



## Agenda

### Notice of a public meeting of **Audit Committee**

**To:** Councillors Cliff Lunn (Chairman), Alyson Baker, Philip Broadbank, Mark Crane, George Jabbour (Vice-Chairman), Nigel Knapton, Stuart Parsons, Karin Sedgwick, Neil Swannick and Matt Walker, and Independent Co-opted Members (non-voting)  
Mr David Marsh and Mr David Portlock

**Date:** Monday, 20th March, 2023

**Time:** 1.30 pm

**Venue:** Brierley Room, County Hall, Northallerton

### Business

1. **Apologies for Absence**

2. **Minutes of the Committee Meeting held on 12 December 2022** (Pages 3 - 8)

3. **Declarations of Interest**

4. **Public Questions or Statements**

Members of the public may ask questions or make statements at this meeting if they have given notice (including the text of the question/statement) to Ruth Gladstone of Democratic Services (contact details at the foot of page 1) by midday on Wednesday 15 March 2023. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

- At this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes).
- When the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.

If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct anyone who may be taking a recording to cease while you speak.

5. **Progress on Issues Raised by the Committee** (Pages 9 - 10)

Joint report of the Corporate Director – Strategic Resources and the Assistant Chief

Enquiries relating to this agenda please contact Ruth Gladstone Tel: 01609 532555

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Website: [www.northyorks.gov.uk](http://www.northyorks.gov.uk)

Executive (Legal and Democratic Services)

6. **External Audit Appointments from April 2023**  
Oral report of the Corporate Director – Strategic Resources
7. **Treasury Management Strategy** (Pages 11 - 66)  
Report of the Corporate Director – Strategic Resources
8. **Accounting Policies** (Pages 67 - 72)  
Report of the Corporate Director – Strategic Resources
9. **Corporate Governance** (Pages 73 - 90)  
Report of the Corporate Director – Strategic Resources
10. **Internal Audit Charter** (Pages 91 - 106)  
Report of the Head of Internal Audit
11. **Counter Fraud Strategy, Work Plan, and Fraud Risk Assessment** (Pages 107 - 136)  
Report of the Head of Internal Audit
12. **Progress on 2022/23 Internal Audit Plan** (Pages 137 - 142)  
Report of the Head of Internal Audit
13. **2023/24 Internal Audit Plan Consultation** (Pages 143 - 146)  
Report of the Head of Internal Audit
- 14(a) **Central Services Directorate - Internal Audit Work** (Pages 147 - 152)  
Report of the Head of Internal Audit
- 14(b) **Central Services Directorate - Internal Control Matters** (Pages 153 - 174)  
Report of the Corporate Director – Strategic Resources
15. **Programme of Work 2022/23** (Pages 175 - 176)
16. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances**

Barry Khan  
Assistant Chief Executive  
(Legal and Democratic Services)

County Hall  
Northallerton

Friday, 10 March 2023

## North Yorkshire County Council

### Audit Committee

Minutes of the meeting held on Monday, 12th December, 2022 commencing at 1.30 pm at County Hall, Northallerton.

Committee Members present: County Councillor Cliff Lunn in the Chair; plus County Councillors Alyson Baker, Philip Broadbank, Mark Crane, George Jabbour, Nigel Knapton, Stuart Parsons, Neil Swannick, Malcolm Taylor (as Substitute for Karin Sedgwick) and Matt Walker, and Mr David Marsh and Mr David Portlock

Officers present: Abigail Barron, Vicki Dixon, Gary Fielding, Anton Hodge, Chris Jones-King, Fiona Sowerby, Max Thomas, Richard Webb, Rachel Woodward and Ruth Gladstone

Other Attendees: Nick Rayner (Deloitte)

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**Copies of all documents considered are in the Minute Book**

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The Committee observed a minute's silence in memory of former County Councillor Jim Clark who had been a prominent member of this Committee for many years.

#### **35 Minutes of the Committee Meeting held on 28 November 2022**

##### **Resolved –**

That the Minutes of the meeting held on 28 November 2022, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

#### **36 Declarations of Interest**

There were no declarations of interest.

#### **37 Public Questions or Statements**

There were no questions or statements from members of the public.

#### **38 Health and Adult Services Directorate**

Considered –

- (a) The report of the Head of Internal Audit which advised of the internal audit work performed during the year ended 31 October 2022 for the Health and Adult Services Directorate.
- (b) The report of the Corporate Director – Health and Adult Services which outlined some of the key service risks and governance developments within his Directorate and provided details of the Directorate's Risk Register.

Richard Webb (Corporate Director – Health and Adult Services) addressed the meeting to highlight some of the key governance development and risk issues. He undertook to raise with relevant officers:- whether the protections in place in Selby to protect against the spread of avian flu were to be extended to cover a wider area; Members’ concerns that residents who were part-way through a Covid vaccination cycle would be unable to complete the cycle following the closure of the Vaccination Centre in Northallerton; and Members’ concerns that properties providing care would be treated as second homes for the purpose of Council Tax.

Anton Hodge (Assistant Director – Strategic Resources) introduced the report at (b) and, together with Abigail Barron (Assistant Director – Service Development), Chris Jones-King (Assistant Director – Care and Support) and Gary Fielding (Corporate Director – Strategic Services), responded to Members’ questions. Gary Fielding undertook to raise, with relevant officers, a Member’s suggestion that the Fijian population living around Catterick Garrison might be interested in taking up a career in social care. No additional feedback or comments were provided on the Directorate Risk Register.

Max Thomas (Head of Internal Audit) introduced the report at (a) and responded to Members’ questions. During discussion, Max Thomas confirmed that there was no particular issue within the Health and Adult Services Directorate that the Audit Committee needed to be concerned about.

#### **Resolved –**

- (a) That the results of internal audit work performed in the period for the Health and Adult Services Directorate, as set out in the report at (a), be noted.
- (b) That the Risk Register for the Health and Adult Services Directorate, as set out in the report at (b), be noted.

### **39 Counter Fraud Policy Framework**

Considered: The report of the Head of Internal Audit which presented a counter fraud policy framework for the new North Yorkshire Council.

Max Thomas (Head of Internal Audit) introduced the report and advised that this Committee should make a recommendation to the Executive for approval. Max Thomas also advised that the allocation of roles within the Anti-Money Laundering and Terrorist Financing Policy was still under discussion by senior officers and therefore might be amended prior to submission to the Executive.

Max Thomas and Gary Fielding (Corporate Director – Strategic Resources) responded to Members’ questions. During questions, Max Thomas undertook to amend, as appropriate, the references to “Raising Concerns at Work Policy” and “Resolving Issues at Work Policy” because they should be identical.

#### **Resolved –**

That the Counter Fraud and Corruption Policy, the Whistleblowing Policy, and the Anti-Money Laundering and Terrorist Financing Policy, be recommended to the Executive for approval, prior to Vesting Day, under the Executive’s transitional powers.

### **40 Risk Management - Progress Report**

Considered: The report of the Corporate Director – Strategic Resources which advised of the updated Corporate Risk Register, the links between Directorate Risk Registers and the

Corporate Risk Register, and progress on other Risk Management related matters.

Fiona Sowerby (Head of Insurance and Risk Management) introduced the report and, together with Gary Fielding (Corporate Director – Strategic Resources), responded to Members' questions. During discussion:-

- Fiona Sowerby undertook to include a Fallback Plan in risk 20/258 Recruitment and Retention.
- County Councillor George Jabbour suggested that the Council consider adding a warning to flag external emails that staff receive, in a similar way to how other organisations do to combat phishing. Gary Fielding undertook to arrange for this to be considered.

**Resolved –**

- (a) That the updated Corporate Risk Register, as set out at Appendix A to the report, and the links between Directorate Risk Registers and the Corporate Risk Register, as set out at Appendix B to the report, be noted.
- (b) That the situation regarding other Risk Management related matters be noted.

**41 Internal Audit Report on Information Technology, Corporate Themes and Contracts**

Considered: The report of the Head of Internal Audit which advised of the internal audit work completed during the year to 30 November 2022 in respect of information technology, corporate themes, and contracts and procurement.

Max Thomas (Head of Internal Audit) introduced the report and responded to Members' questions.

**Resolved –**

That the results of internal audit work performed in the period in respect of the Council's information technology, corporate and contract arrangements be noted.

**42 Procurement and Contract Management Update**

Considered –

The report of the Corporate Director – Strategic Resources which provided an update on the work of the Procurement and Contract Management Service, including key achievements, recent activity and the continuing response to supply chain resilience.

Rachel Woodward (Head of Procurement and Contract Management) introduced the report and, together with Gary Fielding (Corporate Director – Strategic Resources), responded to Members' questions. During discussion, Members commended the work being undertaken to provide more support and guidance to SMEs and VCSEs in North Yorkshire to secure contracts with the public sector. No additional comments were provided to add further value to the ongoing work on procurement and contract management.

**Resolved –**

That progress on key achievements and recent activity be noted.

#### **43 Commercial Governance Review**

Considered: The report of the Corporate Director – Strategic Resources which summarised best practice set out in CIPFA’s updated publication “Local Authority Owned Companies – A good practice guide 2022 edition”, and advised of the intention to review existing arrangements during forthcoming months, in line with LGR, and to report back to the Committee after LGR to detail the outcome and actions from the review.

Vicki Dixon (Assistant Director – Strategic Resources) introduced the report and, together with Gary Fielding (Corporate Director – Strategic Resources) responded to Members’ questions. During discussion:-

- Officers advised of the action which Council Members and officers, who were Directors, were required to be take to declare interests and avoid conflicts of interests.
- Officers undertook to circulate a list of all North Yorkshire Council owned companies, once such a list was available, to Committee Members.

#### **Resolved –**

(a) That the report be noted.

(b) That a further report be submitted to a future meeting of this Committee post LGR.

#### **44 Programme of Work 2022/23**

Considered: The Committee’s programme of work which identified items of business scheduled for consideration at each of the Committee’s forthcoming meetings.

#### **Resolved –**

That the Committee’s Programme of Work be approved, subject to revised arrangements being made for submission of CIPFA’s Financial Management Code to a future meeting of the Committee.

#### **45 Urgent business - Final SOFA 2021/22**

Note: The Chairman agreed that this matter should be considered as an additional item due to special urgent circumstances. The special urgent circumstances were the need for the Committee to hear, from Deloitte, about any impact which a recently publish Statutory Instrument was having on their audit work regarding the County Council’s Final SOFA for 2021/22.

Considered: County Councillor George Jabbour asked Nick Rayner (Deloitte) to provide an update on the external audit of the County Council’s Final SOFA for 2021/22. Nick Rayner reported the following:- Deloitte now had all the information they required to complete the 2021/22 external audit of the North Yorkshire Pension Fund; the Statutory Instrument regarding infrastructure assets had been published on 30 November 2022 and CIPFA had issued accompanying guidance; and all actions to complete the 2021/22 external audit of the County Council were proceeding to plan based on Deloitte’s view of the Statutory Instrument.

**Resolved –**

That the situation be noted.

The meeting concluded at 4.15 pm.

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# Agenda Item 5

## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

20 March 2023

#### PROGRESS ON ISSUES RAISED BY THE COMMITTEE

##### Joint Report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services)

### 1.0 PURPOSE OF THE REPORT

1.1 To advise Members of

- (i) progress on issues which the Committee has raised at previous meetings
- (ii) other matters that have arisen since the last meeting and that relate to the work of the Committee

### 2.0 BACKGROUND

2.1 This report is submitted to each meeting listing the Committee's previous Resolutions and / or when it requested further information be submitted to future meetings. The table below represents the list of issues which were identified at previous Audit Committee meetings and which have not yet been resolved. The table also indicates where the issues are regarded as completed and will therefore not be carried forward to this agenda item at the next Audit Committee meeting.

| Date     | Minute number and subject         | Audit Committee Resolution  | Comment   | Complete? |
|----------|-----------------------------------|---|---|-----------|
| 28.11.22 | 43 – Commercial Governance Review | That a further report be submitted to a future meeting of this Committee post LGR.  | To be arranged post 1 April 2023.                                 | x         |
| 28.11.22 | 44 – Programme of Work 2022/23    | That the Committee's Programme of Work be approved, subject to revised arrangements being made for submission of CIPFA's Financial Management Code to a future meeting of the Committee | Report being worked upon and will be scheduled for the AC agenda. | x         |

### 3.0 TREASURY MANAGEMENT

3.1 The Bank of England have continued to increase interest rates, with rates increased from 3.5% in December to 4.0% in February.

Following these interest rate rises, the County Council's Treasury Advisors, Link, revised their own Interest Rate forecasts on the 19 December 2022 and, again, 7 February 2023. It is now forecast that further increases will be made throughout the

rest of the financial year, peaking at 4.5% in June 2023 (previously 5% in March 2023) when rates are then expected to gradually fall to 2.5% by September 2025.

**4.0 RECOMMENDATION**

4.1 That the Committee considers whether any further follow-up action is required on any of the matters referred to in this report.

GARY FIELDING  
Corporate Director – Strategic Resources

BARRY KHAN  
Assistant Chief Executive  
(Legal and Democratic Services)

County Hall  
NORTHALLERTON

20 March 2023

**Background Documents:** Report to, and Minutes of, Audit Committee meetings held on 28 November 2022

## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

20 MARCH 2023

### TREASURY MANAGEMENT STRATEGY

#### Report of the Corporate Director – Strategic Resources

#### 1.0 PURPOSE OF THE REPORT

1.1 To review the 2023/24 Treasury Management Strategy

2.0 In its scrutiny role of the County Council's Treasury Management policies, strategies and day-to-day activities, the Audit Committee receives regular Treasury Management reports. These reports provide Audit Committee Members with details of the latest Treasury Management developments, both at a local and national level and enable them to review Treasury Management arrangements and consider whether they wish to make any recommendations to the Executive.

2.1 As the County Council is required to approve an up to date Annual Treasury Management before the start of the new financial year, it is therefore not realistic for the Audit Committee to review this document in advance of its submission to Executive and the subsequent consideration by County Council on 22 February 2023.

2.2 As in recent years it is therefore proposed that the Treasury Management Strategy 2023/24 (Annex1) is submitted for review by the Audit Committee on 20 March 2023. Any resulting proposals for change would then be considered at a subsequent meeting of the Executive. If any such proposals were accepted and required a change to the (by then) recently approved Strategy document the Executive would submit a revised document to the County Council at its meeting on 17 May 2023.

#### 3.0 RECOMMENDATION

3.1 That Members review the 2023/24 Treasury Management Strategy.

GARY FIELDING

Corporate Director – Strategic Resources

March 2023

## SECTION 1 - TREASURY MANAGEMENT STRATEGY 2023/24

### 1.1 Introduction and Context

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities. CIPFA defines treasury management as:

*“The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

## 1.2 Reporting Requirements

Reporting arrangements in place relating to Treasury Management activities are highlighted below:

### 1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The Council's Capital Strategy includes the requirements of the 2021 Treasury Management Code and Prudential code: -

1. the approach to investments for service or commercial purposes (non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;
2. an assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);
3. details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
4. limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
5. requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);
6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

This Capital Strategy [**Annex 2**] is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the

separation of the core treasury function under security, liquidity and yield principles, and the policy, service and commercial investments usually arising from expenditure on an asset.

Where the Council has borrowed to fund any non-treasury investment, there is be an explanation of why borrowing was required and why the DLUHC Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

### 1.2.2 Treasury Management Reporting

Quarterly reporting to members is now required under the 2021 Treasury Management Code, however it is not necessary to take these reports to full Council. The full Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a) **Prudential and Treasury Indicators and Treasury Strategy** (this report) –The first, and most important report is forward looking and covers:
  - the capital plans, (including prudential indicators);
  - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
  - the treasury management strategy, (how the investments borrowings are to be organised), including treasury indicators; and
  - an investment strategy, (the parameters on how investments are to be managed).
- b) **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, to comply with the 2021 revision of the CIPFA Treasury Code, the Executive will receive quarterly update reports including the Treasury Management Indicators and Prudential Indicators as part of the authority’s general revenue and capital monitoring.
- c) **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### 1.2.3 Scrutiny

Treasury Management reports are required to be adequately scrutinised before being recommended to the Council. The scrutiny role is undertaken by the Audit Committee.

### 1.3 Treasury Management Strategy 2023/24

The Treasury Management strategy for 2023/24 covers two main areas:

**a. Capital issues**

- the capital expenditure plans and the associated prudential indicators; and
- the Minimum Revenue Provision (MRP) policy.

**b. Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

### 1.4 Training

The CIPFA Treasury Management Code requires the Section 151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The revised TM Code introduces strengthened requirements for skills and training, and for investments which are not for specifically treasury management purposes i.e. non-treasury investments, where further detail is contained in the Capital Strategy.

The scale and nature of training requirements will depend on the size and complexity of the Council's treasury management needs. The Council will need to assess whether treasury management staff and members have the required knowledge and skills to undertake the roles and if those skills have been maintained and are up to date.

As a minimum, the Council will carry out the following to monitor and review knowledge and skills:

- record attendance at training and ensure action is taken where poor attendance is identified;
- prepare tailored learning plans for treasury management officers and board/council members;

- require treasury management officers and board/council members to undertake self-assessment against the required competencies set out in Treasury Management Practice (TMP) 10; and
- have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

Member training has been provided by Treasury Management Consultants, Link Group (Link) and further training will be provided as required. The training needs of treasury management officers are periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained and similarly, a formal record of the treasury management/capital finance training received by members

The Council maintains a “Knowledge and skills policy” within its Treasury Management Practices (TMPs). Specifically, TMP 10 includes the details of the competencies required for the core roles, a knowledge and skills schedule and details of how the council will monitor and review these skills and knowledge. This policy aims to ensure the effective acquisition and retention of treasury management skills for those responsible for the management, delivery, governance, decision-making and compliance with legislative requirements

## **1.5 Treasury Management Consultants**

The Council uses Link Group, as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.



