audit Regulations 2015 which require the Council to have their audited statement of accounts approved by a resolution of an authorised member meeting by 30 November 2023. Under the Council's constitution this power has been delegated to the Audit & Risk Committee.
OTHER IMPACTS, RISKS & OPPORTUNITIES		The financial health of the Authority as determined within its Statement of Accounts will be used to inform the Council's overall financial risk assessment and the Council's reserve strategy. The accounting policies, critical judgements and assumptions made about the future and other major sources of estimation uncertainty are key to the presentation and understanding of the Council's financial health.
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

4.1 Under Section 151 of the Local Government Act 1972, the appointed Chief Finance Officer is charged with the proper administration of the Council's financial affairs and as such must make good judgements and estimates that are reasonable and prudent.

4.2 In applying the Authority's accounting policies the Council has to make certain judgements about future events. In accordance with International Accounting Standards, the notes to the accounts contain details of the critical judgements made.

4.3 The Statement of Accounts contains some estimated figures that are based on the assumptions made by the Council about the future or that are otherwise uncertain. These include useful lives, valuations and bad debt provisions. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because some balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

4.4 It is considered good practice for the Audit and Risk Committee to consider these judgements and the major sources of estimation uncertainty that are going to be applied to the accounts.

4.5 Appendix A therefore includes an excerpt from an early draft of the Council's Statement of Accounts in relation to Accounting Policies, Judgements, Assumptions and Uncertainties.

4.6 Members attention is particularly drawn to the sections 3 to 7 of appendix A which focuses in on key areas of judgement and uncertainty inherent within the accounts.

5. IMPACT ASSESSMENT

5.1 None

6 PREVIOUS MINUTES

6.1 Not applicable

7. BACKGROUND PAPERS

7.1 Appendix A –Statement of Accounts Excerpt: Accounting Policies, Judgements, Assumptions and Uncertainties

Report prepared by:

John Mayhew
Finance Team Manager (Finance Manager)

5th June 2023

APPENDIX A

EXCERPT FROM THE STATEMENT OF ACCOUNTS.

ACCOUNTING POLICIES, ACCOUNTING STANDARDS AND CRITICAL JUDGEMENTS

1. Accounting Policies

General

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and the Service Reporting Code of Practice 2022/23, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which are recognised by statute as representing proper accounting practices. The code has adopted International Financial Reporting Standards (IFRS).

The accounts are prepared on an historic cost basis except where specifically stated.

Accruals of Income and Expenditure

Activity is accounted for in the year in which it takes place, irrespective of when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or service;
- Supplies are recorded as expenditure when they are consumed;
- Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down (impaired) and a charge made to revenue accounts for the income that might not be collected.
- On the basis of materiality and consistency with previous financial years, accrued overtime will be recorded in the month payment is received.

Material Income and Expenditure

Should there be any items of income or expense that are determined to be material, their nature and amount is disclosed separately.

Examples may include:

a) disposal of items of property, plant and equipment

b) disposal of investments, and

c) other reversals of provisions

d) Material items of government grant support

e) Other windfalls

Tax Income (Council Tax, Non-Domestic Rates and Tariff payment)

- Council Tax income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

- Retained Business Rate income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income. Income from business rate payers includes adjustments for previous years including those arising from appeals against the rating list.

- Payment of the Tariff included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued expenditure.

Cash and Cash Equivalents

Cash is represented by cash in hand and on demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The category includes all balances held in call accounts and money market funds but excludes all fixed term deposits, even when these are less than three months at the date of investment. Fixed term deposits are excluded on the basis that they are not deemed to be readily convertible to cash.

Charges to Revenue for Long-Term Assets

Services are debited with the following amounts to record the cost of holding long-term assets during the year:

- Depreciation attributable to the assets used by the relevant service;

- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;

- Amortisation of intangible long-term assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. The Council is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Contingent Assets and Liabilities

Contingent assets are sums due from individuals or organisations that may arise in the future but for which the amount due cannot be determined in advance (contingent liabilities are similarly those sums due to individuals or organisations for which the amount due cannot be determined). These are not recognised in the accounts. They are disclosed as a note to the accounts as there is a possible receipt (or payment in the case of a contingent liability), which may result in a transfer of economic benefits.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment and Intangible Assets using a straight-line method over their estimated useful lives. The useful life of properties is determined by a qualified valuer. The useful life of vehicles, equipment and intangible assets is determined by a suitably qualified officer. Land and assets under construction are not depreciated.