## SECTION 2 - CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2024/25

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

| Capital expenditure | 2021/22<br>Actual<br>£k | 2022/23<br>Estimate<br>£k | 2023/24<br>Estimate<br>£k | 2024/25<br>Estimate<br>£k | 2025/26<br>Estimate<br>£k |
|---------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Non-HRA             | 305,521                 | 316,299                   | 96,075                    | 56,858                    | 39,933                    |
| HRA                 | 16,763                  | 35,308                    | 17,649                    | 14,505                    | 8,744                     |
| <b>Total</b>        | <b>322,284</b>          | <b>351,607</b>            | <b>113,724</b>            | <b>71,363</b>             | <b>48,677</b>             |

The capital expenditure plans exclude 'other long-term liabilities' such as PFI and leasing arrangements that already include their own borrowing facility. The Council's Capital Plans do not include any plans on "projects for yield" schemes and there is no intention to purchase commercial assets primarily for yield.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. A shortfall that results in a funding borrowing need - net financing need for the year - is indicated in years 2021/22 to 2023/24. Years 2024/25 and 2025/26 indicates that the capital plans have allocated financing that may not be required because as the net financing need is negative. This is due to reprofiling which will need to be realigned in future updates.

| Financing of capital expenditure       | 2021/22<br>Actual<br>£k | 2022/23<br>Estimate<br>£k | 2023/24<br>Estimate<br>£k | 2024/25<br>Estimate<br>£k | 2025/26<br>Estimate<br>£k |
|--|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Capital receipts                       | (23,121)                | (16,463)                  | (7,224)                   | (14,913)                  | (22,432)                  |
| Capital grants                         | (153,874)               | (194,637)                 | (71,342)                  | (48,457)                  | (22,130)                  |
| Capital reserves                       | (7,801)                 | 0                         | 0                         | 0                         | 0                         |
| Revenue                                | (39,323)                | (73,437)                  | (32,536)                  | (19,244)                  | (17,015)                  |
| <b>Net financing need for the year</b> | <b>98,165</b>           | <b>67,070</b>             | <b>2,622</b>              | <b>(11,251)</b>           | <b>(12,900)</b>           |

## 2.2 The Council's borrowing need - the Capital Financing Requirement (CFR)

The second prudential indicator is the Council's CFR. The CFR is the total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is a measure of the Council's indebtedness and so underlying borrowing need. Any capital expenditure above, which has not been financed through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life and charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has PFI and lease schemes within the CFR

The Council is asked to approve the CFR projections below:

|                                      | 2021/22<br>Actual<br>£k | 2022/23<br>Estimate<br>£k | 2023/24<br>Estimate<br>£k | 2024/25<br>Estimate<br>£k | 2025/26<br>Estimate<br>£k |
|--------------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| <b>Capital Financing Requirement</b> |                         |                           |                           |                           |                           |
| Non-HRA                              | 616,663                 | 664,963                   | 644,790                   | 612,648                   | 579,511                   |
| HRA                                  | 109,088                 | 109,088                   | 109,088                   | 109,088                   | 109,088                   |
| <b>Total CFR</b>                     | <b>725,751</b>          | <b>774,051</b>            | <b>753,878</b>            | <b>721,736</b>            | <b>688,599</b>            |
| <b>Movement in CFR</b>               |                         | <b>48,300</b>             | <b>(20,173)</b>           | <b>(32,142)</b>           | <b>(33,137)</b>           |

| <b>Movement in CFR represented by</b>      |  |               |                 |                 |                 |
|--|--|---------------|-----------------|-----------------|-----------------|
| Net financing need for the year            |  | 67,070        | 2,622           | (11,251)        | (12,900)        |
| Less MRP/VRP and other financing movements |  | (18,770)      | (22,795)        | (20,891)        | (20,237)        |
| <b>Movement in CFR</b>                     |  | <b>48,300</b> | <b>(20,173)</b> | <b>(32,142)</b> | <b>(33,137)</b> |

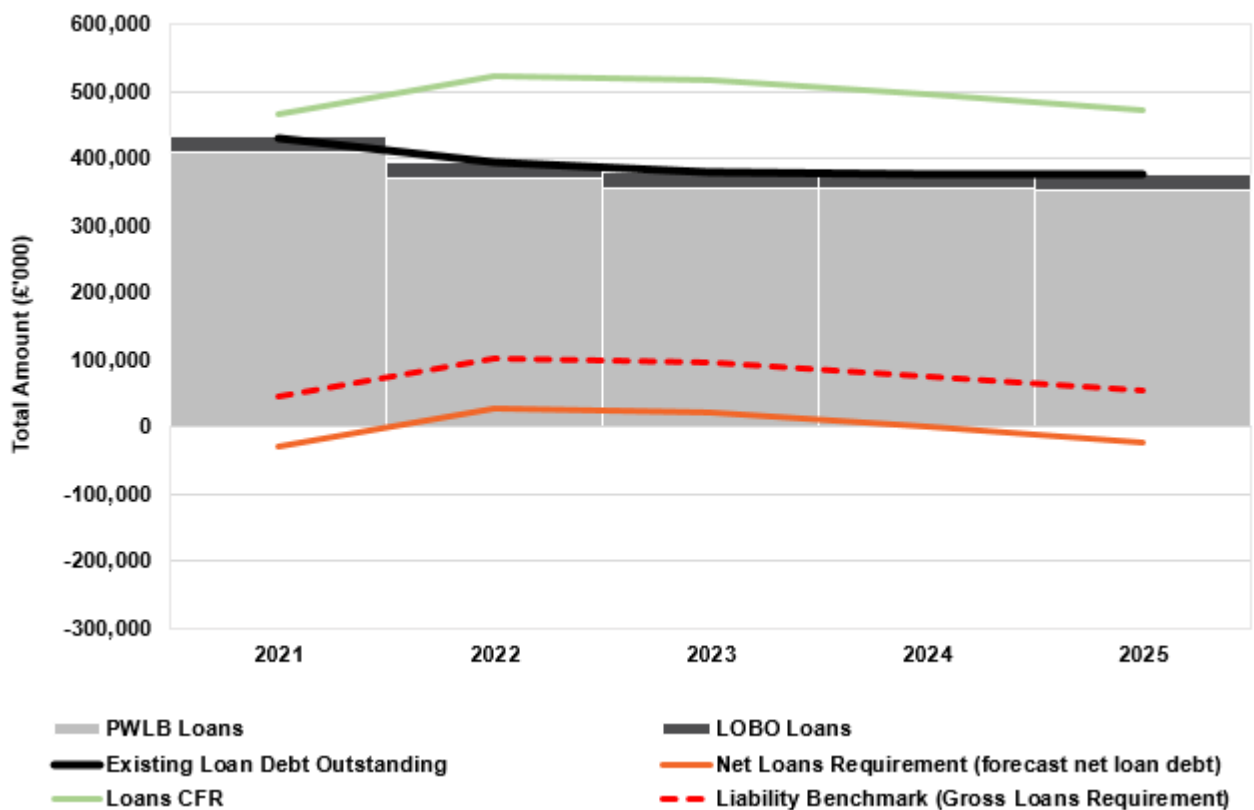
## 2.3 The Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum, where this Council has provided the full debt maturity profile out to 50+ years as recommended by CIPFA.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.

2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. With only approved prudential borrowing being included in the calculation, the Loans CFR will peak after four years where the other inputs are projected forward for 50 years+.
3. **Net loans requirement:** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance. The short-term liquidity allowance is an adequate (but not excessive) allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed due to short-term cash flow variations, for example.



The Liability benchmark is low due to the high level of investments in comparison to the actual borrowing position, indicating that there is no future borrowing requirement.

## 2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources

(asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

| <b>Year End Resources</b>     | <b>2021/22 Actual<br/>£k</b> | <b>2022/23 Estimate<br/>£k</b> | <b>2023/24 Estimate<br/>£k</b> | <b>2024/25 Estimate<br/>£k</b> | <b>2025/26 Estimate<br/>£k</b> |
|-------------------------------|------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Fund balances / reserves      | 539,842                      | 424,716                        | 386,389                        | 356,852                        | 356,852                        |
| Capital receipts              | 3,560                        | 16,463                         | 7,226                          | 14,913                         | 22,432                         |
| Provisions                    | 15,700                       | 20,000                         | 20,000                         | 20,000                         | 2,000                          |
| Other                         | 0                            | 0                              | 0                              | 0                              | 0                              |
| <b>Total core funds</b>       | <b>559,102</b>               | <b>461,179</b>                 | <b>413,615</b>                 | <b>391,765</b>                 | <b>381,284</b>                 |
| Working capital*              | 245,903                      | 245,000                        | 245,000                        | 245,000                        | 245,000                        |
| Under/over borrowing          | (181,631)                    | (248,910)                      | (234,412)                      | (208,069)                      | (190,835)                      |
| <b>Expected investments**</b> | <b>623,374</b>               | <b>457,269</b>                 | <b>424,203</b>                 | <b>428,696</b>                 | <b>435,449</b>                 |

\*Working capital balances shown are estimated year-end; these may be higher mid-year

\*\*In addition to the core funds balance detailed in the table there are additional resources from 'other bodies funds' which are not used to finance either capital expenditure or revenue budget decisions and have therefore been excluded. However, the cash received from the 'other bodies funds' is invested, is illustrated in paragraph 3.1 Current treasury position and is also included in the annual investment strategy limits

## 2.5 Minimum Revenue Provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge, known as Minimum Revenue provision (MRP). The Council is also allowed to undertake additional voluntary payments, the Voluntary Revenue provision (VRP), if required.

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance gives four ready-made options for calculating MRP, however the Authority can use any other reasonable basis that it can justify as prudent

The MRP policy statement requires Full Council approval in advance of each financial year. The Council is recommended to approve the following MRP Statement:

- a) For capital expenditure incurred before 1 April 2008 (known as supported borrowing), MRP will be based on 4% of the CFR at that date;
- b) From 1 April 2008 for all unsupported borrowing not covered by points c-f, the MRP policy will be;

**Asset life method** (option 3 of the statutory guidance) – MRP will be based on the estimated life of the assets using equal instalments of principal. In accordance with the regulations this option must also be applied for any expenditure capitalised under a Capitalisation Direction.

The asset life method provides for a reduction in the borrowing need over the asset's life.

- c) For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made each year (and the loan can be classified as service expenditure) the Council will not make MRP unless an actual or expected credit loss is recognised on any capital loan and then the MRP charge in the year will not be less than the loss amount. Where a shortfall is expected the S151 Officer will make an individual assessment on a prudent level of MRP to be made.
- d) For capital expenditure on investment / development properties, under the current Government proposed amendments, where loan repayments are received in year those capital receipts will be used to reduce the CFR in that year. However, where no capital receipt is received, or where no future capital receipts are anticipated, a prudent level of MRP will be charged based on the asset life method using equal instalments of principal
- e) For PFI schemes or finance leases, MRP will be charged at an amount equal to the principal element of the annual repayment.
- f) There is no requirement to make MRP for the HRA but there is a requirement for a charge for depreciation to be made. VRP can also be made to reduce outstanding debt in a shorter period.

**MRP Overpayments** - Under the MRP Guidance any charges made in excess of the statutory (MRP are known as VRP. VRP can, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed in future, this policy must disclose the cumulative overpayment made each year. Up until the 31.3.22 the total VRP overpayments were £42.2m, including £27.2m relating to the HRA.

## SECTION 3 - BORROWING

The capital expenditure plans set out in **Section 2** provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2022 and for the position as at 31 December 2022 are shown below for both borrowing and investments.

| TREASURY PORTFOLIO   |            |            |            |            |
|--|------------|------------|------------|------------|
|  | actual     | actual     | current    | current    |
|  | 31.3.22    | 31.3.22    | 31.12.22   | 31.12.22   |
| Treasury investments   | £m         | %          | £m         | %          |
| banks  | 530        | 81         | 395        | 66         |
| building societies   | 36         | 5          | 21         | 3          |
| local authorities  | 65         | 10         | 99         | 16         |
| money market funds   | 7          | 1          | 32         | 5          |
| other  | 2          | 0          | 43         | 7          |
| <b>Total managed in house</b>                                      | <b>640</b> | <b>98</b>  | <b>590</b> | <b>98</b>  |
| Total managed externally –<br>property funds                       | 16         | 2          | 11         | 2          |
| <b>Total Treasury Investments</b>                                  | <b>656</b> | <b>100</b> | <b>601</b> | <b>100</b> |
| Less other bodies funds  | -50        |            | -24        |            |
| <b>Total treasury investments<br/>excluding other bodies funds</b> | <b>606</b> |            | <b>577</b> |            |
| Treasury external borrowing  | £m         | %          | £m         | %          |
| PWLB   | 371        | 94         | 369        | 94         |
| LOBOs  | 24         | 6          | 24         | 6          |
| <b>Total external borrowing</b>                                    | <b>395</b> |            | <b>393</b> |            |
| <b>Net treasury investments /<br/>(borrowing)</b>                  | <b>211</b> |            | <b>184</b> |            |

The Council's current forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| Forward projections for borrowing  | 2021/22 Actual<br>£k | 2022/23 Estimate<br>£k | 2023/24 Estimate<br>£k | 2024/25 Estimate<br>£k | 2025/26 Estimate<br>£k |
|------------------------------------|----------------------|------------------------|------------------------|------------------------|------------------------|
| <b>External Debt</b>               |                      |                        |                        |                        |                        |
| Debt at 1 April                    | 431,957              | 394,689                | 379,300                | 377,713                | 376,084                |
| Expected change in Debt            | (37,268)             | (15,389)               | (1,588)                | (1,628)                | (11,670)               |
| Other long-term liabilities (OLTL) | 153,393              | 149,431                | 145,841                | 141,754                | 137,582                |
| Expected change in OLTL            | (3,962)              | (3,590)                | (4,087)                | (4,172)                | (4,232)                |
| Actual gross debt at 31 March      | <b>544,120</b>       | <b>525,141</b>         | <b>519,466</b>         | <b>513,667</b>         | <b>497,764</b>         |
| The CFR                            | 725,751              | 774,051                | 753,878                | 721,736                | 688,599                |
| Under / (over) borrowing           | <b>181,631</b>       | <b>248,910</b>         | <b>234,412</b>         | <b>208,069</b>         | <b>190,835</b>         |

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Corporate Director – Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

### 3.2 Treasury Indicators: limits to borrowing activity

**The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

| Operational boundary        | 2022/23 Estimate<br>£k | 2023/24 Estimate<br>£k | 2024/25 Estimate<br>£k | 2025/26 Estimate<br>£k |
|-----------------------------|------------------------|------------------------|------------------------|------------------------|
| Debt                        | 457,688                | 445,300                | 422,713                | 397,084                |
| Other long-term liabilities | 190,841                | 186,754                | 182,582                | 178,350                |
| Total                       | <b>648,529</b>         | <b>632,054</b>         | <b>605,295</b>         | <b>575,434</b>         |

**The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Council is asked to approve the following authorised limit:

| Authorised limit            | 2022/23<br>Estimate<br>£k | 2023/24<br>Estimate<br>£k | 2024/25<br>Estimate<br>£k | 2025/26<br>Estimate<br>£k |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Debt                        | 477,688                   | 465,300                   | 442,713                   | 417,084                   |
| Other long-term liabilities | 190,841                   | 186,754                   | 182,582                   | 178,350                   |
| <b>Total</b>                | <b>668,529</b>            | <b>652,054</b>            | <b>625,295</b>            | <b>595,434</b>            |

### 3.3 Prospects for interest rates

Link Group are the Councils treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table shows their view on future interest rates. Link provided the following forecasts on 19 December. These are forecasts for PWLB certainty rates.

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

The Link forecast for interest rates, updated on 19 December, reflects a view that the Monetary Policy Committee (MPC) are keen to address inflation through rate increases. Bank Rate is at 3.5% currently but is expected to reach a peak of 4.5% in the first six months of 2023. Link anticipate the Bank of England will then loosen monetary policy once the most significant inflationary pressures subside.

The CPI measure of inflation is expected to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living pressures, the Bank will continue to monitor wage inflation given a very tight labour market.

The plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening) has started and will focus on the short, medium and longer end of the curve in equal measure.

In the upcoming months, Link forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine and the heightened tensions between China/Taiwan/US (which also have the potential to have a wider and negative economic impact).



## **Public Works Loan Board (PWLB) Rates**

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

### **The balance of risks to the UK economy**

- The overall balance of risks to economic growth in the UK is to the downside.

### **Downside risks to current forecasts for UK gilt yields and PWLB rates include**

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- The Bank of England acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

### **Upside risks to current forecasts for UK gilt yields and PWLB rates**

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.
- The Government acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term US treasury yields rise strongly and push gilt yields up higher than currently forecast.
- Projected gilt issuance could be too much for the markets to comfortably digest without higher yields.

**Borrowing advice:** Links long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority to Local Authority monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

### Investment Rates

Link’s suggested budgeted earnings rates for investments up to about three months’ duration in each financial year are as follows:

| Average earnings in each year |       |
|-------------------------------|-------|
| 2022/23 (remainder)           | 4.00% |
| 2023/24                       | 4.40% |
| 2024/25                       | 3.30% |
| 2025/26                       | 2.60% |
| 2026/27                       | 2.50% |
| Years 6 to 10                 | 2.80% |
| Years 10+                     | 2.80% |

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. Link continue to monitor events and will update forecasts as and when appropriate.

### 3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, the CFR, has not been fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy (Bank Rate increases over the remainder of 2022 and the first half of 2023).

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Corporate Director – Strategic Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.*

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

In order to align with the revised 2021 Treasury Management Code, the Council will consider the need for further borrowing against short term investments, the cash flow forecast and the liquidity requirements of the Council. Where the investment portfolio can sufficiently provide an appropriate level of liquidity without exposing the Council to undue liquidity risk then a policy of avoiding/delaying new borrowing will be deployed.

This will run down cash balances and avoid the 'cost of carry' – any borrowing undertaken that results in a temporary increase in investments will usually incur a revenue loss between borrowing costs and investment returns. However, liquidity forecasts need to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

To comply with the revised Treasury Management Code, liquidity risk management is considered where 'This organisation will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the organisation'

Any decisions will be reported to the Executive and Audit Committee at the next available opportunity.

### **3.5 Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated, there is a clear business case for doing so and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### **3.6 Debt rescheduling**

Rescheduling of current borrowing in the debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

However, given the current forecasts for the future interest rates this will be kept under review and if rescheduling is done, it will be reported to the Executive and Audit Committee as part of the quarterly Treasury Management Reports following its action.

### **3.7 New financial institutions as a source of borrowing and / or types of borrowing**

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities - primarily shorter dated maturities out to 3 years are generally still cheaper than the Certainty Rate.
- Financial institutions - primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty in the short term.

Any consideration of alternative sources of funding, other than those highlighted above, will only be undertaken in conjunction with treasury advisors, Link.

## SECTION 4 - ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (**ANNEX 2**).

The Council’s investment policy has regard to the following: -

- DLUHC’s Guidance on Local Government Investments (“the Guidance”);
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”); and
- CIPFA Treasury Management Guidance Notes 2021.

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council’s risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- a) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- b) **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
- c) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- d) The Council has defined the list of types of investment instruments that the treasury management team are authorised to use.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods in more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.
- e) **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.
  - f) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in **(paragraph 4.2)**.
  - g) **Transaction limits** are set for each type of investment in through applying the matrix table in **paragraph 4.2**.
  - h) The Council will set a limit for the amount of its investments which are invested for **longer than 365 days (paragraph 4.4)**,
  - i) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating, (paragraph 4.3)**
  - j) The Council has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.
  - k) All investments will be denominated in **sterling**.
  - l) The change in accounting standards under IFRS 9, has resulted in this authority considering the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the Ministry of Housing Communities and Local Government (now DLUHC), concluded a consultation by announcing statutory override to delay implementation of IFRS 9 for five years to 31 March 2023 to allow English local authorities time to adjust their portfolio of all pooled investment instruments. DLUHC launched an 8-week consultation on the future of the IFRS 9 statutory override from 11 August to 7 October 2022 with the aim of this consultation being to collect the views of authorities and other stakeholders, and to collect additional information needed to understand the financial risks associated with both continuing the statutory override or allowing reversion to the Code of practice on local authority accounting. The department has now considered the responses to the consultation and Ministers have decided to extend the existing IFRS 9 statutory accounting override for a further 2 years until 31 March 2025.

However, the Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

### **Changes in risk management policy from last year**

The above criteria are for the new unitary North Yorkshire Council. The risk management policy is broadly in line with the North Yorkshire County Council policy which was unchanged from the previous year.

## **4.2 Creditworthiness policy**

The Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- “watches” and “outlooks” from credit rating agencies;
- CDS spreads that may give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

The Link Group creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preference to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Group creditworthiness service.

If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap (CDS) spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Group. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.

### **Creditworthiness**

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the pandemic in March 2020. In the main, where they did change, any alterations were limited to Outlooks.. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of recent government policy. Although markets have calmed more recently, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

### **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards in the last 6 months, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information.

### **Environmental, social and governance (ESG)**

This is a developing area, and for the purpose of the Council's treasury investments the Council's ESG policies and the environmental and climate change policy, will have a trickle-down effect into Treasury Management activity. Investments will still comply with SLY, Security, Liquidity, Yield requirements in the first instance. Treasury Management Practice 1 – Risk Management – has been expanded to include a high-level reference to ESG aspects of Treasury Management where creditworthiness and counterparty policies are in place to mitigate investment risk where the ESG risks are also incorporated.

## **4.3 Other Limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- a) Non-specified treasury management investment limit. The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £60m, being approximately 10% of the total treasury management investment portfolio.
- a) Country limit. The Council has determined that, for counterparties outside the UK, it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix D. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- b) **Countries / Groups / Sector limits.** In addition
  - Limits in place will apply to a group of companies/institutions
  - Sector limits will be monitored regularly for appropriateness



#### 4.4 Investment strategy

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

**Investment returns expectations.** The current interest rate forecast assumes interest rates will continue to raise until June 2023, with the first fall expected March 2024.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

| Average earnings in each year |       |
|-------------------------------|-------|
| 2022/23 (remainder)           | 4.00% |
| 2023/24                       | 4.40% |
| 2024/25                       | 3.30% |
| 2025/26                       | 2.60% |
| 2026/27                       | 2.50% |
| Years 6 to 10                 | 2.80% |
| Years 10+                     | 2.80% |

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances (cash required for liquidity purposes), the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days) to benefit from the compounding of interest.