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

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

Employee Benefits

Benefits payable during employment - Employee benefits, such as salaries and wages and paid annual leave, are recognised in the year in which they are earned (excepting overtime as per previous note). The Council has adopted a policy to pay holiday pay on non-guaranteed overtime following the Employment Appeal Tribunal decision in November 2014. The policy was implemented in March 2015 and included a back pay element to the date of the judgement. An accrual is made for the cost of holiday entitlement earned but not taken before the year end which employees can carry forward into the following year. The balance is recognised within the Comprehensive Income and Expenditure Statement and under statutory guidance an offsetting balance is included within the reserves section of the balance sheet.

Termination benefits – Termination benefits are amounts payable as a result of the Council’s decision to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. Such costs are charged to the Comprehensive Income and Expenditure Statement in the period when the Council is demonstrably committed to the termination of the employment of an officer or a group of officers or when the Council makes an offer to encourage voluntary redundancy.

Post-Employment Benefits - Employees of the Council are members of the Local Government Pension Scheme, administered by Staffordshire County Council. The Local Government scheme is accounted for as a defined benefits scheme.

Pension Fund liabilities are measured on an actuarial basis using the projected unit method. This requires the use of various assumptions about future events.

Liabilities are discounted to their current value using a discount rate (based on the indicative rate of return on a basket of high quality corporate bonds, Government gilts and other factors).

The assets of the Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities - current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

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

- **Service cost comprising:**

- Current service cost – the increase in the liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service for which the employees worked.
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- Net interest on the net defined benefit liability i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- **Re-measurement comprising:**

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the Staffordshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

- Prepayment of LGPS deficit costs - The option to pay contributions expressed as a monetary amount by way of a prepayment continues to be exercised. Any prepayment outstanding in any three-year cycle is used to offset the pensions liability held on the balance sheet.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but un-paid at the year-end. The negative balance that arises on the pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

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

Within the Comprehensive Income and Expenditure account service revenue accounts have been charged with their current service cost which represents the extent to which pension liabilities have increased as a result of employee service during the year. Any past service costs, settlements and curtailments have been charged to Other Comprehensive Income and Expenditure. The interest cost and expected return on assets have been included in net operating expenditure.

Legislation requires that an appropriation to the pensions reserve be made to reverse out the IAS19 based pension costs in the Comprehensive Income and Expenditure Account and replace them with the actual pensions related payments made in the year. This ensures that the Council Tax requirement is based on the employer's contributions payable to the pension fund.

Events after the Balance Sheet date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

- Those that are indicative of conditions that arose after the reporting period – the statement of accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date when the Statement of Accounts is authorised for issue are not reflected in the Statement of Accounts. For South Staffordshire Council this date has been determined as no later than 30th September 2023, this being the statutory date by which the s151 Officer is due to certify the accounts.

Financial Instruments

Financial Assets

Financial Assets (e.g. investments and debtors) are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market;
- Available for sale assets - assets that have a quoted market price and/or do not have fixed or determined payments.

Loans and Receivables are initially measured at fair value and carried at their amortised cost (when the interest received is spread evenly over the life of the loan). Credits to the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement for interest received are based on the Balance Sheet amount of the asset multiplied by the effective interest rate for the financial instrument. For most of the loans that the Council has made, that means the amount shown in the Balance Sheet is the outstanding principal receivable plus accrued interest. The amount of interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year per the loan agreement.

The Council has made a number of loans to Parish Councils at less than market rates of interest (these are known as soft loans). Subject to materiality, the amount of interest forgone is charged to the Comprehensive Income and Expenditure Statement (debited to the appropriate service line) and the outstanding principal is reduced on the Balance Sheet. This represents the present value of the interest that will be forgone over the life of the loan agreement. Statutory provisions require that the impact of the soft loans on the General Fund balance is the interest receivable in the year, so the amount of foregone interest charged is managed by a transfer from the Financial Instruments Adjustment Account to the Movement in Reserves Statement.

However, where the interest foregone is so immaterial as to be deemed inconsequential no charge to the Comprehensive Income and Expenditure account is to be made. This has been the case to date in respect of the soft loans issued to Parish Councils.

Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following hierarchy:

- Instruments with quoted market prices in active markets for identical assets – market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Financial Liabilities

Financial liabilities (e.g. borrowings and creditors) are initially measured at fair value and carried at their amortised cost. Charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. For any borrowing that the Council undertakes this means that the amount shown in the Balance Sheet is the outstanding principal repayable plus accrued interest and the amount charged to the Comprehensive Income and Expenditure Statement is the amount payable per the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. However, if the repurchase takes place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts (amounts paid or received on the rescheduling of a loan) have been charged to the Comprehensive Income and Expenditure Statement regulations allow the impact of premiums on the General Fund balance to be spread over the longer of the outstanding period of the replaced loan or the period of the replacement loan or any other shorter period that the Council wishes to choose. Discounts are required to be credited to revenue over a maximum period equal to the outstanding term of the replaced loan or ten years (if shorter). The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement of Reserves Statement.

Government Grants and Contributions

Grants and contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis, and recognised immediately (providing there is reasonable assurance the authority will comply with conditions attached and that the grant will be received) in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) relating to initial recognition that the authority has not satisfied.

Grants and contributions that satisfy the recognition criteria but which have a condition attached that remains to be satisfied are recognised initially in the relevant Grants Receipts in Advance Account.

General grants and contributions (comprising Revenue Support Grant, NNDR redistribution and un-ring-fenced government grants) are required to be disclosed as one or more items on the face of the Comprehensive Income and Expenditure Statement.

Where conditions have been met specific revenue grants and contributions are matched in service revenue accounts with the service expenditure to which they relate. When the expenditure relating to specific grants has not been incurred, the Council makes a contribution equivalent to the unspent amount of grant to an earmarked reserve. This reserve will be released in future financial years when the expenditure to which the grant relates is incurred.

Donated assets transferred to an authority for nil consideration shall be recognised immediately at fair value as an asset on the Balance Sheet. The asset shall be recognised in the Comprehensive Income and Expenditure Statement as income, except to the extent that the transfer has a condition(s) (as opposed to restrictions) that the authority has not satisfied.

In this case the asset is credited to the Donated Assets Account and recognised in the Comprehensive Income and Expenditure Statement once the condition(s) has been satisfied.

Capital grants and contributions

Where no grant conditions exist, or conditions have been met capital grants and contributions are credited to Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Account via the Movement in Reserves Statement. The amount of the grant or contribution that has been used to finance expenditure is transferred to the Capital Adjustment Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund capital expenditure.

Where grant conditions exist and have not initially been met, the grant is recognised in the Capital Grants Receipts in Advance Account. When grant conditions have been met the grant is then recognised in the Comprehensive Income and Expenditure Statement and transferred via the Movement in Reserves Statement to the Capital Adjustment Account. If the grant conditions are not and/or are unlikely to be met, then the grant will be repaid.

Grants and Contributions attributable to Revenue Expenditure Funded from Capital under Statute (REFCUS)

Where conditions have been met these grants and contributions are credited to the relevant service line in the Comprehensive Income and Expenditure Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the REFCUS Grants Unapplied Account via the Movement in Reserves Statement. Amounts in the REFCUS Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund expenditure.

Heritage Assets

Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. They are initially recognised at cost if this is available. If cost is not available, values are only included in the Balance Sheet where the cost of obtaining a valuation is not disproportionate to the benefit derived.   For the Council’s heritage assets insurance valuations are used. The Council has adopted a £10,000 de-minimis threshold. Where no market exists or the asset is deemed to be unique, and it is not practicable to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts.

Heritage assets are depreciated over their useful life if this can be established. If an asset is considered to have an indefinite life, no depreciation is charged. Disposals, revaluation gains and losses and impairments of heritage assets are dealt with in accordance with the Council’s policies relating to PPE. The cost of maintenance and repair of heritage assets is written off in the year incurred.

Impairment

Assets are reviewed for impairment at the end of each reporting period. Examples of impairment include: a significant reduction in a specific asset's value and evidence of physical damage.

The amount of impairment is charged to the Revaluation Reserve to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset. Thereafter the impairment is charged to the Surplus/Deficit on the Provision of Services.

This charge is reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. It is controlled by the Council as a result of past events and future economic or service benefits flow to the Council from the intangible asset. The most common type of intangible asset is computer software licences.

Intangible assets are carried at cost less accumulated depreciation and any impairment. The intangible asset is amortised over its estimated useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. This amortisation is reversed in the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

An intangible asset is derecognised on disposal. Gains or losses arising from the disposal are recognised in the Surplus / Deficit on the Provision of Services.

Long-Term Contracts

Long-term contracts are accounted for by charging the relevant service line with an amount equal to the value of the works or services provided under the contract during the financial year.

Investment Property

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to provide services by the Council.

The Council does not currently hold any Investment Properties.

Leases

Leases are classified as either finance or operating leases based on the extent to which risks and rewards incidental to ownership of the asset lie with the lessor or lessee. Classification of the lease is dependent on the substance of the transaction rather than the contract. Land and building elements of a lease are considered separately for the purpose of lease classification.

Arrangements that do not have the legal status of a lease but convey the right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of a specific asset. This is referred to as an embedded lease.

Leases (operating)

Rentals paid under operating leases are charged to the CIES as an expense of the service benefiting from use of the leased property, plant or equipment.

Rental income from operating leases for Council owned assets is recognised on a straight-line basis over the period of the lease and is shown in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Assets held for use as operating leases are recorded as assets in the Council's Balance Sheet.

Leases (finance)

A lease arrangement where it is judged that substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee is classified as a finance lease. A finance lease gives rise to the recognition of the long-term asset on the balance sheet at its fair value at the commencement of the lease together with a corresponding liability for future payments.

Lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment which is applied to write down the deferred liability and a finance charge which is recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement. The items are subject to depreciation.

The criteria for determining a finance lease under IFRS has become broader and more subjective. This has given rise to certain leases being reclassified as finance leases that were previously determined as operating leases under SORP/UKGAAP.

Non-Current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than its continued use it is reclassified as an asset held for sale.

Assets held for sale are:

- Available for immediate sale in its present condition,
- Those where the sale is highly probable,
- Actively marketed,
- Expected to be sold within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and the fair value less costs to sell. Where this results in a loss in value this loss is posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Once an asset is classed as held for sale it is no longer depreciated.

If assets no longer meet the classification as assets held for sale they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classed as held for sale) and their recoverable amount at the date of the decision not to sell.

Prior Period adjustments, Changes in Accounting Policies, Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or if the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period.

Property Plant and Equipment (PPE)

Property, Plant and Equipment assets have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis (e.g. land and buildings).

Expenditure on the acquisition, creation and enhancement of PPE has been capitalised on an accruals basis provided that it yields benefit to the Council and the services it provides for more than one financial year. Expenditure on maintenance is charged to revenue as it is incurred.

PPE are initially shown on the Balance Sheet at cost, comprising the purchase price, all expenditure that is directly attributable to bringing the asset into working condition for its intended use and the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

The assets are then revalued using methods of valuation on the basis recommended by CIPFA and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors (RICS).

- Land and buildings and other operational assets are valued at current value. Where sufficient market evidence is not available current value is estimated at depreciated replacement cost, using the modern equivalent asset method.
- Short life assets, such as vehicles, are held at depreciated historical cost as a proxy for current value on the grounds of materiality.
- Community assets and infrastructure are valued at historical cost net of depreciation.
- Assets under construction are held at historical cost until brought into use.
- Investment properties and surplus assets – current value, determined by the measurement of the highest and best use of the asset.

Revaluations of property are planned at five yearly intervals unless there has been a material change in the value (ascertained by an annual impairment review). Valuations are undertaken with a valuation date of 31 March.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. In exceptional circumstances, where the increase is reversing a previous impairment loss charged to the Surplus/Deficit on the Provision of Services on the same asset or where the increase is reversing a previous revaluation decrease charged to the Surplus/Deficit on the Provision of Services on the same asset the increase in valuation is credited to the Comprehensive Income and Expenditure Statement.

Where decreases in value are identified and there is a balance of revaluation gains in the Revaluation Reserve relating to the asset, the value of the asset is written down against that balance (up to the amount of the accumulated gains). Where there is no or insufficient balance in the Revaluation Reserve the value of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement. Where revaluation gains or losses are credited or charged to the Comprehensive Income and Expenditure Statement they are reversed in the Movement of Reserves Statement to the Capital Adjustment Account. The Revaluation Reserve contains gains recognised since 1 April 2007 only, the date of its formal implementation. Revaluation gains arising before that date are included in the Capital Adjustment Account.

De-recognition of Property, Plant and Equipment

An item of Property, Plant or Equipment is derecognised by disposal or when no future economic benefit or service potential is expected from its use. The carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Sale proceeds from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains on the Revaluation Reserve, for assets disposed of or decommissioned, are transferred to the Capital Adjustment Account.