**Change of investment strategy** - Although the Council's investment strategy is new, the approach is consistent with the prior year investment strategies of the previous individual councils weighted towards the largest investment portfolios.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

| <b>Upper limit for principal sums invested for longer than 365 days</b>       |                |                |                |
|---|----------------|----------------|----------------|
|   | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> |
|   | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      |
| Principal sums invested for longer than 365 days                              | 60             | 60             | 60             |
| Current investments as at 31.03.222 in excess of 1 year maturing in each year | 0              | 0              | 0              |

### **Investment performance / risk benchmarking**

This Council will use investment benchmarks to assess the investment portfolio performance for internally and externally managed funds.

**Internal investment portfolio** - The SONIA (Sterling Overnight Index Average) rate will be used to compare the yield on the internal investments portfolio. The measure is used to demonstrate the performance of the organisation. SONIA is the rate published each day by the Bank of England and reflects overnight rates paid on eligible sterling denominated deposit transactions conducted the previous day. The backward looking average 7 day compound rate will be used over a quarter for comparison with the actual portfolio.

It is important to understand that the benchmark has changed from previous years as the 7-day LIBID rate is no longer published by the Bank of England. This benchmark is an active benchmark as it reflects the movement of the market. Using the backward-looking SONIA rates data reflects the environment in which investments are made.

This benchmark is a simple guide to maximum risk, so could be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmark will be reported, with supporting reasons in the quarterly monitoring reports.

**Yield** - the Council has adopted to measure the internal investment portfolio yield compared to the industry benchmark rates

- **Average Investment return against the backward looking 7-day SONIA compound rate**

**External investment portfolio** - The performance of externally managed funds will be benchmarked against an appropriate published index depending on the fund type as described in section below.

## **4.6 External Fund Managers**

The Council has £16.3m externally managed investments on a pooled basis across the following funds:-

- Blackrock UK Property Fund

- Threadneedle Property Unit Trust
- Fidelity UK Real Estate Fund
- Federated Hermes Property Unit Trust

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The Council fully appreciates the importance of monitoring the activity and performance of its appointed external fund manager and to aid this assessment, the Council is provided with a suite of regular reports.

In addition to formal reports, the Council also meets with representatives of the fund manager. These meetings allow for additional scrutiny of the manager's activity, discussions on the outlook for the fund(s) as well as the wider markets.

#### **4.7 End of year investment report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## **5 APPENDICES**

- A. Prudential and treasury indicators
- B. Treasury management practice 1 – credit and counterparty risk management
- C. Approved Lending List
- D. Approved sources of long and short term borrowing
- E. Approved countries for investments
- F. Treasury management scheme of delegation
- G. The treasury management role of the section 151 officer

## THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### Capital expenditure

This indicator shows a breakdown of planned capital expenditure by service. If there were any capital expenditure plans defined as projects for yield (would be a capital investment made wholly or mainly to generate financial return) these would be shown in a separate line.

| Capital expenditure                 | 2021/22<br>Actual | 2022/23<br>Estimate | 2023/24<br>Estimate | 2024/25<br>Estimate | 2025/26<br>Estimate |
|-------------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Children and Young People's Service | 24,523            | 49,683              | 16,625              | 5,100               | 16,238              |
| Health and Adult Services           | 1,778             | 5,144               | 1,115               | 115                 | 8,111               |
| Resources                           | 40,174            | 66,669              | 16,680              | 9,278               | 10,089              |
| Community Development               | 111,109           | 71,050              | 9,066               | 1,235               | 2,975               |
| Environment                         | 113,322           | 123,254             | 52,524              | 40,725              | 2,265               |
| Local Engagement                    | 14,615            | 499                 | 65                  | 405                 | 255                 |
| <b>Non-HRA</b>                      | <b>305,521</b>    | <b>316,299</b>      | <b>96,075</b>       | <b>56,858</b>       | <b>39,933</b>       |
| HRA                                 | 16,763            | 35,308              | 17,649              | 14,505              | 8,744               |
| <b>Total</b>                        | <b>322,284</b>    | <b>351,607</b>      | <b>113,724</b>      | <b>71,363</b>       | <b>48,677</b>       |

### Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

#### a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

| %       | 2021/22<br>Actual | 2022/23<br>Estimate | 2023/24<br>Estimate | 2024/25<br>Estimate | 2025/26<br>Estimate |
|---------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Non-HRA | 9.5               | 4.6                 | 5.0                 | 4.5                 | 4.2                 |
| HRA     | 63.6              | 22.7                | 20.5                | 21.1                | 20.6                |

**b. HRA debt ratios**

|                             | <b>2021/22<br/>Actual</b> | <b>2022/23<br/>Estimate</b> | <b>2023/24<br/>Estimate</b> | <b>2024/25<br/>Estimate</b> | <b>2025/26<br/>Estimate</b> |
|-----------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| HRA debt £m                 | 101.8                     | 100.7                       | 99.5                        | 98.4                        | 97.1                        |
| HRA revenues £m             | 38.6                      | 38.3                        | 40.8                        | 41.4                        | 42.7                        |
| Ratio of debt to revenues % | 2.6                       | 2.6                         | 2.4                         | 2.4                         | 2.3                         |

|                         | <b>2021/22<br/>Actual</b> | <b>2022/23<br/>Estimate</b> | <b>2023/24<br/>Estimate</b> | <b>2024/25<br/>Estimate</b> | <b>2025/26<br/>Estimate</b> |
|-------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| HRA debt £m             | 101.8                     | 100.7                       | 99.5                        | 98.4                        | 97.1                        |
| Number of HRA dwellings | 8,350                     | 8,332                       | 8,312                       | 8,284                       | 8,256                       |
| Debt per dwelling £k    | 12.2                      | 12.1                        | 12.0                        | 11.9                        | 11.8                        |

**Maturity structure of borrowing**

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

| <b>Maturity structure of borrowing 2022/23</b> |              |              |
|--|--------------|--------------|
|  | <b>Lower</b> | <b>Upper</b> |
| Under 12 months                                | 0%           | 15%          |
| 12 months to 2 years                           | 0%           | 15%          |
| 2 years to 5 years                             | 0%           | 15%          |
| 5 years to 10 years                            | 0%           | 25%          |
| 10 years to 20 years                           | 0%           | 25%          |
| 20 years to 30 years                           | 0%           | 45%          |
| 30 years to 40 years                           | 0%           | 45%          |
| 40 years and above                             | 0%           | 45%          |

## TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

This appendix should be used in conjunction with sections 4.2 Creditworthiness policy and 4.3 Other limits.

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. A maximum of 20% will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

### SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ rating criteria where applicable)

|   | Minimum ‘High’ Credit Criteria | Use      |
|---|--------------------------------|----------|
| Debt Management Agency Deposit Facility         | --                             | In-house |
| Term deposits – local authorities               | --                             | In-house |
| Term deposits – banks and building societies ** | Colour Band Green              | In-house |

### Term deposits with nationalised banks and banks and building societies

|                            | Minimum Credit Criteria | Use      |
|----------------------------|-------------------------|----------|
| UK part nationalised banks | Colour Band Blue        | In-house |

### Other specified investments

|   | Minimum 'High' Credit Criteria | Use                                     |
|---|--------------------------------|---|
| UK Government Gilts   | UK sovereign rating            | In-house buy and hold and Fund Managers |
| Bonds issued by multilateral development banks  | AA or Government backed        | In-house buy and hold and Fund Managers |
| Bonds issued by a financial institution which is explicitly guaranteed by the UK Government e.g., National Rail | AA or Government backed        | In-house buy and hold and Fund Managers |
| Treasury Bills  | UK sovereign rating            | In house and Fund Managers              |

### Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs): -

|                                | Minimum 'High' Credit Criteria       | Use                        |
|--------------------------------|--------------------------------------|----------------------------|
| 1a. Money Market Funds (CNAV)  | Funds must be AAA rated (MMF rating) | In-house and Fund Managers |
| 1b. Money Market Funds (LVNAV) | Funds must be AAA rated (MMF rating) | In-house and Fund Managers |
| 1c. Money Market Funds (VNAV)  | Funds must be AAA rated (MMF rating) | In-house and Fund Managers |

**Accounting treatment of investments** - The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.



**NON-SPECIFIED INVESTMENTS: A maximum of £60m will be held in aggregate in non-specified investment**

|  | <b>Minimum Credit Criteria</b>                         | <b>Use</b>   | <b>Maximum investments</b> | <b>Maximum maturity period</b> |
|--|--|--|----------------------------|--------------------------------|
| Term deposits – local authorities with maturities greater than 1 year                              | --   | In-house   | £60m                       | 5 yrs                          |
| Term deposits – banks and building societies with maturities greater than 1 year                   | Colour band Purple                                     | In-house   | £60m                       | 5 yrs                          |
| Certificates of deposit issued by banks and building societies with maturities greater than 1 year | Colour band Purple                                     | In-house   | £60m                       | 5 yrs                          |
| Certificates of deposit issued by banks and building societies with maturities greater than 1 year | Short-term F1, Long-term A- (Fitch or equivalent)      | Fund Managers  | £60m                       | 5 yrs                          |
| Collateralised deposits  | UK sovereign rating                                    | In-house   | £60m                       | 5 yrs                          |
| UK Government Gilts with maturities greater than 1 year  | UK sovereign rating                                    | In-house and Fund Managers                                   | £60m                       | 5 yrs                          |
| Bonds issued by multilateral development banks with maturities greater than 1 year                 | AA or Government backed                                | In-house and Fund Managers                                   | £60m                       | 5 yrs                          |
| <b>Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)</b>         |  |  |                            |                                |
| Property Funds   | Organisations assessed as having “high credit quality” | In-house after consultation with Treasury Management Advisor | £60m                       | 10 yrs                         |

## APPROVED LENDING LIST 2023/24

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

|  | Country | Specified Investments |              | Non-Specified        |              |
|--|---------|-----------------------|--------------|----------------------|--------------|
|  |         | Total Exposure<br>£m  | Time Limit * | Total Exposure<br>£m | Time Limit * |
| <b>UK "Nationalised" banks / UK banks with UK Central Government involvement</b> |         |                       |              |                      |              |
| Royal Bank of Scotland PLC (RFB)   | GBR     | 90.0                  | 365 days     | -                    | -            |
| National Westminster Bank PLC (RFB)  | GBR     |                       |              |                      |              |
| <b>UK "Clearing Banks", other UK based banks and Building Societies</b>          |         |                       |              |                      |              |
| Santander UK PLC (includes Cater Allen)  | GBR     | 80.0                  | 6 months     | -                    | -            |
| Barclays Bank PLC (NRFB)   | GBR     | 90.0                  | 6 months     | -                    | -            |
| Barclays Bank UK PLC (RFB)   | GBR     |                       |              |                      |              |
| Bank of Scotland PLC (RFB)   | GBR     | 80.0                  | 6 months     | -                    | -            |
| Lloyds Bank PLC (RFB)  | GBR     |                       |              |                      |              |
| Lloyds Bank Corporate Markets PLC (NRFB)   | GBR     |                       |              |                      |              |
| Goldman Sachs International Bank   | GBR     | 80.0                  | 6 months     | -                    | -            |
| Sumitomo Mitsui  | GBR     | 80.0                  | 6 months     | -                    | -            |
| Standard Chartered Bank  | GBR     | 80.0                  | 6 months     | -                    | -            |
| Handelsbanken  | GBR     | 80.0                  | 365 days     | -                    | -            |
| Nationwide Building Society  | GBR     | 40.0                  | 6 months     | -                    | -            |
| Leeds Building Society   | GBR     | 40.0                  | 100 Day      | -                    | -            |
| Coventry Building Society  | GBR     | 40.0                  | 6 months     | -                    | -            |
| <b>High Quality Foreign Banks</b>  |         |                       |              |                      |              |
| National Australia Bank  | AUS     | 40.0                  | 365 days     | -                    | -            |
| Credit Industriel et Commercial  | FRA     | 40.0                  | 365 days     | -                    | -            |
| Landesbank Hessen-Thuringen Girozentrale (Helaba)                                | GER     | 40.0                  | 365 days     | -                    | -            |
| DBS (Singapore)  | SING    | 40.0                  | 365 days     | -                    | -            |
| Bayerische Landesbank  | GER     | 40.0                  | 6 months     | -                    | -            |
| National Bank of Canada  | CAN     | 40.0                  | 6 months     | -                    | -            |
| <b>Local Authorities</b>   |         |                       |              |                      |              |
| County / Unitary / Metropolitan / District Councils                              |         | 30.0                  | 365 days     | 5.0                  | 5 years      |
| Police / Fire Authorities  |         | 30.0                  | 365 days     | 5.0                  | 5 years      |
| National Park Authorities  |         | 30.0                  | 365 days     | 5.0                  | 5 years      |
| <b>Other Deposit Takers</b>  |         |                       |              |                      |              |
| Money Market Funds   |         | 40.0                  | n/a - liquid | -                    | -            |
| Property Funds   |         | 5.0                   | not listed   | 5.0                  | 10 years     |
| UK Debt Management Account   |         | 150.0                 | 365 days     | -                    | -            |

**APPROVED SOURCES OF LONG TERM AND SHORT TERM BORROWING**

The approved sources and types of funding are shown below.

| <b>On Balance Sheet</b>                        | <b>Fixed</b> | <b>Variable</b> |
|--|--------------|-----------------|
| PWLB   | ●            | ●               |
| Municipal bond agency                          | ●            | ●               |
| Local authorities                              | ●            | ●               |
| Banks  | ●            | ●               |
| Pension Funds                                  | ●            | ●               |
| Insurance companies                            | ●            | ●               |
| UK Infrastructure Bank                         | ●            | ●               |
| Market (long-term)                             | ●            | ●               |
| Market (temporary)                             | ●            | ●               |
| Market (LOBOs)                                 | ●            | ●               |
| Stock issues                                   | ●            | ●               |
| Local temporary                                | ●            | ●               |
| Local Bonds                                    | ●            | ●               |
| Local authority bills                          | ●            | ●               |
| Overdraft                                      | ●            | ●               |
| Negotiable Bonds                               | ●            | ●               |
| Internal (capital receipts & revenue balances) | ●            | ●               |
| Commercial Paper                               | ●            |                 |
| Medium Term Notes                              | ●            |                 |
| Finance leases                                 | ●            | ●               |

## APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

### *Based on lowest available rating*

#### **AAA**

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

#### **AA+**

- Canada
- Finland
- U.S.A.

#### **AA**

- Abu Dhabi (UAE)
- France

#### **AA-**

- Belgium
- Hong Kong
- Qatar
- **U.K.**

**TREASURY MANAGEMENT SCHEME OF DELEGATION**

**(i) Council**

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy.

**(ii) Executive**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- budget consideration and approval.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.
- approving the selection of external service providers and agreeing terms of appointment.

**(iii) Audit Committee**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive, and for the execution and administration of Treasury Management decisions to the Corporate Director - Resources, who will act in accordance with the Council's TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management. In addition, the Council delegates responsibility for the execution and administration of Treasury Management decisions to the Corporate Director - Resources, including any borrowing and debt rescheduling.

### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budgets variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit and liaising with external audit.
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.*
  - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.*
  - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.*
  - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

## CAPITAL STRATEGY

### 1.0 INTRODUCTION

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) in 2021 revised the Prudential Code and Treasury Management Code which require local authorities to produce a Capital Strategy to demonstrate that capital expenditure and investment decisions contribute to the delivery of North Yorkshire Council's plans and provisions of services whilst taking account of stewardship, value for money, prudence, sustainability, proportionality and affordability. This requirement was first introduced in 2018/19.
- 1.2 The purpose of the Capital Strategy is to set out how the Council proposes to deploy its capital resources effectively to achieve its corporate and service objectives. The Capital Strategy takes into account other relevant Council strategies and, policies as well as the views of partners and interested parties with whom the Council is involved. The resources which are forecast to be available to fund capital investment and the effect of that investment on the Council's revenue budget are also considered. The Capital Strategy will serve as a useful point of reference when determining or reviewing the Council's Capital Five Year Spending Plan (known as the Capital Plan).
- 1.3 **Re-organisation** - As background, under Government proposals, the North Yorkshire (Structural Changes) Order 2022 was laid before Parliament in January 2022. The Order sets out plans for the reorganisation of local government in the County of North Yorkshire where all services will be provided from 1 April 2023 by a single unitary council, North Yorkshire Council. The Council will replace North Yorkshire County Council (NYCC) and the seven District / Borough councils – Craven, Hambleton, Harrogate, Richmondshire, Ryedale, Scarborough and Selby – which will be abolished. The Capital Strategy for the new unitary council will come into effect as from 1 April 2023 for the financial year 2023/24.
- 1.4 **Scope and Reporting** - The Council has chosen to report the Capital Strategy separately from the Treasury Management Strategy Statement (TMSS). The Council will report treasury investments through the TMSS only and non-treasury investments will be reported through the Capital Strategy. This allows the core treasury investment reporting to focus on security, liquidity and yield principles, and the non-treasury investments, both service and commercial, to concentrate on capital expenditure in relation to assets.
- 1.5 **Our Vision** - We want to build on North Yorkshire's natural capital, strong local economy and resilient communities, to improve the way local services are delivered and support a good quality of life for all.

The Council is committed to seeking a better, fairer future for everyone, keeping services local and going even further. With more locally based staff and more local access points to Council services the community is provided with a bigger say in how these are delivered.

Along with savings and efficiencies, the new NYC provides an opportunity to apply our considerable combined asset base to facilitate local economic growth and regeneration and drive improved outcomes for residents, businesses and visitors to our area.



## 2.0 KEY AMBITIONS, OBJECTIVES AND PRIORITIES

2.1 The Council's ambitions, objectives and priorities are shown within the Council Plan the cornerstone of our policy framework. It provides the basis for all that we do and sets out the principles, priorities and ambitions for the Council and drives the many other plans and strategies including the Capital Strategy that supports informed decision making including establishing the need for capital investment and the required outcomes from that investment.

2.2 The Capital Strategy is key to support long term investment decision enabling the delivery of the Council's Ambition. It is a key strategy document and forms part of the Council's revenue, capital, balance sheet and reserves planning. It provides:

- A long-term view of capital expenditure plans and any financial risks to which the Council is exposed;
- Ensuring due regard to the long-term financing, affordability implications, potential risks and the implications for future financial sustainability.
- A clear overview of the Council's asset management planning arrangements, prioritisation process and monitoring.

## 3.0 EXTERNAL FACTORS AND PARTNER INFLUENCES

3.1 The Council's capital investment plans are influenced by a number of external parties and factors: central government and its agencies, legislation requirements for capital works, partner organisations, businesses, developers and by the needs and views of other interested parties, particularly those of the residents

3.2 **Government policy and funding** – The Government's focus on 'levelling up' the UK and the proposed devolution deals aim to unlock greater funding for York and North Yorkshire to lead on delivering outcomes

3.3 **Legislation and guidance** - In 2004, local authorities were provided with the flexibility to make their own capital investment decisions. Legislation, guidance and professional codes of practice were introduced to support decision making and ensure investment and borrowing is prudent, sustainable and affordable. The Council has complied with these principles since their introduction and subsequent updates. The Prudential Code and Treasury Management Code were revised in December 2021 primarily in response to concerns regarding commercial investment undertaken solely for financial yield.

- Updated and additional prudential indicators, monitoring, reporting as well as creation of Investment Management Practices for Service and Commercial investments.
- Confirmation of approach to 'Proportionality' and risk to service delivery where borrowing is undertaken primarily to generate a financial return.
- Setting out an approach for the inclusion of Environmental, Social and Governance issues in developing capital investment.
- Reviewing existing commercial or service investments to divest where appropriate.

- A Council must not borrow to invest primarily for financial return applies with immediate effect, with the loss of borrowing ability from the PWLB being an immediate consequence.

3.4 Local stakeholders - The Council works with a wide range of partners from the public, private, voluntary and community sectors, including a new combined authority from April 2024, all of which have an influence over its spending priorities. Relationships with partners, including those concerning capital matters, will be governed by the Council's Local Code of Corporate Governance and the Partnership Governance guidance.

Wherever possible the Council will seek to work in partnership with others to deliver its capital investment programme in order to provide facilities which meet its own and partners' needs. When working with the private sector, the objective will be to maximise the benefits to the Council and the community from any projects, both in terms of outputs and in relation to obtaining funding for the project.

The Council has a key role in the Local Enterprise Partnership's (LEP).