Income from asset disposals in excess of £10,000 is classed as capital receipts. The balance of capital receipts is credited to the Capital Receipts Reserve and used to either fund new capital expenditure or repay debt. The written off value of disposals is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

Provisions

Provisions are charged to the Comprehensive Income and Expenditure Statement for liabilities that have been incurred by the Council, but where the amounts or dates on which they will arise are uncertain.

Provisions are required to be recognised when the Local Authority has a present obligation as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (IAS 37).

When expenditure is incurred to which the provision relates, it is charged directly against the provision in the Balance Sheet and not against the Comprehensive Income and Expenditure Account.

The estimated value and the timing of settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required the provision is reversed and credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where some or all of the payment required to settle a provision is expected to be met by another third party (e.g. from an insurance claim), this is only recognised as income in the relevant service line if it is virtually certain that reimbursement will be received if the obligation is settled.

Reserves

The Council maintains a General Fund working balance and also holds reserves earmarked for specific purposes which are detailed in the Notes to the Core Financial Statements. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year and represents a charge against the Net Cost of Services. The reserve is then appropriated back to the General Fund balance statement so that there is no net charge against council tax for the expenditure.

Non-distributable reserves include the Revaluation Reserve and the Capital Adjustment Account and represent “technical non-cash” reserves which are maintained to manage the accounting processes for non-current assets. The Pension Reserve is a reserve which has been set up to manage the accounting process for retirement benefits and does not represent usable resources for the Council. These reserves do not impact upon the level of local taxation and cannot be utilised to support service delivery.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a long-term asset on the Balance Sheet. These are generally grants and expenditure on property not owned by the Council. Expenditure is charged to the Surplus

/ Deficit on the Provision of Services as the expenditure is incurred. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

Details of the accounting policy relating to grants and external contribution funding of REFCUS expenditure is shown above on page xx.

VAT

Value Added Tax (VAT) is included within the accounts only to the extent that it is irrecoverable and therefore charged to service expenditure or capital expenditure as appropriate.

2. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

There are no such disclosures required this year.

3. Critical judgements in applying accounting policies

In applying the Council's accounting policies, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events. The most significant critical judgements made in the Statement of Accounts are:

Classification of Leases
The Council has undertaken an analysis to classify the leases it holds, both as a lessee and lessor, as either operating or finance leases. The accounting policy for leases has been applied to these arrangements and additional assets are recognised as PPE in the Council's Balance Sheet.

Arrangements Containing a Lease
The Council is deemed not to control assets that fall within contractual and other arrangements which involve the provision of a service using specific underlying assets and as a result there are no additional assets to be recognised as PPE in the Council's Balance Sheet.

IFRS16 will require Council's to account for embedded leases separately and disclose accordingly.

In relation to adoption of IFRS16, following its emergency consultation on exploratory proposals for changing the Code of Practice on Local Authority Accounting in the United Kingdom, CIPFA LASAAC issued its preliminary decision and feedback statement.

This preliminary decision was subsequently considered by the government's Financial Reporting Advisory Board (FRAB). FRAB advised CIPFA LASAAC that it agreed with the deferral of IFRS 16 Leases until 1 April 2024.

Assets held for sale
The Council has reviewed all property assets in accordance with the accounting policy and has determined that no properties need to be reclassified.

Investment Properties
Properties have been assessed using the identifiable criteria under the international accounting standards of whether they are being held purely for rental income or capital appreciation or whether there is an operational reason for holding the property such as regeneration or economic development.

The Council does not hold any properties which are held purely for rental income or capital appreciation.

4. Assumptions Made about the future and other major sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty actual results could be different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2023 for which there is a risk of adjustment in the following financial year are:

Revaluation of Property, Plant and Equipment (PPE)

The valuations of Property, Plant and Equipment (PPE) reported in the balance sheet and the related depreciation charges made to the Comprehensive Income and Expenditure Statement (CIES) are based on an estimate of their value and asset life.

A firm of qualified valuers are engaged by the Council to carry out, for the major assets, a programme of physical valuations to ensure that their carrying values are subject to professional and independent assessment to guard against material misstatement. PPE (with the exception of infrastructure, community assets, assets under construction and small value items of vehicle, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment.

The appointed valuers were fully aware of the risks associated with PPE valuations and the ongoing impact of the Covid-19 pandemic in determining their valuations in accordance with Royal Institute of Chartered Surveyors (RICS) guidance.