The Council is also joint shareholders in Yorwaste (waste management company) and partners in the public private partnership of the Allerton Park Waste Recovery Plant

#### 4.0 INTERNAL STRATEGIC INFLUENCES

4.1 The Council's capital investment plans are influenced by a number of factors: the corporate ambitions within the Council Plan, existing commitments on revenue and funding resources, other Council policies, strategies and plans that comply with financial regulations and legislation.

4.2 **Council priorities** - The Council Plan has five corporate ambitions which will guide the development of the Capital Five Year Spending Plan. Capital investment expenditure including non-treasury investment projects are in line with these overall objectives as well as individual service aims. The Council's ambitions for North Yorkshire are:

##### **Place and Environment**

- A clean, environmentally sustainable and attractive place to live, work and visit
- A well connected and planned place with good transport links and digital connectivity
- Communities are supported and work together to improve their local area
- Good quality, affordable and sustainable housing that meets the needs of our communities

##### **Economy**

- Economically sustainable growth that enables people and places to prosper
- Culture, heritage, arts and sustainable tourism all play their part in the economic growth of the county
- New and existing businesses can thrive and grow
- North Yorkshire has a high profile, is influential nationally and receives its fair share of resources

## **Health and Wellbeing**

- People are supported to have a good quality of life and enjoy active and healthy lifestyles
- Reduced variations in health through tackling the root causes of inequality
- In times of hardship, support is provided to those that need it most
- People can access good public health services and social care across our different communities

## **People**

- People are free from harm and feel safe and protected
- People can achieve their full potential through lifelong education and learning
- Vulnerable people are supported by strengthening families or other appropriate networks
- People have control and choice in relation to their independence and social care support

## **Organisation**

- Good quality, value for money services that are customer focused and accessible to all
- A well-led and managed, financially sustainable and forward- thinking council
- A diverse and inclusive council, where employees are supported and valued
- A carbon neutral council

**4.3 Other Council strategies and plans driving investment** - Capital Schemes must comply with other Council policies, strategies and, as well as contract procedure rules, financial regulations and with legislation, such as the Disability Discrimination Act. Important linking documents will include:

- Council's Constitution including Contract and Financial Procedure Rules
- Council Plan
- Medium Term Financial Strategy
- Capital Plan
- Treasury Management Strategy Statement
- Individual Service Plans

## **5.0 CAPITAL INVESTMENT PLAN AND PLANNING PROCESS**

**5.1 Capital expenditure plans** - The Council's strategies and plans support the need for capital investment to enable required outcomes. The Council has a responsibility to apply an affordable, prudent and sustainable approach to that investment, as set out in the Prudential Code and therefore uses the prioritisation and planning process to manage this as described above. A summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the budget are integral to the capital strategy.

| <b>Capital expenditure<br/>£m</b>   | <b>2021/22<br/>Estimate</b> | <b>2022/23<br/>Estimate</b> | <b>2023/24<br/>Estimate</b> | <b>2024/25<br/>Estimate</b> | <b>2025/26<br/>Estimate</b> |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Children and Young People's Service | 24,523                      | 49,683                      | 16,625                      | 5,100                       | 16,238                      |
| Health and Adult Services           | 1,778                       | 5,144                       | 1,115                       | 115                         | 8,111                       |
| Resources                           | 40,174                      | 66,669                      | 16,680                      | 9,278                       | 10,089                      |
| Community Development               | 111,109                     | 71,050                      | 9,066                       | 1,235                       | 2,975                       |
| Environment                         | 113,322                     | 123,254                     | 52,524                      | 40,725                      | 2,265                       |
| Local Engagement                    | 14,615                      | 499                         | 65                          | 405                         | 255                         |
| <b>Non-HRA</b>                      | <b>305,521</b>              | <b>316,299</b>              | <b>96,075</b>               | <b>56,858</b>               | <b>39,933</b>               |
| HRA                                 | 16,763                      | 35,308                      | 17,649                      | 14,505                      | 8,744                       |
| <b>Total</b>                        | <b>322,284</b>              | <b>351,607</b>              | <b>113,724</b>              | <b>71,363</b>               | <b>48,677</b>               |

5.2 **Capital expenditure in non-treasury investments** can be for a service or a commercial purpose. To meet service or Council obligations capital investment could be in the form of loans or equity provided to external bodies, Council subsidiaries or joint ventures. In order to retain access to borrowing from the PWLB the Council is required to certify the capitals plans do not include expenditure on new non-treasury commercial investments primarily for financial return. However, where the capital spending decision is primarily related to the function of the Council and any financial returns are incidental then access is retained.

The Council will annually evaluate whether any of the commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt. The Council's Capital Plans do not include any estimates to purchase any treasury commercial assets primarily for yield.

The Council continues to review potential commercial investments but will now consider any potential investment opportunities alongside the implications for PWLB borrowing going forward.

All alternative investment activities are subject to approval in accordance with the Council's governance framework for decision making and given the technical nature of potential alternative investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision-making arrangements are in place. The Commercial Investment Board has been established to ensure robust due diligence in order to make recommendations for implementation.

The Council recognises that achieving its capital ambitions will require consideration of alternative delivery structures and of all forms of funding including additional borrowing. Financial austerity has had a significant impact on affordability, however capital investment funded by borrowing will be undertaken in priority areas to meet capital ambitions if required, subject to at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by a robust capital planning process, due diligence, business cases, risk management and monitoring.

5.3 **Available Resources** – The Council has several funding streams available to support capital investment. The funding of the five-year capital investment programme is detailed in the Capital spending plan which highlights unallocated funding that might become available.

The Council policies in relation to financing capital expenditure and investment are covered in this section and are listed in the table below:

|                             |  |
|-----------------------------|--|
| External funding            | <ul style="list-style-type: none"> <li>• Services should seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, services will be expected to underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and costs exceed the available funding, then services will be expected to fund any shortfall from existing resources (either revenue or capital).</li> <li>• Prior to submitting bids for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed</li> <li>• In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets prior to submitting any bid for funding</li> </ul> |
| Capital receipts            | <ul style="list-style-type: none"> <li>• A capital receipt is an amount of money received from the sale of an asset. It cannot be spent on revenue items.</li> <li>• Capital Receipts Group review the Council’s property quarterly against the aims and objectives the Council Plan and Asset Management Strategy.</li> <li>• The general policy is that any capital receipts are pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from borrowing, as permitted by the regulations.</li> </ul>  |
| Revenue and reserve funding | <ul style="list-style-type: none"> <li>• Services may use their revenue budgets to fund capital expenditure.</li> <li>• Directors in conjunction with the Corporate Director - Resources (S151 Officer) will take an overview and decide the most appropriate way of funding capital expenditure</li> </ul>  |
| Prudential borrowing        | <ul style="list-style-type: none"> <li>• Local authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the</li> </ul>   |

|                                   |  |
|-----------------------------------|--|
|                                   | <p>Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.</p> <ul style="list-style-type: none"> <li>• Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The costs of borrowing must be affordable and the borrowing repayment and interest charges on the loan must be included in the Council revenue budget; it must also be factored into the medium-term financial strategy accordingly.</li> <li>• The Corporate Director - Resources (S151 Officer) will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code.</li> <li>• The Corporate Director - Resources (S151 Officer) will also determine whether the borrowing should be from internal resources such as reserves or whether to enter into external borrowing</li> </ul> |
| Leasing                           | <ul style="list-style-type: none"> <li>• The Corporate Director - Resources (S151 Officer) may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Corporate Director - Resources (S151 Officer) must be certain that leasing provides the best value for money method of funding the scheme.</li> <li>• Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the Council's borrowing</li> </ul>   |
| Other long term liabilities - PFI | <ul style="list-style-type: none"> <li>• The Corporate Director - Resources (S151 Officer) may enter into PFI agreements on behalf of services. These will be considered following due diligence over the life of the asset, balancing the financial and non-financial benefits against the risks compared to the Council owning and delivering such assets and services itself. The Corporate Director - Resources (S151 Officer) must be certain that the PFI arrangement provides the best value for money method of delivering the scheme</li> <li>• Under the Prudential Code PFI obligations are counted against the overall borrowing levels when looking at the prudence of the Council's borrowing.</li> </ul>  |

5.4 **Borrowing and the CFR** – where resources are unavailable to fund capital expenditure, borrowing will be used. This will increase what is termed the Council's Capital Financing Requirement (CFR) which is the Council's underlying need to borrow. The Council is required to make a prudent provision for the repayment of historic capital expenditure from its revenue budget in line with its agreed Minimum Revenue Provision (MRP) policy.

This reduces the CFR and the prudent provision set aside is used to repay debt. The calculation of the CFR summarised in the diagram below results in the amount the Council will need to borrow:

| <b>Movement</b> | <b>Opening CFR</b>  |
|-----------------|---|
| <b>+</b>        | Capital expenditure incurred in year                                      |
| <b>-</b>        | Grants, contributions, reserves and receipts used for capital expenditure |
| <b>-</b>        | Prudent Minimum Revenue Provision and Voluntary Provision                 |
| <b>=</b>        | <b>Closing CFR</b>  |

The amount of borrowing a Council can take is determined by what the Council can afford, along with ensuring it is prudent and sustainable. In accordance with the Prudential Code, the Council will only make capital investments, which increase the CFR, for a prudent purpose where this directly and primarily relates to the functions of the Council. Affordability and prudence are assessed and controlled by the prudential indicators which are recorded in the TMSS and described below in the Assessing affordability section.

**5.5 Assessing affordability** – the revenue cost implications of Capital investment undertaken historically and the proposed Capital Plan form an integral part of the Council’s revenue budget and Medium-Term Financial Plan. The revenue budget impact of capital schemes for Council Tax and Rent payers include:

- The costs of operating/maintaining new assets
- The capital financing costs of servicing any borrowing required to pay for investment (interest and the Council’s approach to making prudent provision for repayment of capital investment paid for by borrowing – MRP)
- The revenue costs of preparing and delivering projects
- Abortive costs required to be charged to revenue budgets if schemes do not proceed.

Some or all of the costs of investment may be offset by financial and non-financial benefits such as income, cost avoidance and importantly improved outcomes for residents. Where capital investment has been undertaken by borrowing, the Council is required to spread the cost of that investment over future years’ revenue budgets. This is in accordance with its MRP Policy for the prudent repayment of capital expenditure which is approved as part of the budget proposals each year.

**5.6 Revenue implications** - The revenue costs associated with capital schemes need to be identified and included within the revenue budget and the Medium-Term Financial Plan. For example, a housing development project is likely to have revenue budget implications e.g. additional street lighting, waste disposal, schooling provision or other Council services. It is recognised that the Council cannot afford to do everything. However where revenue resources are deemed available to increase the level of Council borrowing capital investment will be considered. The Council’s approach to affordability of its capital financing budgets in the medium term is as follows:

- General Fund – additional investment funded by borrowing over the medium term to be minimised unless approved in line with the prioritisation and evaluation criteria as described above.

- Housing Revenue Account – increasing over the medium term primarily as a result of implementing the Council’s ambition target of new affordable housing. Future rent policy, pressures and a robust approach to ensuring viability of new developments will be key to affordability.
- Strategic and major development projects – On a case-by-case basis subject to approved business cases and due diligence including the long-term capital financing costs.

5.7 **Affordability indicators** - Prudential and treasury indicators to manage capital investments take a longer-term view of affordability, prudence and sustainability and are included in the TMSS at the start of every financial year. Prudential Indicators are used to assess affordability, along with other treasury management specific indicators and are approved within the TMSS and monitored on a quarterly basis in the Quarterly Performance Monitoring and Budget report to Executive and Council. These are listed below:

**Financing costs and net revenue stream**

This is a prudential indicator for affordability showing the percentage of the Council’s revenue budget that is committed to capital financing costs and is required to be shown for the General Fund and the HRA separately. For the General Fund, the net revenue stream is the amount to be met from non-specific Government grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers and service charges.

**Estimates of capital expenditure**

This is a prudential indicator for prudence showing the previous year actual and estimates of the total of capital expenditure planned to be incurred during the forthcoming financial year and the following two financial years.

**Estimates of capital financing requirement (CFR)**

This is a prudential indicator for prudence and shows the previous year actual and the forecast total capital financing requirement at the end of the forthcoming financial year and the following two years. The CFR is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose.

**The operational boundary and the authorised limit**

These are prudential indicators for prudence and focus setting an affordable limit for external debt. The operational boundary is the affordable debt limit and the authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003. This is the set using the operational boundary plus an amount for unforeseen cashflow movement. The operational boundary is the limit for total gross external debt, separately identifying borrowing from other long-term liabilities. These are set for the forthcoming financial year and the following two financial years.

**Gross debt to CFR**

This is a prudential indicator for prudence and is used to show that external debt (i.e. borrowing for any purpose and other long-term liabilities) should not exceed the CFR (except in the short term) in the previous year plus the estimates of any increase in the CFR at the end of the current and next two financial years. This is to ensure that over the medium-term debt will only be for a capital purpose.



5.8 **Balance Sheet forward planning and the treasury management strategy** - where capital expenditure has been incurred without a resource to pay for it, i.e. when proposed to be paid for by supported or unsupported borrowing, this will increase what is termed the Council's CFR which is the Council's underlying need to borrow. The amount of borrowing required will be considered along with the Council's cashflow position.

The Council is typically cash rich in the short-term as revenue income is received before it is spent, this can include both working capital and reserves held on the balance sheet. The TMSS uses forecast cashflow information from the Reserves Strategy and the Capital Plan to make decisions around the amount, timing and duration of any new external borrowing required by the Council.

In terms of the Reserves Strategy, the Council uses a risk-assessed General Fund Reserve and effectively manages the balances of earmarked reserves over the longer term which is used to support the forward Balance Sheet projection. This projection provides a valuable foundation for the strategic financial planning of capital financing costs for the capital investment plan.

In terms of the Borrowing Strategy, the Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between financing using the low-cost internal cash resources available in the short term and further long-term fixed rate loans where the future cost is known.

## 6.0 NON-TREASURY INVESTMENTS

6.1 **Non-treasury overview** - The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These are non-treasury investments and include service and commercial investments.

**Non-treasury management investment** is expenditure made on the purchase of a capital asset and are investments for policy reasons outside normal treasury management activity. It is these non-treasury management investments which are the subject of this Capital Strategy.

**Service investments** - 'Investments for service purposes' are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. Characteristics for service investments are:

- Service investments may or may not involve financial returns; however, obtaining those returns will not be the primary purpose of the investment.
- For local authorities, service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments

An example of a service investment is when the Council lends money to local bodies or its subsidiaries to support local public services and stimulate local economic growth. In light of the wider benefits that can arise the Council is prepared to take more risk than with

treasury investments. The main risk when making service loans is if the borrower is unable to repay the principal lent and/or the interest due.

It is important that the Council limits the financial risk, and assessment will be made of the risk of loss before entering into Service Loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help and how these needs will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors where appropriate.

**Commercial investments** - Investments taken or held primarily for financial return and are not linked to treasury management activity nor are directly part of delivering services. Characteristics for commercial investments are:

- non-financial assets such as commercial property is held primarily for financial return.
- For local authorities, investments of this type will usually constitute capital expenditure.
- 'Commercial' in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs, and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily in order to generate net financial return or profit.

Details of the governance arrangements including the decision making and performance monitoring of non-treasury investments is covered in section 9 Corporate governance arrangements - Non-treasury investment activities.

The Council's Capital Plan has no expenditure on new non-treasury investments primarily for financial return.

6.2 **Existing non-treasury investments** – Based on prior year capital decisions the Council has a number of non-treasury investments. If there is a material financial interest in the shareholding or income generated during the year then the balances as at 31 March 2022 are shown in the tables below.

**Service non-treasury investments:**

The Council has investments in third parties and in Council owned companies including loans. These holdings are non-treasury service investments that achieve the Council objectives, these existing holdings are shown below.

**a) Company loans** - The Council has made several loans in recent years to subsidiaries for the purpose of the delivery of Council services and objectives, the position below will continue to be monitored and reviewed:

| <b>Loans portfolio</b>              | <b>Balance at 31 March 2022<br/>£m</b> | <b>2021/22 net income generated<br/>£k</b> | <b>2021/22 net income budgeted<br/>£k</b> | <b>Interest rate<br/>%</b> |
|-------------------------------------|--|--|---|----------------------------|
| Yorwaste – Loan 1 (Subsidiary)      | 3.7                                    | 155.1                                      | 150.0                                     | 4%+base                    |
| Yorwaste – Loan 2 (Subsidiary)      | 2.3                                    | 101.0                                      | 90.0                                      | 4%+base                    |
| Brierley Homes (Subsidiary)         | 12.8                                   | 693.6                                      | 390.0                                     | 6%+base                    |
| First North Law (Subsidiary)        | 0.1                                    | 3.8  | 0   | 4%+base                    |
| NY Highways (Subsidiary)            | 8.0                                    | 311.7                                      | 120.0                                     | 6.5%+base                  |
| Broadacres Housing Association loan | 33.6                                   | 1,437.9                                    | 1,435.5                                   | 2.85% - 4.64%              |
| Bracewell Housing Ltd (Subsidiary)  | 1.5                                    | 98.0                                       | 45.0                                      | 7.5%+base<br>5.5%+base     |
| Selby and District Housing Trust    | 2.8                                    | 117.8                                      | 120.0                                     | 4.19%                      |
| <b>TOTAL</b>                        | <b>64.8</b>                            | <b>2,918.9</b>                             | <b>2,350.5</b>                            |                            |

**b) Company shares** - The Council has the following investments in Council companies held for the purpose of the delivery of Council services and objectives:

| <b>Equity portfolio</b>         | <b>Shareholding 31 March 2022 at cost<br/>£m</b> |
|---------------------------------|--|
| Bracewell Housing Limited       | -  |
| Yorwaste Limited                | 3.518  |
| Brierley Homes Limited          | -  |
| First North Law Limited         | -  |
| Align Property Partners Limited | 0.500  |
| NY Highways Limited             | 0.500  |
| <b>TOTAL</b>                    | <b>4.518</b>                                     |

## Commercial non-treasury investments:

Commercial investments are the result of past acquisitions of land and buildings for a commercial purpose rather than for the supply of goods and services or for administrative purposes. They have been classified as commercial investment properties:

| Commercial Property portfolio        | Fair value at 31 March 2022<br>£m | Cost less debt repayment (MRP) at 31 March 2022<br>£m | 2021/22 net income generated<br>£k | 2021/22 net income budgeted<br>£m | return % |
|--------------------------------------|-----------------------------------|---|------------------------------------|-----------------------------------|----------|
| Bank Unit in Stafford Town Centre    | 0.9                               | 0.9   | 53.3                               | 50.0                              | 6.05     |
| Harrogate Royal Baths                | 9.5                               | 9.5   | 77.2                               | 255.0                             | 1.45     |
| Co-op in Somercotes                  | 1.5                               | 1.5   | 79.6                               | 76.0                              | 5.32     |
| Shopping centre - Harrogate          | 0.9                               | 0.9   | 46.0                               | 37.0                              | 3.07     |
| Secondary industrial land- Harrogate | 0.8                               | 0.8   | 53.0                               | 38.0                              | 6.58     |
| <b>TOTAL</b>                         | <b>13.6</b>                       | <b>13.6</b>   | <b>309.1</b>                       | <b>456.0</b>                      |          |

The Council retains some existing holdings in non-treasury commercial property assets that are held to provide a financial return rather than deliver a Council service. These investments were taken prior to the revised 2021 Prudential Code and the Governments March 2020 PWLB legislation coming into being.

- 6.3 **Review of existing commercial investments** – The commercial property investment portfolio is reviewed annually against the risks to the budgeted income and the liquidity requirements of the Council.
- 6.4 **Future non-treasury investments** - The Council has the following service investments within the Capital Plan where the primary purpose of these investments is the delivery of the Council's stated service objectives:

| Loans portfolio                     | Balance outstanding at 31 March 2022<br>£m | Further loans included in Capital Plan<br>£m |
|-------------------------------------|--|--|
| NYnet (Subsidiary)                  | -  | 10.0   |
| Yorwaste – Loan 1 (Subsidiary)      | 3.7  | 0.0  |
| Yorwaste – Loan 2 (Subsidiary)      | 2.3  | 1.6  |
| Brierley Homes (Subsidiary)         | 12.8                                       | 2.1  |
| First North Law (Subsidiary)        | 0.1  | 0.2  |
| NY Highways (Subsidiary)            | 8.0  | 3.0  |
| Broadacres Housing Association loan | 33.6                                       | -  |
| Bracewell Housing Ltd (Subsidiary)  | 1.5  | 9.5  |
| Selby and District Housing Trust*   | 2.8  | -  |
| <b>TOTAL</b>                        | <b>64.8</b>                                | <b>26.3</b>                                  |

*\* Selby and District Housing trust has decided to wind up and plans are in place for Selby District Council (or North Yorkshire Council after 31 March 2023) to acquire the trust's housing stock and for the loans to be repaid.*

## **7.0 RISK MANAGEMENT AND MONITORING**

**7.1 Risk management overview** - Clear criteria for both investment decisions and the ongoing risk management of the non-treasury investment portfolios is vital not only for the risks of individual investments but also the cumulative impact of all the investments made by the Council and the interaction of individual risks.

**Limits on cumulative and individual non-treasury investments** – The Commercial Investment Board was set up to monitor and provide due diligence on all North Yorkshire County Council non-treasury investments and it is envisaged that the Board will continue under the new North Yorkshire Council. The Board has delegated authority to approve individual investments up to a limit of £1.5m per investment and up to a total of £10m in any one financial year. Investments in excess of this will be submitted to the Executive for approval.

Following amalgamation of all commercial investments for the new North Yorkshire Council, the Commercial Investment Board will need to review and revise these limits.

**7.2** The Governance arrangements in section 9 below detail the process and procedures for investment decision and the following paragraphs on risk assessments, risk appetite and the indicators to monitor risk explain the management of the non-treasury investments.

**7.3 Risk assessment** - Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and ensuring that staff understand and appreciate the element of risk in all their activities.

The aim of risk management is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

**7.4 Due diligence** - The Council recognises that the Capital Investment plans may increase in scale and ambition following the North Yorkshire re-organisation and therefore sophisticated and robust governance and assurance measures are in place to ensure delivery. To support this the Council has developed and continually refines a delivery assurance framework.

For capital investments the appropriate level of due diligence is undertaken with the extent and depth reflecting the level of additional risk being considered. Due diligence will cover a number of areas such as legal, treasury, accounting and technical implications and the process and procedures for this work will include:

- effective scrutiny of proposed capital investments by the relevant committee
- identification of the risk to both the capital invested and the returns
- understanding the extent and nature of any external underwriting of those risks

- the potential impact on the financial sustainability of the Council if those risks come to fruition
- understanding the powers under which the investment is made and changes to relevant laws and regulations factored into any capital bidding and programme monitoring processes
- identification of the assets being held for security against debt and any prior charges on those assets
- further independent and expert advice being sought where necessary

An assessment of risk is therefore built into every capital project and major risks recorded in the Corporate Risk Register to manage and monitor the Council's risk appetite.

7.5 **Risk appetite** - To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme as well as for the capital programme as a whole.

7.6 **Indicators and limits** - In determining the Council's risk appetite in respect of non-treasury investments, for commercial or service purposes, including financial assets and property investments, indicators and limits can be used to establish the parameters of an acceptable level of risk of which can then be managed and monitored. This can focus on the impact of the downside risk so that the overall sustainability of the Council is considered.

The CIPFA Prudential Code, Treasury Management Code and the statutory investment guidance in England (issued by the former Ministry of Housing, Communities and Local Government) requires indicators and limits to be set, along with risk assessments to be made in order to assist the management and monitoring of non-treasury investments on a regular basis. Non-treasury investment indicator included in this capital strategy is detailed below:

i) **Ratio of net income from non-treasury investments to net revenue stream**

This prudential indicator for affordability shows the extent to which the revenue budget is reliant on budgeted net income from non-treasury commercial and service investments and is an important monitoring tool in the capital strategy. The level of anticipated income is not deemed a risk to the financial sustainability of the Council.

|   | 2021/22<br>Actual<br>% | 2022/23<br>Estimate<br>% | 2023/24<br>Estimate<br>% | 2024/25<br>Estimate<br>% | 2025/26<br>Estimate<br>% |
|---|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Net income from service investments to net revenue stream             | 0.58                   | 0.90                     | 0.87                     | 0.84                     | 0.81                     |
| Net income from commercial to net revenue stream                      | 0.06                   | 0.13                     | 0.12                     | 0.12                     | 0.11                     |
| <b>Net income from non-treasury investments to net revenue stream</b> | 0.64                   | 1.02                     | 0.99                     | 0.95                     | 0.92                     |

## 8.0 GOVERNANCE

8.1 Consideration, approval and monitoring of the capital plan takes place as part of the Council's strategic planning timetable and is detailed below.

**Capital budget setting process** – Part of the Capital Strategy importantly notes that consideration is given to the capital budget setting process i.e. the approval of the Capital Plan. The Capital Plan sets out the Council's longer term capital investment plans. These plans support the Council's strategic and service objectives by maximising the assets and infrastructure necessary to support service delivery whilst minimising the impact on the revenue budget.

8.2 The Capital Plan must be approved by Council before the start of the financial year. The Council's Financial Procedure rules empower the Executive to modify the Capital Plan during the year by means of the Capital section of the quarterly performance monitoring reports or, if urgent changes are needed, ad hoc reports at other points in the reporting calendar.

8.3 The Council's Financial Procedure Rules and the Asset Management Planning Framework provide a framework for the preparation and appraisal of schemes proposed for inclusion in the Capital Plan, appropriate authorisations for individual schemes to proceed and facilitate the overall management of the Capital Plan within defined resource parameters.

8.4 The Corporate Director – Resources shall determine the format of the Capital Plan and the timing of reports relating to it. The approved Capital Plan will comprise a number of individual schemes each of which will be quantified in overall project terms or on an annualised basis, as appropriate. Each Director shall prepare a draft Capital Plan for their service, in consultation with the Corporate Director – Strategic Resources, for submission to the Executive. The Capital Plan should identify planned expenditure, and funding, at proposed individual scheme or programme level

8.5 This process is designed to ensure the capital schemes contribute to service delivery and where in some cases a return on the investment is generated, this can be financial and/or non-financial.

8.6 The Corporate Director – Resources is responsible for preparing an overall Capital Plan for consideration by the Executive, and approval by the Council, the funding of which shall be compatible at all times with the Treasury Management Policy Statement of the Council. Individual schemes shall only be included in the Capital Plan following a project appraisal process.

8.7 In Year Opportunities can be put forward for entry into the capital programme in a managed way either when the capital programme is reviewed each quarter and is reported to the Executive and Council or outside of this timetable as a separate Executive report to seek approval at any other meeting in the Executive cycle.

8.8 Other long-term liabilities – The Council's Financial Procedure Rules and the Asset Management Planning Framework provide a framework for the appraisal and approval of schemes including where this is delivered by means of PFI contracts or leasing arrangements. This framework includes the ongoing monitoring and risk management of

long-term liabilities taken to deliver operational services, these include PFI contracts, leasing agreements or arrangements that require financial guarantees, including those given in respect of subsidiaries or joint ventures. PFI contracts and lease obligations are like borrowing as they have an ongoing revenue budget commitment. These will be considered following due diligence over the life of the asset, comparing the financial and non-financial benefits and risks compared to the Council owning and delivering such assets and services itself.

8.9 Where the Council has issued financial guarantees, it will periodically reassess the probability of financial guarantees being called upon and include this in the risk management reporting with mitigating actions as appropriate.

## **9.0 CORPORATE GOVERNANCE ARRANGEMENTS – NON-TREASURY INVESTMENT ACTIVITIES**

9.1 Non-treasury investments can be considered where the primary purpose of the expenditure is for service delivery including projects for economic development / regeneration, but these investments do not always give priority to security and liquidity over yield (like treasury investment do) so appropriate governance is required.

9.2 Given the technical nature of potential non-treasury investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence and scrutiny in order to make recommendations for implementation. As a result, a Commercial Investment Board has been established. All non-treasury investments will be subject to consideration and where necessary recommendations of the Commercial Investment Board.

9.3 The Commercial Investment Board is not a constituted body and therefore does not have formal decision making powers. However, it is the chief means of identifying, reviewing, providing scrutiny and recommending schemes for investment decisions. Formal decisions on investments will be taken within the existing delegations namely through delegated authority to the Corporate Director – Resources and further decisions as made by the Executive.

9.4 The responsibilities of the Board also include:

- to consider appropriate due diligence proportionate to the investment / risk / reward proposed
- terminate investments should concerns be raised - to consider and recommend cases for early termination of alternative investments
- to monitor returns against approved performance targets
- to report performance of alternative investments to the Executive on a quarterly basis; and
- to make recommendations to Executive on any proposed changes to the framework.

Membership of the Board is as follows:

- Lead Member for Finance (Chair)
- Lead Member for Growth
- Corporate Director Resources



- Corporate Director of Community Development
- Assistant Director Resources
- Assistant Director Economic Development, Regeneration, Tourism and Skills

- 9.5 All Executive reports will ensure that the Council has the appropriate legal powers to undertake such non-treasury investments and will also include the 'proportionality of non-treasury investments' so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.
- 9.6 Monitoring of all investments will be included in the quarterly capital and treasury management monitoring reports which are received by the Executive.
- 9.7 The Corporate Director – Resources (S151 Officer) - will report explicitly on the affordability and risk associated with the Capital Strategy as detailed below and, where appropriate, will have access to specialist advice to enable conclusions to be reached.

## **10.0 SKILLS AND TRAINING**

- 10.1 **Skills and training** - All capital investment approvals are subject to robust consideration and challenge by members and officers from across the Council with extensive Local Government experience from varying professional backgrounds.
- 10.2 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council requires finance staff to maintain relevant professional qualifications including CIPFA and AAT. All officers attend courses on an ongoing basis to keep abreast of new developments and skills to ensure their Continuous Professional Development. Members are also offered training regularly to ensure they have up to date skills and are able to make capital and treasury decisions.
- 10.3 Where Council staff do not have the specialist knowledge and skills required, use is made of external advisers and consultants that are experts in their field. The Council currently employs Link Group as treasury management advisers. This approach is more cost effective than employing such staff whilst ensuring that the Council has access to knowledge and skills commensurate with its risk appetite.

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## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

20 March 2023

### ACCOUNTING POLICIES

#### Report of the Corporate Director – Strategic Resources

#### 1.0 PURPOSE OF THE REPORT

- 1.1 To note there are no changes, at present, to the County Council's Accounting Policies for the current financial year 2022/23
- 1.2 To note potential changes in the pipeline that are likely to impact on future year's Accounting Policies and the Statement of Final Accounts.

#### 2.0 BACKGROUND

- 2.1 Part of the Audit Committee's Terms of Reference is to review changes in accounting policy.
- 2.2 The County Council's accounting policies are set out in the annual Statement of Final Accounts (SOFA) and have been developed to comply with the *Code of Practice on Local Authority Accounting in the United Kingdom* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). An updated Code of Practice, applicable for 2022/23 was issued in August 2022.
- 2.3 In addition to considering required changes to the County Council's accounting policies for 2022/23, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2023/24 and beyond) to bring to the Committee's attention.

#### 3.0 CHANGES IN ACCOUNTING POLICY FOR 2022/23

- 3.1 The need for changes in accounting policy can arise from:
  - (i) mandatory changes under the annual *Code of Practice on Local Authority Accounting* which require a new or revised accounting policy to be adopted by all local authorities

- (ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances
  - (iii) changes in legislation enacted by the Government issuing a Statutory Instrument
- 3.2 Any changes required to the County Council's accounting policies for 2022/23 would therefore usually arise as a result of the updated *Code of Practice on Local Authority Accounting* issued by CIPFA in August 2022.
- 3.3 CIPFA issued an '*Update to the Code and Specifications for Future Codes for Infrastructure Assets*' in January 2023 as a result of a Statutory Instrument enacted by the Government which came into effect on 25 December 2022.
- 3.4 The '*Update*' provides amended specifications on the disclosure on gross cost and accumulated depreciation for infrastructure assets and allows local authorities a temporary relief for reporting infrastructure assets gross cost and accumulated depreciation until 31 March 2025.
- 3.5 The enactment of the Statutory Instrument resulted in a delay to the County Council's 2021/22 SOFA being approved by the external auditors as the impact on the accounts had to be fully understood and considered.
- 3.6 Officers are currently working with external auditors to agree on final amendments to the 2021/22 SOFA in relation to infrastructure assets and as yet no changes to the County Councils accounting policies have been identified. However, if any changes to accounting policies are required for both the 2021/22 and 2022/23 SOFA the Committee will be notified.
- 3.7 As previously reported to the Audit Committee the implementation of IFRS 16 *Leases* was deferred until the 2024/25 financial year as a result of an emergency consultation in October 2022. This will not have an impact on the County Council's accounting policies.
- 3.8 The Accounting Policies ultimately determined for 2022/23 will be reported to Members on 26 June 2023 as part of the report accompanying the draft SOFA for 2022/23. At this stage, therefore, Members are asked to note the current position.
- 4.0 **OTHER KEY CHANGES TO THE 2022/23 FINANCIAL STATEMENTS**
- 4.1 Changes reflected in the 2022/23 updated Code may be required to be incorporated into the County Council's accounts but may not necessarily impact on the County Council's accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.
- 4.2 The 2022/23 SOFA will again include narrative to explain the financial impact of the Covid-19 pandemic on the County Council.

## **5.0 STATEMENT OF ACCOUNTS TIMETABLE 2022/23 AND 2023/24**

- 5.1 Published in September 2020, the Redmond review on the effectiveness of external audit and transparency of financial reporting in local authorities recommended that the deadline for publishing audited local authority accounts should be extended.
- 5.2 In the Government's response, Ministers committed to amending the accounts publication deadline as recommended for 2 years, subject to review.
- 5.3 In December 2021 a statement issued by Department of Levelling-up Housing and Communities (DLUHC), 'Measures to Improve Local Audit Delays', referenced the above review and recommended extending the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts then 30 September for 6 years commencing in 2022/23. Although not yet confirmed it is anticipated that the statutory deadline for publishing audited local authority accounts for 2022/23 will be 30 September 2023.
- 5.4 On 16 February 2023 DLUHC published a consultation asking for views as to whether the deadline for the publication of draft local authority accounts should be 31 May 2023, as per the current statutory requirement, or if this should be extended. The consultation closed on 2 March and an outcome is awaited.
- 5.5 As a result of Local Government Reorganisation, the final SOFA for each of the 8 legacy Councils of the new North Yorkshire Council will need be approved by the Section 151 Officer (Corporate Director of Resources) and Members (the Audit Committee) in advance of certification and publication. In order to ensure effective use of resources, the intention is to produce the draft SOFAs by 31 May in line with the current deadline for publication. It is therefore, anticipated that the Draft SOFAs will be reported to the Audit Committee on 26 June 2023.
- 5.6 Further consultation is required with the external auditors for both the County Council and District and Borough Councils in order to confirm the proposed timetable for the 2023/24 audit and reporting of the final SOFAs. A further update will be provided to the Committee once audit plans have been established.

## **6.0 POTENTIAL CHANGES IN THE PIPELINE FOR FUTURE YEARS**

- 6.1 CIPFA have recently consulted on a draft *Code of Practice on Local Authority Accounting* for 2022/23 and provisional changes for future years beyond 2023/24, with the key potential changes set out in **Appendix A**.
- 6.2 The extent to which future changes will actually be fully implemented by CIPFA remains uncertain however and will be subject to further confirmation and guidance.

7.1 **RECOMMENDATION**

7.2 That Members:

- (i) note the current position on potential changes to the accounting policies for 2022/23 (**paragraph 3.6**).
- (ii) note the changes to the Statement of Accounts Timetable for 2023 (**paragraph 5.6**)
- (ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2023/24 onwards) (**paragraph 6.1 and Appendix A**).

GARY FIELDING

Corporate Director – Strategic Resources

County Hall  
Northallerton

March 2023

**POTENTIAL CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY  
ACCOUNTING POLICIES IN THE PIPELINE  
FOLLOWING RECENT CIPFA CONSULTATION:**

- 1.0 CIPFA have consulted on and confirmed proposed changes to the 2022/23 Code of Practice which was published in August 2022 and have also provided indications of further potential changes that are likely to be reflected in updates to the 2023/24 Code and beyond.
- 2.0 Leases**
- 2.1 CIPFA's current intention is to adopt IFRS 16 – Leases from 2024/25.
- 2.2 It was anticipated that CIPFA would instruct local authorities to adopt the requirements of IFRS 16 from 2019/20, but this was deferred by 12 months due to issues raised by Central Government. The adoption of IFRS 16 was again delayed until 2022/23 and now again until 2024/25 due to the impact of the Covid-19 pandemic on local authorities' planning and preparedness for the new standard.
- 2.3 IFRS 16 extends the current definition of a finance lease to cover all leases, from the lessee's position. An operational lease will no longer exist from a lessee's perspective. The change will result in accounting implications as the value of the lease needs to be capitalised and recorded as a 'Right of Use' asset on the lessee's balance sheet. A corresponding liability must also be recognised on the balance sheet, extending over the life of the lease, to reflect the lease payments still to be made.
- 2.4 IFRS 16 will have an impact on all the main statements in the SOFA including the balance sheet, comprehensive income and expenditure statement and cash flow statement. A number of new disclosure notes will also be required to be published in the SOFA.
- 2.5 Further changes as a result of adopting IFRS 16 relate to assets being leased under a 'peppercorn' agreement coming on balance sheet, the measurement of liabilities from leases, PFI and service concession arrangements which include an element of annual indexation.
- 2.6 Exceptions may be granted for leases of small value assets and for very short term leases, but an increased number of existing operating leases will need to be reclassified and reported on the County Council's balance sheet, which could potentially have prudential borrowing implications.

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## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

20 MARCH 2023

### CORPORATE GOVERNANCE

#### Report of the Corporate Director, Strategic Resources

#### 1.0 PURPOSE OF REPORT

- 1.1 To review and approve the updated Local Code of Corporate Governance for the new North Yorkshire Council.

#### 2.0 BACKGROUND

- 2.1 The standard for local authority governance in the UK is set out in guidance called the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016. The Framework defines the principles that should underpin the governance of an organisation and provides a structure to assist individual authorities with their approach to governance. Local authorities should review existing governance arrangements against these Principles and develop and maintain an up-to-date Local Code of Corporate Governance.
- 2.2 According to the Terms of Reference of the Audit Committee, its role in respect of Corporate Governance is:
- (i) to assess the effectiveness of the authority's Corporate Governance arrangements
  - (ii) to review progress on the implementation of Corporate Governance arrangements throughout the authority
  - (iii) to approve the Annual Governance Statements for both the County Council and the North Yorkshire Pension Fund
  - (iv) to liaise, as necessary, with the Standards Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers
  - (v) to review the arrangements in place for ensuring good governance in the County Council's key partnerships and owned companies.
- 2.3 In relation to (i), (ii) and (v) above, an annual report is submitted as set out in the Programme of Work, and item (iii) is considered as part of the report relating to the

Statement of Accounts. The Committee also receives regular reports on the outcome of internal audit work and the annual report of the Head of Internal Audit, which includes an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. In addition, governance issues may also be addressed as part of other reports and presentations to the Committee, including the annual update reports from the Corporate Directors.

### **3.0 LOCAL CODE OF CORPORATE GOVERNANCE**

- 3.1 The Local Code of Corporate Governance has been written to conform with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016. The attached Code has been written for the new unitary authority with consideration to all service areas.

#### **Framework Principles**

- 3.2 The 2016 Principles that are reflected in the Local Code with links to the Annual Governance Statement are as follows:
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
  - B. Ensuring openness and comprehensive stakeholder engagement;
  - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
  - D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
  - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
  - F. Managing risks and performance through robust internal control and strong public financial management;
  - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

To achieve good governance, each local authority should be able to demonstrate that its governance structures conform with the core and sub-principles contained in this Framework.