In 2019/20, the valuations were determined to be at subject to 'material uncertainty' given the early stages of the Covid-19 pandemic and associated risk factors.

For the 2020/21, 2021/22 and 2022/23 valuations, this was no longer considered the case. The valuation noted, 'at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.'

Accordingly, it was stated by the valuers that their valuation was **not subject** to material uncertainty.

Depreciation of Property, Plant and Equipment

Assets are depreciated based on useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of assets is overstated in the current year.

Arrears

At 31 March 2023, the Council had outstanding sundry debtors, housing rent debtors, housing benefit overpayments and council tax debtors.

A review of these outstanding balances is routinely undertaken and a provision for bad and doubtful debts is made taking into account prevailing economic conditions (an increased provision was made for example during the height of the Covid-19 pandemic.

If collection rates were to differ from that estimated, doubtful debt provisions would need to be revisited.

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the expected rate of price inflation, the rate at which salaries and pensions are expected to increase, mortality rates and rate of commutation of pensions.

A firm of actuaries are engaged to provide the Staffordshire Pension Fund (of which South Staffordshire is a member) with expert advice about the assumptions to be applied.

In calculating the asset share as at the Accounting Date, the Actuary rolls forward the Employer's share of the assets calculated at the latest formal valuation date (or date the Employer joined the Fund if later), allowing for investment returns (estimated where necessary), the effect of contributions paid into (estimated where necessary), and estimated benefits paid from, the Fund by the Employer and its employees.

The main impacts of the COVID-19 pandemic, and subsequent lockdowns, on these accounting figures can be summarised as follows:

- Asset returns and values have followed the market movements prompted by the pandemic and lockdowns, among other factors, which will therefore affect the asset share value;
- Bond yields and inflation expectations have also followed market movements, which will therefore affect the obligations value;
- Life expectancy assumptions have not been updated:

(a) The actuary has not updated its baseline longevity tables due to the lack of relevant mortality data and analysis from the period of the pandemic for the Fund or Employer;
(b) The actuary has not amended our future longevity trends assumption for COVID-19 specifically (as per paragraph 4.9, we have applied a 0% weighting to 2020 data within the CMI model) as the data is not yet available to make an evidence-based assessment on the pandemic's impact on longer term expectations.

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The 31st March 2019 formal valuations for English and Welsh LGPS Funds were concluded by 31st March 2020.

Formal valuations for English and Welsh LGPS schemes have commenced in March 2022.

The accounting balance sheet position as at 31st March 2023, and the projected charge to the P&L for 2022/23 are based upon the results of the formal actuarial valuation.

If the assumptions upon which the valuation is based are inaccurate, the pension's liability could be over or understated.

The effects on the net pension's liability of changes in individual assumptions is measurable. The sensitivities regarding the potential assumptions used to measure the scheme liabilities are set out as follows:

Change in Assumptions at y/e 31st March 2023	Approximate %ge increase to Employer	Approximate Monetary Amount	Approximate Monetary Amount Last year for Comparison
	%	£'000	£'000
0.5% decrease in real discount rate			
0.5% discount in the salary increase rate			
0.5% increase in the pension increase rate			

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, the actuary estimates that a one-year increase in life expectancy would approximately increase South Staffordshire's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

There may also be an impact on employer pension liabilities as a result of the Court of Appeal judgements in cases affecting judges' pensions (McCloud, 2019). The ruling has implications for the LGPS (of which South Staffordshire is a member).

The final situation in terms of employer pension liabilities and financial impact remains unclear, since the government may appeal and any remediation process, including cost cap considerations, may affect the resolution and financial impact for entities. Timescales for the resolution of this matter may be lengthy and outcomes may be challenging for entities to assess and quantify, especially at Fund or Authority level.

To date, South Staffordshire has sought advice from our Pensions authority and actuary and has received assurance that potential implications of the pending judgement were factored into the required payments from employers to eventually make good liabilities by 2040. South Staffordshire remains fully compliant with minimum levels of repayment in accordance with actuary advice.

Business Rate Appeals

Since the introduction of the Business Rate Retention Scheme, effective from 1 April 2013, local authorities are liable for successful appeal against business rates charged to businesses in 2018/19 and earlier financial years in their proportionate share.

A provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2021. The estimate has been calculated using the latest Valuation Office (VOA) rating list of appeals and an analysis of successful appeals to date.

Whilst it is considered that this gives a reasonably reliable figure, it is not certain that actual experience will match our assumptions.