#### **Updates to the Local Code**

- 3.3 The Local Code of Corporate Governance for the new unitary authority North Yorkshire Council is a statement of the principles that the Council will apply in its corporate governance framework. It also describes key components of that framework and how they will be monitored and reviewed.
- 3.4 The Local Code will be reviewed on an annual basis. The review ensures that key changes to the corporate governance framework (whether driven by external forces such as legislative changes or by internal factors) are reflected in the current Local Code.
- 3.5 The draft Code can be seen at **Appendix A**. Please note that links to policies and other documentation on the website for the new authority will be inserted as soon as possible.
- 3.6 It states in the Constitution for the new authority that the Chief Executive Officer, in consultation with the Leader of the Council, the appropriate Executive Member(s), the Corporate Director of Resources, and the Assistant Chief Executive Legal and Democratic Services, shall have authority to agree operational policies regulating the internal operations and working practices of the Council, which shall include, but not exclusively, policies in relation to health and safety, information governance, and IT policies.
- 3.7 Once this Local Code is approved by the Committee at this meeting, it will be referred collectively to the Chief Executive, the Leader of the Council, the appropriate Executive Member, the Corporate Director of Resources and the Assistant Chief Executive Legal and Democratic Services for formal approval. In the covering note it will be requested that delegation is given to the Corporate Director of Resources and/or the Assistant Chief Executive Legal and Democratic Services to have authority to make consequential amendments to the Local Code (such as appropriate links to the website) going forwards to keep it in line with developments as Local Government Reorganisation requires.

#### **4.0 RECOMMENDATIONS**

- 4.1 That the Local Code of Corporate Governance (**Appendix A**) for the new authority be recommended to the Chief Executive Officer for him to recommend it, under his emergency delegated decision-making powers, for formal approval by himself under paragraph 5.15 of the Officers' Delegation Scheme, in consultation with the Leader of the Council, the appropriate Executive Member, the Corporate Director of Resources and the Assistant Chief Executive Legal and Democratic Services.

GARY FIELDING

Corporate Director of Resources, County Hall, Northallerton

March 2023

Report prepared by Fiona Sowerby, Head of Insurance and Risk Management

# North Yorkshire Council

## Local Code of Corporate Governance

### March 2023

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## 1.0 INTRODUCTION

- 1.1 Corporate governance is the system by which a local authority directs and controls its functions and relates to the community it serves. It is therefore a framework of policies, management systems, procedures and structures that together, determine and control the way in which a local authority manages its business, determines its strategies and objectives, and sets about delivering its services to meet those objectives for the greater good of its community. This naturally extends to how the organisation accounts to, engages with and, where appropriate, leads its community.
- 1.2 On this basis, the principles of good corporate governance require a local authority to undertake its functions in a way that is completely open and inclusive of all sectors of the community, demonstrates the utmost integrity in all its dealings, and is fully accountable to the public it serves.
- 1.3 North Yorkshire Council is committed to demonstrating good corporate governance. This Code which is based upon the CIPFA/SOLACE document entitled *Delivering Good Governance in Local Government: Framework 2016* sets out what the governance arrangements are, and who is responsible for them within the Council. It also explains how the arrangements will be kept under review and monitored for compliance.
- 1.4 The Code also expresses how the Council will seek to conduct its business in a way that demonstrates –
- **Openness and Inclusivity** – which is necessary to ensure that stakeholders can have confidence in the decision-making and management processes of the Council, and the role of the Members and Officers therein. Being open through genuine consultation with stakeholders and providing access to full, accurate and clear information leads to effective and timely action and lends itself to necessary scrutiny. Openness also requires an inclusive approach, which seeks to ensure that all stakeholders, and potential stakeholders, have the opportunity to engage effectively with the decision-making processes and actions of the Council. It requires an outward looking perspective and a commitment to partnership working, that encourages innovative approaches to consultation and to service provision
  - **Integrity** – is necessary for trust in decision making and actions. It is based upon honesty, selflessness and objectivity, and high standards of propriety and probity in the stewardship of public funds and the management of the Council's affairs. It is dependent on the effectiveness of the internal control framework and on the personal standards and professionalism of both Members and Officers. It is reflected in the Council's decision-making procedures, in its service delivery and in the quality of its financial and performance reporting
  - **Accountability** - is the process whereby Members and Officers within the Council are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles expressed through a robust and resilient structure.

## 2.0 POLICY STATEMENT ON CORPORATE GOVERNANCE

2.1 The Policy of the Council is to incorporate the principles of Corporate Governance into all aspects of its business activities to ensure that stakeholders can have confidence in the decision-making and management processes of the authority, and in the conduct and professionalism of its Members, Officers and agents in delivering services. To this end, the Council will report annually on its intentions, performance and financial position, as well as on the arrangements in place to ensure good governance is always exercised and maintained.

2.2 The principles set out in this Policy will also apply to the North Yorkshire Pension Fund. Any company in which the Council has a substantive equity holding will also be expected to comply with these principles.

## 3.0 THE SEVEN PRINCIPLES OF CORPORATE GOVERNANCE

3.1 There are seven core principles that should underpin governance arrangements within a local authority. These are defined as follows –

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

3.2 This Code addresses these seven core principles and describes the systems and processes that support these in the Council. In addition, the Code reflects how the Council addresses the requirements of the CIPFA Statement on the *Role of the Chief Financial Officer in Local Government* (2015) and the CIPFA Statement on the *Role of the Head of Internal Audit* (2019).

3.3 The Code also explains how the Council intends to monitor and review the corporate governance arrangements defined in these Codes including conformance with both CIPFA Statements.

3.4 A diagrammatic representation of how this Code fits into the management process of the Council is attached as **Appendix A**.

#### 4.0 CORPORATE GOVERNANCE ARRANGEMENTS

**All links to the website to be provided as soon as possible**

##### **Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

4.1 The Council will conduct its activities in a manner which promotes high ethical standards and good behaviour which will foster openness, support and mutual respect. The following policies and protocols have been established and will be kept under review to assist the Council in maintaining this culture:—

- Members' Code of Conduct (incorporating the general principles of public life)
  
- Officers' Standards of Conduct Procedure
- Local / National Teachers' Code of Conduct
- Protocol on Officer/Member relations and communications
- Code of Conduct for Planning
- Ethical Behaviour Statement
  - Council
  - Leader
  - Chief Executive
- Protocol re the role of the Leader and Chief Executive Officer in the ethical framework
- Ethical Standards & Decision Making Training for Officers and Members
- Twice yearly Standards Bulletins, circulated to Members, Officers, certain other authorities and published on the Council's website
- Member and Officer Registers of Interests
- Member and Officer Registers of Gifts and Hospitality
- ICT Code of Practice and Protocols on ICT use for Members and Officers
- Whistleblowing Policy
- Counter Fraud Strategy
- Anti-Money Laundering Policy
- Equality, Diversity and Inclusion Policy Statement
- Communication Strategy to support the organisation whilst it is going through Transformation
- Engagement Promise
- Partnership Governance guidance
- Information Governance Policy and Framework
- Corporate Complaints Procedure
- Guidance Note for Councillors and Officers on Outside Bodies
- Modern Slavery Statement
- Procurement Framework and Supply Chain Resilience Board to implement a managed corporate approach with supply chains including financial assistance where appropriate.

4.2 In addition, the Council will ensure that systems and processes for financial administration, financial control and protection of the authority's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice. This includes compliance with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2015).

4.3 The aim is to develop a set of shared values which will underpin an ethos of good governance. This will be further supported by compliance with legislation, Procedure Rules and all relevant professional standards.

4.4 The Council has established a Standards Committee to discharge its responsibilities for promoting and maintaining high standards of Member conduct. The Standards Committee meets twice yearly and as required. It develops initiatives to promote high ethical standards, is involved in ensuring the training of all Members on standards, and determines any complaints that Members may have breached the Members' Code of Conduct referred to it by the Monitoring Officer. The Committee also has a role in assisting, where requested, in the designation and handling of persistent and/or vexatious complaints/complainants.

4.5 Where the Council works in partnership it will continue to uphold its own ethical standards, as well as acting in accordance with the partnership's shared values and aspirations.

4.6 Where the Council has established owned/controlled companies it will put appropriate governance arrangements in place including a governance framework and a register of interests.

### **Core Principle B: Ensuring openness and comprehensive stakeholder engagement**

4.7 The Council will seek the views of its stakeholders and respond appropriately by:–

- clearly identifying its stakeholders, in order to ensure that relationships with these groups continue to be effective
- maintaining effective channels of communication which reach all groups within the community and other stakeholders as well as offering a range of consultation methods; to this end the Council has a Communications Strategy and an Engagement Promise that are regularly reviewed and updated
- publishing a Council Plan and an annual Statement of Final Accounts to inform stakeholders and services users of the previous year's achievements and outcomes
- publishing a Medium Term Financial Strategy and consulting each year on the Annual Revenue Budget and its impact on Council Tax
- providing a variety of opportunities for the public to engage effectively with the Council including attending meetings, opportunity to ask questions at meetings, written consultations and surveys
- presenting itself in an open and accessible manner to ensure that Council matters are dealt with transparently, in so far as the need for confidentiality allows
- supporting these shared principles and the undertakings in the North Yorkshire Compact which provides a framework for local authorities and other public bodies to work together with the voluntary and community sector.
- maintain an online engagement community called North Yorkshire Views where the public can have their say and share ideas about how the Council operates.
- maintaining a Freedom of Information Act Publication Scheme and arrangements to respond to requests for information from the public
- operating Access to Information Procedure Rules to ensure local people and stakeholders can exercise their rights to express an opinion on decisions, and can understand what decisions have been made and why
- ensuring the lawful and correct treatment of personal information through a Data Protection policy framework that follows the principles set out in the *Data Protection Act 2018* and the *General Data Protection Regulation 2018*.
- maintaining a Council website that provides access to information and services and opportunities for public engagement.



- conformance with the requirements of the Local Government Transparency Code
- Equality, Diversity, and Inclusion Policy Statement

**Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits**

4.8 The Council will develop a clear vision and purpose, identify intended outcomes and ensure that these are clearly communicated to all stakeholders of the organisation, both internal and external. In doing so, the Council will report regularly on its activities and achievements, and its financial position and performance.

4.9 The Council will publish:-

- a Council Plan (looking forward 4 years and updated annually)
- an annual Statement of Final Accounts together with the Annual Governance Statement

4.10 The Council will keep its corporate strategies, objectives and priorities under constant review, so as to ensure that they remain relevant to the needs and aspirations of the community.

4.11 In undertaking all its activities, the Council will aim to deliver high quality services which meet the needs of service users. Delivery may be made directly, via a subsidiary company, in partnership with other organisations, or by a commissioning arrangement. Measurement of service quality will also be a key feature of service delivery.

4.12 In addition, the Council will continue to monitor the cost effectiveness and efficiency of its service delivery, as well as

- ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the Council meets its policy and service objectives and provides effective stewardship of public money in its use
- ensure that the Council maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary
- ensure compliance with CIPFA's Code on Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code

4.13 The Council will monitor and regularly report on performance through the Performance Management Framework and system

4.14 The Council has a Climate Change Strategy and Action Plan.

4.15 The Council will also seek to address any concerns or failings in service delivery by adhering to and promoting its Corporate Complaints Procedure.

**Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcome**

4.15 The Council will observe this Principle through a combination of the following:-

- having a formal Constitution which details the decision making processes and the procedures required to support the transparency and accountability of decisions made
- carrying out consultations to ensure a robust decision making process for service improvement or termination or otherwise, in order to prioritise competing demands within limited resources
- publishing a Council Plan which provides the key ambitions for the Council, key strategies, high level outcomes and priorities for the next four years
- publishing an annual Statement of Final Accounts including an Annual Governance Statement to inform stakeholders and services users of the previous year's achievements and improvements for the following year

- establishing a medium term business and financial planning process to deliver strategic objectives which is reviewed regularly
- maintaining an effective Performance Management Strategy and system
- having a Staff Engagement Strategy
- having a Communications Strategy

**Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it**

4.16 The Council is continually seeking to develop the capacity and capability of the Council itself, and both its Members and Officers in recognition that the people who direct and control the organisation must have the right skills. This is achieved through a commitment to training and development, as well as recruiting senior officers with the appropriate balance of knowledge and experience. The Council aims to achieve this by:-

- carrying out a regular LGA Peer Review
- maintaining Partnership Governance procedures and guidance, and carrying out regular reviews of partnerships and their outcomes
- organising Member and employee induction programmes
- continuing with further organisational development
- maintaining an effective Performance Management Strategy and system
- continuing to develop a Workforce Plan that addresses issues such as recruitment, succession planning, flexible working and other people management issues including an online recruitment and induction process, and online learning on leading and managing remote teams
- carrying out regular appraisals which incorporate service improvement and personal development plans
- providing career structures to encourage staff development
- regularly reviewing job descriptions and person specifications and using these as the basis for recruitment
- encouraging a wide variety of individuals and organisations to participate in the work of the Council, including through a Volunteer Strategy
- ensuring regular review and improvement of "Health Assured" for employees which includes health assessments, counselling, emotional support and fitness advice.

4.17 To ensure compliance with the CIPFA Statement on the *Role of the Chief Financial Officer* the Council will:-

- ensure the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of his role
- review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised
- provide the finance function with the resources, expertise and systems necessary to perform its role effectively
- embed financial competencies in person specifications and appraisals
- ensure that Members' roles and responsibilities for monitoring financial performance / budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities

4.18 To ensure conformance with the CIPFA Statement on the *Role of the Head of Internal Audit* the Council will ensure the HoIA:-

- objectively assesses the adequacy and effectiveness of governance and management of risks, giving an evidence based opinion on all aspects of governance, risk management and internal control.
- champions best practice in governance and commenting on responses to emerging risks and proposed developments
- is a senior manager or equivalent with regular and open engagement across the organisation, particularly with Management Board and with the Audit Committee
- leads and directs an internal audit service that is resourced appropriately, sufficiently and effectively
- is professionally qualified and suitably experienced

#### **Core Principle F: Managing risks and performance through robust internal control and strong public financial management**

4.19 The Council observes this Principle through a combination of the following:-

- a Risk Management Policy and Strategy have been in place for many years and are reviewed and updated in line with current guidance and best practice on a regular basis
- there is a reporting and monitoring framework for communicating risks (eg Corporate Risk Management Group / Directorate Risk Management Group / Service Management teams)
- decision making is supported through risk registers at Corporate, Directorate and Service levels as well as one off major projects
- Risk Registers include consideration of objectives and contribute to service plans and performance
- there is a Corporate Performance Management Strategy and system including greater use of performance dashboards
- the Executive is supported at all times by professional advice that addresses all relevant legal, financial, risk and resourcing issues. Risk management processes operate so as to ensure that the risk and impact of decisions are fully assessed
- there are regular quarterly Performance / Financial reports to Executive & Scrutiny Board
- there is a year-end report on Performance / Financial out-turn to Executive & Scrutiny Board
- there is comprehensive recording of all decisions taken and the reasons for those decisions
- there is an effective scrutiny function and framework, supported by named officers, that enables decisions by the Executive to be challenged or influenced by the rest of the Council's Members
- there is compliance with the *Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA 2014)* through a Counter Fraud Policy and Strategy including a Fraud Prosecution Policy, and an Anti-Money Laundering Policy and Procedures. The Counter Fraud Strategy is aligned with the national Fighting Fraud and Corruption Strategy.
- there is an Annual Governance Statement which is updated and forms part of the annual Statement of Final Accounts
- the Audit Committee includes independent co-opted members
- there is an Information Governance policy framework which ensures compliance with data protection and access to information legislation and best practice
- an Information Sharing Protocol has been agreed with all key partners and individual agreements are in place where personal data is shared there is an Audit Charter with an adequately resourced internal audit and counter fraud function
- governance arrangements allow the CFO direct access to the Audit Committee and External Auditor

- by ensuring the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the Council
- by ensuring the Council's governance arrangements allow the CFO to bring influence to bear on all material decisions
- by ensuring that advice is provided on the levels of reserves and balances in line with good practice guidance
- the Council's arrangements for financial and internal control and for managing risk are addressed in annual governance reports by Corporate Directors to the Audit Committee
- the Council puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes

**Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

4.20 The Council observes this Principle through a combination of the following:-

- maintaining a Council website that provides access to information and services and opportunities for public engagement
- all meetings of the Council and its Committees are open to the public, broadcasted live and recordings published on the internet (except where, for example, personal or confidential matters are being discussed)
- having a formal Constitution which details the decision making processes and the procedures required to support the transparency and accountability of decisions made
- an Engagement Promise setting out in simple terms how everyone who lives or works in the county, or uses the Council's services can influence decisions
- a properly constituted Standards Committee, an Audit Committee with a number of independent co-opted members and an effective scrutiny function
- there is an Audit Charter with an adequately resourced internal audit function which conforms to the Public Sector Internal Audit Standards and professional best practice (including the CIPFA Statement on *the Role of the Head of Internal Audit 2019*)
- by maintaining an effective counter fraud policy framework and an adequately resourced counter fraud function
- by ensuring that its governance arrangements allow the CFO direct access to the Audit Committee and External Auditor
- by ensuring the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority
- by ensuring the Council's governance arrangements allow the CFO to bring influence to bear on all material decisions
- ensure that advice is provided on the levels of reserves and balances in line with good practice guidance
- by ensuring the Council puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes
- ensuring the Council's arrangements for financial and internal control and for managing risk are addressed in annual governance reports by Corporate Directors to the Audit Committee

- publishing an annual Statement of Final Accounts together with the Annual Governance Statement which will show any significant improvements required.
- completion of Equality Impact Assessments/Data Protection Impact Assessments and Climate Impact Assessments for any proposed changes in policy or service delivery

## 5.0 MONITORING, REPORTING AND REVIEW

5.1 Ensuring good corporate governance is the responsibility of the whole Council. However to formalise the process, the Council has two Committees that are primarily responsible for monitoring and reviewing the adequacy of the corporate governance arrangements referred to in this Local Code –

- the Audit Committee
- the Standards Committee

The two Committees liaise on any issue of Corporate Governance that may be of legitimate common concern to both.

5.2 The Audit Committee is independent of both the Executive and Scrutiny, and has wide ranging responsibilities in relation to audit, information governance, counter fraud, risk management, treasury management, financial and performance reporting, as well as overall corporate governance and ethics. The Committee's terms of reference are set out in the Constitution and its principal objectives are to ensure that the Council manages its risks appropriately and maintains an adequate and effective system of internal control. The Committee meets up to five times a year and includes up to three co-opted external Members.

5.3 The Standards Committee currently meets twice yearly and as required to promote and maintain high standards of conduct by Councillors and co-opted Members of the Council. The Committee provides advice and support to the Council and its members on the Council's Members' Code of Conduct and related ethical issues such as membership of outside bodies and Member/officer relations. Additionally, Standards Committee Members participate in training sessions and the Committee determines any complaints that Members may have breached the Members' Code of Conduct referred to it by the Monitoring Officer. The Committee also has a role in assisting, where requested, in the designation and handling of persistent and/or vexatious complaints/complainants. The Committee is attended by independent persons, as well as Council Members.

5.4 Further to the two Committees referred to above, the Council has also established:

- a Corporate Governance Officer Group of senior officers, chaired by the Corporate Director of Resources, which is responsible for overseeing the delivery of an integrated programme of work to support the development of robust corporate governance arrangements, and to keep implementation of such arrangements under on-going review. In particular, this Group monitors the Self-Assessment Checklist that maps, and monitors, all governance activity within the Council against all published Best Practice Guidelines
- a Corporate Information Governance Group, also chaired by the Corporate Director of Resources. This Group addresses the various challenges of Information Governance including the development and maintenance of a Framework for Information Governance which comprises a suite of relevant policies, protocols and guidance notes

5.5 The Council is required to undertake an annual review of the effectiveness of its system of internal control (as required by *Regulation 6 of the Accounts and Audit Regulations (2015)*). This review seeks to –

- identify principal risks to the achievement of Council objectives
- identify and evaluate key controls to manage principal risks

- obtain assurances of the effectiveness of key controls
- evaluate assurances and identify gaps in control/assurances

This review is overseen by the Audit Committee and is part of the preparatory process for the Annual Governance Statement (see **paragraph 5.8** below). The Audit Committee receives assurance from various sources regarding the adequacy of the internal control environment and overall corporate governance arrangements, including from the Head of Internal Audit.

5.6 Additionally, compliance with the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* is reviewed annually by the Audit Committee.

5.7 Finally, annual reports are produced and published by:

- the Audit Committee Chair
- the Standards Committee Chair

### **The Annual Governance Statement**

5.8 Following the annual review of effectiveness of the system of internal control an Annual Governance Statement (AGS) will be published to accompany the Statement of Final Accounts for the Council. The AGS will provide an overall assessment of the corporate governance arrangements in the Council.

5.9 To reflect the Council's commitment to the continuous improvement of its system of internal control, progress to address weaknesses is drawn up in response to any significant control weaknesses identified in the AGS. A follow up process is then overseen by the Corporate Governance Officer Group to ensure continuous improvement of the system of corporate governance. The Audit Committee monitors progress to address weaknesses every six months.

### **Review of this Code**

5.10 A review of this Code will be undertaken annually alongside the preparation of the AGS.

## 6.0 CONTACT DETAILS AND FURTHER INFORMATION

6.1 Further details of the Council's Corporate Governance arrangements can be obtained on the County Council's website [www.northyorks.gov.uk](http://www.northyorks.gov.uk) or by contacting the Corporate Director of Resources (**see below**).

6.2 Finally, if you have any concerns about the way in which the Council, its Members, Officers or agents conduct its business, or believe that elements of this Code are not being complied with, please contact one of the following Officers as appropriate. Your enquiry will be treated confidentially, and a response made following investigation of the facts in each case.

**(i) Chief Executive (Head of Paid Service)**

Richard Flinton  
North Yorkshire Council  
County Hall  
Northallerton  
North Yorkshire DL7 8AL  
Tel: 01609 532444 E-mail: [richard.flinton@northyorks.gov.uk](mailto:richard.flinton@northyorks.gov.uk)

**(ii) Corporate Director of Resources (Section 151 Officer)**

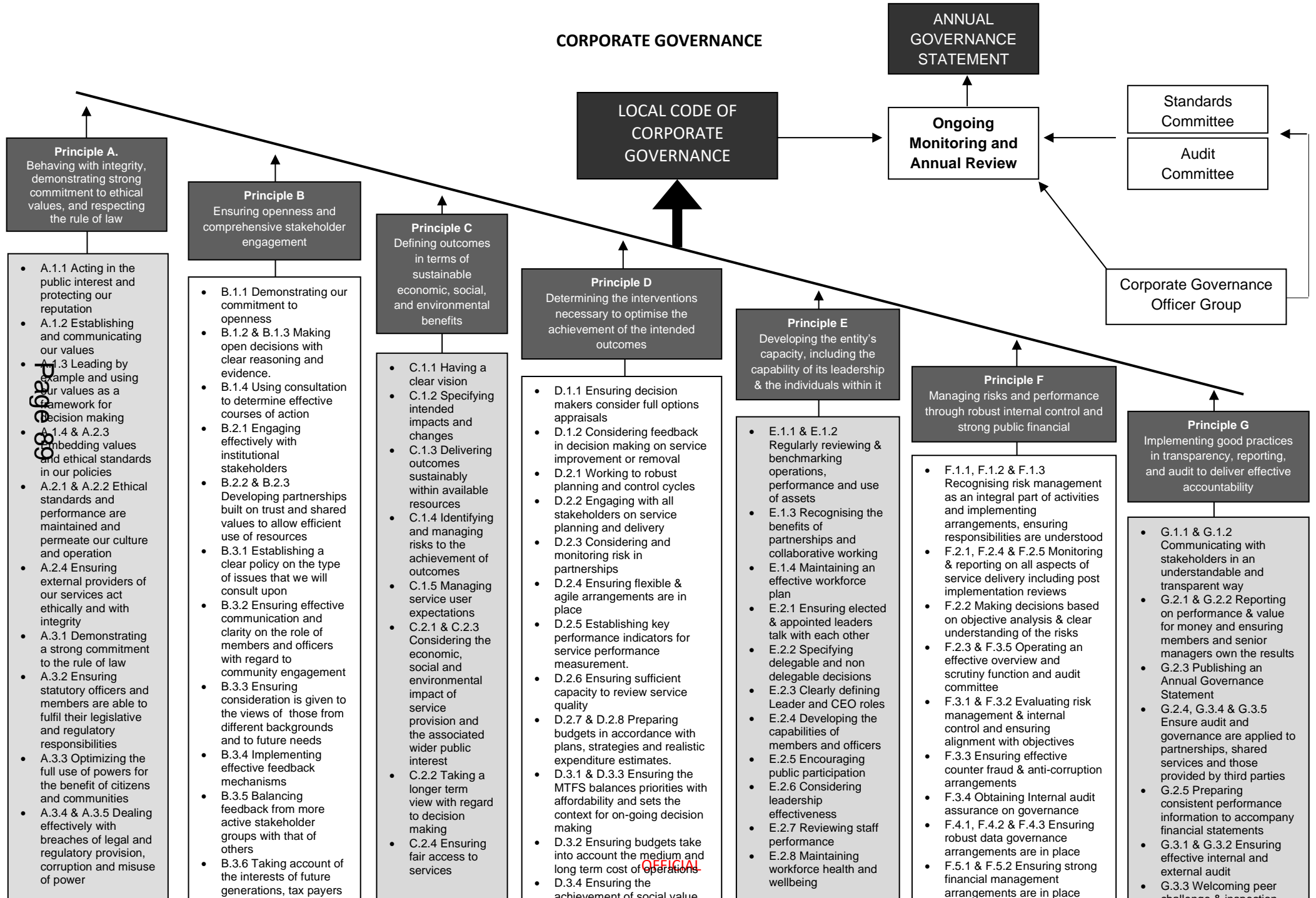
Gary Fielding  
Corporate Director of Resources  
North Yorkshire Council  
County Hall  
Northallerton  
North Yorkshire DL7 8AL  
Tel 01609 533304 E-mail [gary.fielding@northyorks.gov.uk](mailto:gary.fielding@northyorks.gov.uk)

**(iii) Assistant Chief Executive Legal and Democratic Services  
(Monitoring Officer)**

Barry Khan  
Legal and Democratic Services  
North Yorkshire Council  
County Hall  
Northallerton DL7 8AL  
Tel 01609 532173 E-mail [barry.khan@northyorks.gov.uk](mailto:barry.khan@northyorks.gov.uk)



# CORPORATE GOVERNANCE



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## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

20 MARCH 2023

### INTERNAL AUDIT CHARTER

#### Report of the Head of Internal Audit

#### 1.0 PURPOSE OF THE REPORT

- 1.1 To seek member approval for the Internal Audit Charter for the new North Yorkshire Council.

#### 2.0 BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 places a statutory duty on the Council to maintain an effective internal audit of its risk management, control and governance processes taking account of relevant public sector internal audit standards and guidance.
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit. CIPFA has adopted Public Sector Internal Audit Standards (PSIAS)<sup>1</sup> compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and CIPFA's local government application note for the standards represent proper practice for internal audit in local government.
- 2.3 One requirement of PSIAS is that the purpose, authority and responsibility of internal audit should be formally defined in an Internal Audit Charter. The Head of Internal Audit must prepare and periodically review the Charter, and arrange for it to be approved by the "board". For the Council, the Audit Committee fulfils the responsibilities of the "board" in relation to internal audit standards and activities.

#### 3.0 THE INTERNAL AUDIT CHARTER

- 3.1 The Internal Audit Charter establishes internal audit's position within the Council, including the nature of the Head of Internal Audit's reporting relationship with senior management and this committee. It also authorises access to records, personnel and physical properties relevant to the performance of audit engagements; and defines the scope of internal audit activities.
- 3.2 The charter sets out how internal audit at North Yorkshire Council will be provided in accordance with proper practice. A copy of the draft Internal Audit charter for North Yorkshire Council is included in **Appendix 1**. If approved this will replace the existing North Yorkshire County Council Charter.

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<sup>1</sup> The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.

#### 4.0 **RECOMMENDATION**

4.1 Members are asked to approve the Internal Audit Charter.

M A THOMAS  
Head of Internal Audit

3 March 2023

#### **BACKGROUND DOCUMENTS**

None

Report prepared by Stuart Cutts (Veritau – Internal Audit) and presented by Max Thomas (Head of Internal Audit).

Veritau - Assurance Services for the Public Sector  
County Hall  
Northallerton



# North Yorkshire Council Internal Audit Charter

## 1 Introduction

- 1.1 There is a statutory duty on the Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require that the audit takes into account public sector internal auditing standards or guidance. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit.
- 1.2 CIPFA has adopted Public Sector Internal Audit Standards (PSIAS)<sup>1</sup> compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and CIPFA's local government application note for the standards represent proper practice for internal audit in local government. This charter sets out how internal audit at North Yorkshire Council will be provided in accordance with this proper practice.
- 1.3 The charter should be read in the context of the wider legal and policy framework which sets requirements and standards for internal audit, including the Accounts and Audit Regulations, the PSIAS and application note, and the Council's constitution, regulations and governance arrangements.

## 2 Definitions

- 2.1 The standards include reference to the roles and responsibilities of the "board" and "senior management". Each organisation is required to define these terms in the context of its own governance arrangements. For the purposes of the PSIAS these terms are defined as follows at North Yorkshire Council.

"Board" – the Audit Committee fulfils the responsibilities of the board in relation to internal audit standards and activities.

"Senior Management" – in the majority of cases, the term senior management in the PSIAS should be taken to refer to the Corporate Director of Resources in their role as Chief Finance Officer. This includes all functions relating directly to overseeing the work of internal audit. In addition, senior management may also refer to the Chief Executive and Council directors (either individually or collectively as the Council's Management Board) in relation to standards requirements for:

- internal audit to have direct and unrestricted access to senior management for reporting purposes
- consulting on risks affecting the Council for audit planning purposes
- approving the release of information arising from audit work to any third party.

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<sup>1</sup> The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.

2.2 The standards also refer to the “chief audit executive”. This is taken to be the Head of Internal Audit (Veritau).

### **3 Application of the standards**

3.1 In line with the PSIAS, the mission of internal audit at North Yorkshire Council is:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

3.2 The Council requires that the internal audit service aspires to achieve the mission through its overall arrangements for delivery of the service. In aiming to achieve this, the Council expects that the service:

- demonstrates integrity
- demonstrates competence and due professional care
- is objective and free from undue influence (independent)
- aligns with the strategies, objectives, and risks of the organisation
- is appropriately positioned and adequately resourced
- demonstrates quality and continuous improvement
- communicates effectively
- provides risk-based assurance
- is insightful, proactive, and future-focused
- promotes organisational improvement

3.2 The PSIAS defines internal audit as follows.

*“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

3.3 North Yorkshire Council acknowledges the mandatory nature of this definition and confirms that it reflects the purpose of internal audit at the Council. The Council also requires that the service be undertaken in accordance with the code of ethics and standards set out in the PSIAS. To provide optimum benefit, the Council requires that internal audit works in partnership with management to improve the control environment and to help the organisation achieve its objectives.

## **4 Scope of internal audit activities**

- 4.1 The scope of internal audit work will encompass the Council's entire control environment<sup>2</sup>, comprising its systems of governance, risk management, and control.
- 4.2 The scope of audit work also extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take. The Head of Internal Audit, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by the internal audit service, and what reliance may be placed on the work of other auditors.

## **5 Responsibilities and objectives**

- 5.1 The Head of Internal Audit is required to provide an annual report to the Audit Committee. The report will be used by the Committee to inform its consideration of the Council's annual governance statement. The report will include:
- the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management, and control
  - any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
  - any particular control weakness judged to be relevant to the preparation of the annual governance statement
  - a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
  - an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme
  - a statement on conformance with the PSIAS (including the code of ethics and standards) and the results of the quality assurance and improvement programme.
- 5.2 To support the opinion the Head of Internal Audit will ensure that an appropriate programme of audit work is undertaken. In determining what work to undertake the internal audit service should:
- adopt an overall strategy setting out how the service will be delivered in accordance with this Charter
  - draw up an indicative risk-based programme of work on an annual basis following consultation with the Audit Committee and senior management.

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<sup>2</sup> For example the work of internal audit is not limited to the review of financial controls only.



The programme of work will also reflect the requirements of the Charter, the strategy, and proper practice

- update the programme of work throughout the year to reflect emerging risks, changes to priorities and the need to appropriately schedule work
- consider trends and emerging issues that may impact the organisation.

5.3 In undertaking this work, the responsibilities of the internal audit service will include:

- providing assurance to the board and senior management on the effective operation of governance arrangements and the internal control environment operating at the Council<sup>3</sup>
- objectively examining, evaluating and reporting on the probity, legality and value for money of the Council's arrangements for service delivery
- reviewing the Council's financial arrangements to ensure that proper accounting controls, systems and procedures are maintained and, where necessary, make recommendations for improvement
- helping to secure the effective operation of proper controls to minimise the risk of loss, the inefficient use of resources and the potential for fraud and other wrongdoing
- acting as a means of deterring all fraudulent activity, corruption and other wrongdoing; this includes conducting investigations into matters referred by councillors, officers, and the public and reporting findings of those investigations to the relevant officers and councillors as appropriate for action
- advising the Council on relevant counter fraud and corruption policies and measures.

5.4 The Head of Internal Audit will ensure that the service is provided in accordance with proper practice as set out above and in accordance with any other relevant standards – for example Council policy and legal or professional standards and guidance.

5.5 In undertaking their work, internal auditors should have regard to:

- the mission of internal audit, core principles, and standards as set out in the PSIAS and reflected in this charter
- the code of ethics in the PSIAS<sup>4</sup>
- the codes of any professional bodies of which they are members
- standards of conduct expected by the Council

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<sup>3</sup> Where third parties place reliance on the assurance provided then they do so at their own risk.

<sup>4</sup> Veritau has adopted its own code of ethics which fulfil the requirements of the PSIAS.

- the Committee on Standards in Public Life's *Seven Principles of Public Life*.

## **6 Organisational independence**

- 6.1 It is the responsibility of corporate directors and service managers to maintain effective systems of risk management, internal control, and governance. Auditors will have no responsibility for the implementation or operation of systems of control and will remain sufficiently independent of the activities audited to enable them to exercise objective professional judgement.
- 6.2 Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.
- 6.3 The Head of Internal Audit will put in place measures to ensure that individual auditors remain independent of areas they are auditing for example by:
- rotation of audit staff
  - ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice<sup>5</sup>.

## **7 Accountability, reporting lines, and relationships**

- 7.1 Internal audit services are provided under contract to the Council by Veritau<sup>6</sup>. Staff undertaking internal audit work are employed directly by Veritau. The Corporate Director of Resources acts as client officer for the contract and is responsible for overall monitoring of the service.
- 7.2 In its role in providing an independent assurance function, Veritau has direct access to councillors and senior managers and can report uncensored to them as considered necessary. Such reports may be made to:
- the Council, Executive, or any committee (including the Audit Committee)
  - the Chief Executive
  - the Corporate Director of Resources (Chief Finance Officer)
  - the Monitoring Officer
  - any other corporate director or service manager.

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<sup>5</sup> auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months

<sup>6</sup> The contract is with Veritau Limited – a company part owned by the Council. Veritau refers to the group of companies, including Veritau Limited, who provide assurance services to North Yorkshire and other councils and public sector organisations.

- 7.3 The Corporate Director of Resources (Chief Finance Officer) has specific responsibilities for ensuring that the Council has effective systems of risk management and internal control. The role includes a responsibility to ensure that the Council has put in place arrangements for effective internal audit. In recognition of the importance of the relationship between the Chief Finance Officer and internal audit (recognised in the standards), a protocol has been drawn up setting out the relationship between them. This is included in appendix 1.
- 7.4 The Head of Internal Audit will report independently to the Audit Committee on:
- the proposed allocation of audit resources
  - any significant risks and control issues identified through audit work
  - their annual opinion on the Council's control environment.
- 7.5 The Head of Internal Audit will informally meet in private with members of the Audit Committee, or the committee as a whole as required. Meetings may be requested by committee members or the Head of Internal Audit.
- 7.6 The Audit Committee will oversee (but not direct) the work of internal audit. This includes commenting on the scope of internal audit work and approving the annual audit plan. The committee will also protect and promote the independence and rights of internal audit to enable it to conduct its work and report on its findings as necessary<sup>7</sup>.

## **8 Fraud, consultancy services and non-audit services**

- 8.1 The primary role of internal audit is to provide audit assurance services to the Council. However, the service is also required to undertake fraud investigation and other consultancy work to add value and help improve governance, risk management and control arrangements.
- 8.2 The prevention and detection of fraud and corruption is the responsibility of corporate directors and service managers. However, all instances of suspected fraud and corruption must be notified to Veritau, who will agree the course of action to be taken in consultation with the relevant corporate director and other advisors (for example human resources). Where appropriate, cases of suspected fraud or corruption will be investigated by Veritau.
- 8.3 Veritau also carry out other consultancy related work where this is of value to the Council. This is generally at the request of Council officers. It includes, for example, advice on designing efficient and effective processes. The scope of consulting work will be agreed with the relevant corporate director or service manager. Consulting work will only be carried out where it represents good

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<sup>7</sup> The relationship between internal audit and the Audit Committee is set out in more detail in appendix 2.

value, there are sufficient resources and skills within Veritau to undertake the work, and where it does not compromise the assurance role or the independence of internal audit. Details of all significant consultancy assignments completed will be reported to the Audit Committee.

- 8.4 Where Veritau provides non-audit services (for example information governance), appropriate safeguards will be put in place to ensure audit independence and objectivity are not compromised. These safeguards include the work being performed by a separate team with different line management arrangements. Separate reporting arrangements will also be maintained. The Head of Internal Audit will report any instances where audit independence or objectivity may be compromised to the Corporate Director of Resources and the Audit Committee. The Head of Internal Audit will also take steps to limit any actual or perceived impairment that might occur (for example by arranging for the audit of these services or functional activities to be overseen externally).

## **9 Resourcing**

- 9.1 As part of the audit planning process the Head of Internal Audit will review the resources available to internal audit, to ensure that they are appropriate and sufficient to meet the requirement to provide an opinion on the Council's control environment. Where resources are judged to be inadequate or insufficient, recommendations to address the shortfall will be made to the Corporate Director of Resources and to the Audit Committee.

## **10 Rights of access**

- 10.1 To enable it to fulfil its responsibilities, the Council gives internal auditors employed by Veritau the authority to:
- enter all Council premises or land, at any reasonable time
  - have access to all data, records, documents, correspondence, or other information - in whatever form - relating to the activities of the Council
  - have access to any assets of the Council and to require any employee of the Council to produce any assets under their control
  - be able to require from any employee or Member of the Council any information or explanation necessary for the purposes of audit.
- 10.2 Corporate directors and service managers are responsible for ensuring that the rights of Veritau to access premises, records, and personnel are preserved, including where the Council's services are provided through partnership arrangements, contracts or other means.

## **11 Review**

- 11.1 This charter will be reviewed periodically by the Head of Internal Audit. Any recommendations for change will be made to the Corporate Director of Resources and the Audit Committee, for approval.

**Relationship between the Corporate Director of Resources  
(the Chief Finance Officer) and internal audit**

In recognition of the statutory duties of the Council's Corporate Director of Resources (the Corporate Director), this protocol has been adopted to form the basis for a sound and effective working relationship between the Corporate Director and internal audit.

- (i) The Head of Internal Audit (HoIA) will seek to maintain a positive and effective working relationship with the Corporate Director.
- (ii) Internal audit will review the effectiveness of the Council's systems of control, governance, and risk management and report its findings to the Corporate Director (in addition to the Audit Committee).
- (iii) The Corporate Director will be asked to comment on those elements of internal audit's programme of work that relate to the discharge of their statutory duties. In devising the annual audit plan and in carrying out internal audit work, the HoIA will give full regard to the comments of the Corporate Director.
- (iv) The HoIA will notify the Corporate Director of any matter that in the HoIA's professional judgement may have implications for the Corporate Director in discharging their statutory responsibilities.
- (v) The Corporate Director will notify the HoIA of any concerns that they may have about control, governance, or suspected fraud and corruption and may require internal audit to undertake further investigation or review.
- (vi) The HoIA will be responsible for ensuring that internal audit is provided in accordance with proper practice.
- (vii) If the HoIA identifies any shortfall in resources which may jeopardise the ability to provide an opinion on the Council's control environment, then they will make representations to the Corporate Director, as well as to the Audit Committee.
- (viii) The HoIA will report to the Corporate Director (and the Audit Committee) any instances where internal audit independence or objectivity is likely to be compromised, together with any planned remedial action.
- (ix) The HoIA will report to the Corporate Director (and the Audit Committee) any instances where audit work has not conformed to the code of ethics or the standards. This includes the reasons for non-conformance and the possible impact on the audit opinion.
- (x) The Corporate Director will protect and promote the independence and rights of internal audit to enable it to conduct its work effectively and to report as necessary.



### **Relationship between the Audit Committee and internal audit**

- 1 The Audit Committee plays a key role in ensuring that the Council maintains a robust internal audit service and it is therefore essential that there is an effective working relationship between the Committee and internal audit. This protocol sets out some of the key responsibilities of internal audit and the Committee.
- 2 The Audit Committee will seek to:
  - (i) raise awareness of key aspects of good governance across the Council, including the role of internal audit and risk management
  - (ii) ensure that adequate resources are provided by the Council to ensure that internal audit can satisfactorily discharge its responsibilities
  - (iii) protect and promote the independence and rights of internal audit to conduct its work properly and to report on its findings as necessary.
- 3 Specific responsibilities in respect of internal audit include the following.
  - (i) Oversight of, and involvement in, decisions relating to how internal audit is provided.
  - (ii) Approval of the internal audit charter.
  - (iii) Consideration of the annual report and opinion of the Head of Internal Audit (HoIA) on the Council's control environment.
  - (iv) Consideration of other specific reports detailing the outcomes of internal audit work.
  - (v) Consideration of reports dealing with the performance of internal audit and the results of its quality assurance and improvement programme.
  - (vi) Consideration of reports on the implementation of actions agreed as a result of audit work and outstanding actions escalated to the Committee in accordance with the approved escalation policy.
  - (vii) Approval (but not direction) of the indicative annual internal audit work programme.
- 4 In relation to the Audit Committee, the HoIA will:
  - (i) attend its meetings and contribute to the agenda
  - (ii) ensure that overall internal audit objectives, workplans, and performance are communicated to, and understood by, the Committee
  - (iii) provide a summary of internal audit work as part of the agreed work programme of the Committee, and an annual opinion on the Council's



- control environment (reports will include details of unmitigated risks or other issues that need to be considered by the Committee)
- (iv) consider whether anything arising from the work of the Committee requires changes to be made to the priorities for internal audit work
  - (v) highlight any shortfall in the resources available to internal audit or any instances where the independence or objectivity of internal audit work may be compromised (and make recommendations to address these to the Committee)
  - (vi) report any significant risks or control issues identified through audit work which the HoIA feels necessary to specifically report to the Committee – this includes risks which management are failing to address but which the HoIA considers are unacceptable for the Council
  - (vii) report any actual or attempted interference in the performance or reporting of internal audit work
  - (viii) participate in the Committee's review of its own remit and effectiveness
  - (ix) discuss the outcomes of the quality assurance and improvement programme, and consult with the board on how external assessment of the internal audit service will be conducted (required once every five years).
- 5 The HoIA will informally meet in private with members of the Audit Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.

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## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

20 MARCH 2023

## COUNTER FRAUD STRATEGY, WORKPLAN, AND FRAUD RISK ASSESSMENT

### Report of the Head of Internal Audit

#### 1.0 PURPOSE OF THE REPORT

- 1.1 To seek Member approval for the Counter Fraud Strategy 2023-27 and the Counter Fraud workplan.
- 1.2 To consider the outcome of the annual Fraud Risk Assessment.

#### 2.0 BACKGROUND

- 2.1 Fraud is a significant risk to the public sector. The government estimates that the taxpayer loses up to £51.8 billion to fraud and error in public spending every year<sup>1</sup>. Financial loss due to fraud reduces local government's ability to support essential public services and, in some cases, can result in significant reputational damage.

#### 3.0 COUNTER FRAUD STRATEGY 2023-27

- 3.1 North Yorkshire Council, as a newly established unitary authority, may face a higher risk of fraud due to the level of change required for employees, including structure, policies and systems. It is therefore important that the Council develops a robust anti-fraud culture and maintains appropriate measures to prevent and detect fraud.
- 3.2 The draft Counter Fraud and Corruption Strategy is attached at **appendix 1**. The strategy sets out the Council's approach to combatting fraud and identifies five key themes or areas of development to focus on over the next four years. These themes are based on the national Fighting Fraud and Corruption Locally strategy<sup>2</sup> which sets out a framework to address fraud against local government, by:
  - **Governing** – having robust arrangements and executive support to ensure counter fraud measures are embedded
  - **Acknowledging** – understanding fraud risks and committing resources to tackle fraud
  - **Preventing** – developing an anti-fraud culture, maintaining controls and using information and technology to help prevent and detect fraud

<sup>1</sup> [Fraud and Error \(Ninth Report of Session 2021/22\)](#), Public Accounts Committee, House of Commons

<sup>2</sup> [A Strategy for the 2020s](#), Fighting Fraud and Corruption Locally

- **Pursuing** – investigating fraud, creating a deterrent by punishing offenders, and recovering losses where they occur
- **Protecting** – protecting the Council and its employees from becoming victims of fraud, and protecting residents against the harm that fraud can do to their communities

3.3 The Counter Fraud Strategy contains a plan (appendix A of the strategy) with actions linked to each of the five key themes. The action plan will be updated on a rolling annual basis.

#### 4.0 COUNTER FRAUD WORKPLAN

4.1 The Counter Fraud workplan is attached as **appendix 2**. The plan sets out the areas of counter fraud work to be undertaken in 2023/24. The time allocation for each area is not known at this stage because it will depend on the levels of suspected fraud reported to the Corporate Fraud Team (CFT). Reactive investigations (determined by allegations of fraud received) will however account for the largest proportion of work. Priorities for work in the remaining areas will be determined in accordance with the Council's Counter Fraud Strategy and Counter Fraud Risk Assessment.

4.2 A total of 1,137 days has been allocated to counter-fraud work in 2023/24.

#### 5.0 FRAUD RISK ASSESSMENT

5.1 Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences of fraud<sup>3</sup>. An initial assessment of fraud risks for North Yorkshire Council is set out in **appendix 3**. The assessment is designed to identify the areas of fraud that present the greatest risk to the new Council. The risk assessment is informed by national and regional reports of fraud affecting local authorities. The results of the assessment will be used to focus future audit and counter fraud work and help to develop or strengthen fraud prevention measures. The risk assessment will be updated annually.

5.2 The assessment identifies the following areas as key areas of focus for counter fraud work in 2023/24:

- Adult social care fraud
- Creditor fraud
- Cybercrime

5.3 The fraud risk assessment will be kept under review so that any significant new or emerging risks are identified and addressed.

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<sup>3</sup> [Code of Practice on Managing the Risk of Fraud and Corruption](#), CIPFA, 2014

**6.0 RECOMMENDATION**

6.1 Members are asked to:

- approve the Counter Fraud Strategy 2023-27 and the 2023/24 Counter Fraud workplan
- note the findings of the annual Fraud Risk Assessment

M A THOMAS  
Head of Internal Audit

20 March 2023

**BACKGROUND DOCUMENTS**

None

Report prepared by Jonathan Dodsworth (Veritau – Counter Fraud) and presented by Max Thomas (Head of Internal Audit).

Veritau - Assurance Services for the Public Sector  
County Hall  
Northallerton



## **COUNTER FRAUD STRATEGY**

**2023 - 2027**

## **Forward by the Corporate Director of Resources**

The new North Yorkshire Council combines eight separate local authorities to form the geographically largest council in England. It is a unique opportunity to protect and deliver much needed services to our residents at a time when there is extreme financial pressure on public services.

Whilst the geographical area is large, North Yorkshire Council will be local at heart. The people and communities in North Yorkshire make it a special place to live, work and visit. We understand that our residents expect the Council to manage its income and funds as they would manage their own money, with care and to achieve best value.

All councils and public organisations can suffer from fraud in one form or another. Fraud against North Yorkshire Council is in effect theft from our residents. Money lost to fraud is funding that cannot be spent on the vital public services we all rely on. From its inception we want to protect our new council from fraud and the people who commit it.

This strategy sets out the measures the Council will take to develop its arrangements to tackle fraud and corruption. We will seek to identify areas where fraud may occur and limit opportunities for fraudsters to exploit the Council. Where fraud is suspected we will investigate robustly, and where it is proved will utilise all measures available to us to deal with criminals and recover any losses.

Our message from the outset is straightforward, this council will not tolerate any fraud or corruption against it.

Gary Fielding  
**Corporate Director of Resources**

## Introduction

- 1 Fraud is a significant risk to the public sector. The government estimates that the taxpayer loses up to £51.8 billion to fraud and error in public spending every year.<sup>1</sup> Financial loss due to fraud can reduce a council's ability to support public services and cause reputational damage. The risk of fraud is ever evolving and where fraud used to be undertaken at a local level it increasingly originates nationally and internationally.
- 2 North Yorkshire Council brings together eight local authorities each with their own individual fraud risks and approaches to dealing with it. The new council will address fraud in a unified way ensuring that all council departments are protected from the threat of fraud.
- 3 This strategy outlines how North Yorkshire Council will assess the risks of fraud and corruption that it faces, build its counter fraud arrangements, and tackle fraud where it occurs. It has been prepared to reflect the national collaborative counter fraud strategy for local government in the UK, Fighting Fraud & Corruption Locally – A Strategy for the 2020s.<sup>2</sup>
- 4 The strategy has been reviewed by the Audit Committee as part of its responsibility to review the effectiveness of counter fraud and corruption arrangements at the Council. The strategy and action plan will be reviewed annually.

## Our aim

- 5 Fighting Fraud & Corruption Locally recommends councils consider the effectiveness of their counter fraud framework by considering performance against the five key themes set out below. The Council's aim is that it will have strong and effective arrangements in each of these areas.
  - **Governing** – Ensure that the Council has robust arrangements and executive support in place to ensure that anti-fraud, bribery and corruption measures are embedded throughout the organisation.
  - **Acknowledging** – Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

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<sup>1</sup> [Fraud and Error \(Ninth Report of Session 2021/22\)](#), Public Accounts Committee, House of Commons

<sup>2</sup> [A Strategy for the 2020s](#), Fighting Fraud and Corruption Locally



- **Preventing** – Detecting and stopping fraud by making better use of information and technology, enhancing fraud controls and processes, and developing a strong anti-fraud culture internally.
- **Pursuing** – Maintaining capacity to investigate suspected fraud and creating a deterrent by taking robust action against fraudsters and recovering losses where they occur.
- **Protecting** – Helping to ensure that the Council, its employees, and the communities of North Yorkshire are protected from the impact of fraud.

### **New arrangements and action required**

- 6 North Yorkshire Council will have strong counter fraud arrangements in place from the outset. These include:
- A new policy framework containing a range of policies designed to prevent, detect and deter fraud.
  - A counter fraud team with the remit to investigate fraud, raise awareness, and advise on anti-fraud controls across all council service areas.
  - Robust control arrangements for key financial systems, underpinned by statutory requirements and the Financial Procedure Rules, which are regularly scrutinised by internal and external audit.
  - Participation in the National Fraud Initiative – a central government led datamatching exercise.
- 7 Actions linked to the five key themes are required to further strengthen counter fraud arrangements. These include:
- Assessment of the risks of fraud across service areas. The results of the risk assessment will inform the work of the counter fraud and internal audit teams.
  - Raising the awareness of all employees of the Council's counter fraud framework and their responsibilities to help prevent and detect fraud.
  - Telling the public and employees how to report fraud and letting them know the Council will take action to address their concerns.

- Ensuring the Council can use the information it holds to analyse and match data to detect fraud, in a way that complies with UK GDPR.

These recommendations form part of the Strategy Action Plan contained in appendix A of this strategy. Progress against these actions will be reported annually to the Audit Committee.

### **Counter fraud policy framework**

- 8 This strategy is part of the Council’s overall framework for countering the risks of fraud and corruption. Further detailed information can be found in other policies and procedures including:
- Counter Fraud and Corruption Policy - this sets out responsibilities for counter fraud and investigation work.
  - Counter Fraud Prosecution Policy – this sets out what actions the Council can take if fraud is detected and the decision making processes around it.
  - Anti-Bribery and Anti-Money Laundering & Terrorist Financing Policies – defines council responsibilities in respect of the Bribery Act 2010, Proceeds of Crime Act 2002, Money Laundering, Terrorist Financing, and Transfer of Funds Regulations 2017, and Money Laundering Regulations.
  - Whistleblowing Policy - arrangements for Council employees to raise concerns under the Public Interest Disclosure Act 1998.
  - Fraud Risk Assessment – an annual risk assessment undertaken to identify counter fraud risks and develop actions to address those risks.
- 9 The strategy also links to, and is supported by, wider council policy and procedures covering areas such as:
- governance
  - employee disciplinary arrangements
  - codes of conduct
  - registers of interest
  - Financial Procedure Rules
  - electronic communications
  - information security
  - cyber security

## Appendix A: Counter Fraud Strategy Action Plan

Veritau are responsible for maintaining, reviewing, and strengthening counter fraud arrangements at the Council. An annual review of priorities for developing counter fraud arrangements will be undertaken. Actions to be taken over the next year are set out below.

In addition to the specific areas set out in the table below, ongoing activity will continue in other areas that contribute to the council's arrangements for countering fraud, including:

- a rolling programme of fraud awareness training for officers based on priorities identified through the new fraud risk assessment and any emerging issues
- regular reporting of counter fraud activity to the Audit Committee

| Ref | Action Required   | Theme         | Target Date | Responsibility                  | Notes / Further Action Required  |
|-----|---|---------------|-------------|---------------------------------|--|
| 1   | Prepare a counter fraud strategy which acknowledges fraud risks facing the Council and sets overall counter fraud aims. The strategy should set out actions required for developing counter fraud arrangements. | Governing     | April 2023  | Director of Resources / Veritau | Progress against the strategy to be reviewed and reported annually.  |
| 2   | Develop the Council's counter fraud policy framework and ensure that robust policies are in place.  | Governing     | April 2023  | Audit Committee / Veritau       | The Council has approved Counter Fraud and Corruption, Anti-Bribery, Whistleblowing, and Anti-Money Laundering Policies. |
| 3   | Create and review a new Fraud Risk Assessment which evaluates the threat of fraud   | Acknowledging | April 2023  | Audit Committee / Veritau       | A new Fraud Risk Assessment has been created and presented to the  |

| Ref | Action Required  | Theme         | Target Date  | Responsibility                      | Notes / Further Action Required  |
|-----|--|---------------|--------------|-------------------------------------|--|
|     | to the new authority within specific service areas.  |               |              |                                     | Audit committee. It will be reviewed and updated annually.   |
| 4   | Approve an annual counter fraud workplan with sufficient resources to enable counter fraud work to be undertaken.  | Acknowledging | April 2023   | Audit Committee / Veritau           | A counter fraud workplan for 2023/24 is being taken to the current committee meeting.  |
| 5   | <p>Raise awareness of the counter fraud policy framework amongst all council employees.</p> <p>Counter fraud guidance will be disseminated to employees throughout the year as part of targeted campaigns.</p> | Preventing    | January 2024 | Veritau / Communications Department | <p>General awareness of counter fraud policies to be provided to all employees.</p> <p>Targeted campaigns will include information relating to whistleblowing, cybercrime, money laundering, bribery, and tenancy related fraud.</p> <p>Specific training on the Whistleblowing Policy for employees and managers will be made available on the Learning Zone.</p> |
| 6   | Create a framework to undertake data analysis and matching projects to detect fraud using council data.  | Preventing    | March 2024   | Veritau                             | Ensure that privacy notices and data protection impact assessments are in place to enable this work.   |
| 7   | Develop processes with the Legal Department to ensure that when fraud against the  | Pursuing      | June 2023    | Veritau / Legal Department          | Legislation covering some areas of counter fraud work  |

| Ref       | Action Required  | Theme      | Target Date  | Responsibility                      | Notes / Further Action Required  |
|-----------|--|------------|--------------|-------------------------------------|--|
|           | Council is detected that legal and recovery action can be taken swiftly.   |            |              |                                     | require legal action to be taken quickly.  |
| <b>8</b>  | Review the outcomes of the 2022/23 National Fraud Initiative (NFI) from all councils forming the new authority.                      | Pursuing   | March 2024   | Veritau                             | The NFI exercise took place pre-LGR so results are currently separated across the 8 councils that formed NYC. The data matches may identify fraud affecting the new unitary council. |
| <b>9</b>  | Raise awareness of the threat of fraud to employees and the public. Publicise routes to report fraud for employees and the public.   | Protecting | October 2023 | Veritau / Communications Department | Ensure that relevant information is on the Council's intranet and website.<br><br>Consider other ways to promote the counter fraud hotline.  |
| <b>10</b> | Conduct a review of Council arrangements to prevent and detect fraud in high risk areas, as identified in the fraud risk assessment. | Protecting | March 2024   | Veritau / Relevant Service Areas    | Higher risk areas include housing, creditor payments, and adult social care funding.   |

# COUNTER FRAUD PLAN 2023/24

Date: 20 March 2023





**Daniel Clubb**  
Assistant Director - Counter Fraud



**Max Thomas**  
Head of Internal Audit

## INTRODUCTION

- 1 Veritau undertakes counter fraud work on behalf of North Yorkshire Council. This document summarises the agreed areas of counter fraud work for 2023/24.
- 2 A total of 1,137 days of counter fraud work has been agreed for 2023/24. A large proportion of this work will comprise reactive investigations which are determined by referrals received from officers and the public about suspected fraud. Other work will be undertaken in accordance with priorities determined by the Fraud Risk Assessment and Counter Fraud Strategy Action Plan (included as part of this report).
- 3 A high level summary of areas for counter fraud work in 2023/24 are shown in the table below.



## 2023/24 COUNTER FRAUD SUMMARY

| Area                             | Scope  |
|----------------------------------|--|
| <b>Counter Fraud General</b>     | Monitoring changes to regulations and guidance, reviewing counter fraud risks, and support to the Council with maintenance of the counter fraud framework. Updates on significant fraud trends and counter fraud activities will be provided to the Audit Committee during the year.   |
| <b>Proactive Work</b>            | This includes: <ul style="list-style-type: none"> <li>• raising awareness of counter fraud issues and procedures for reporting suspected fraud - for example through training and provision of updates on fraud related issues</li> <li>• targeted proactive counter fraud work - for example through local and regional data matching exercises</li> <li>• support and advice on cases which may be appropriate for investigation and advice on appropriate measures to deter and prevent fraud.</li> </ul> |
| <b>Reactive Investigations</b>   | Investigation of suspected fraud affecting the council. This includes feedback on any changes needed to procedures to prevent fraud reoccurring.   |
| <b>National Fraud Initiative</b> | Coordinating submission of data to the Cabinet Office for the National Fraud Initiative (NFI) data matching programme and investigation of subsequent matches.   |
| <b>Fraud Liaison</b>             | Acting as a single point of contact for the Department for Work and Pensions, to provide data to support housing benefit investigations.   |



## Appendix 3 - Fraud Risk Assessment

| Risk Area                      | Risk Description  | Inherent Risk      | Risk Controls   | Residual Risk      | Priorities for IA / CFT  |
|--------------------------------|---|--------------------|---|--------------------|--|
| <p>Adult Social Care Fraud</p> | <p>Losses can occur through deprivation or non-declaration of capital. For example, the transfer or disguise of property and assets in order to avoid paying for residential or domestic care provision. Fraud can also occur through the misuse of the Direct Payment scheme. For example, where money allocated to meet a customer's assessed needs are not used to procure appropriate services.</p> <p>In cases where fraud or error is identified, the average loss is £18k (based on the outcomes of investigations by the counter fraud team over the past six years). Losses in individual cases can be much higher, especially if they are not detected at an early stage.</p> | <p><b>High</b></p> | <p>Applications for care funding are carefully assessed to ensure that recipients meet the eligibility criteria and that any financial contribution for care by the customer is correctly calculated.</p> <p>Use of Direct Payments is monitored by council officers who check for possible false claims and overstated needs.</p> <p>The residual risk of Adult Social Care fraud is still considered to be high. This is due to the scale of losses and the speed at which they can be accrued. It is also a reflection of the difficulty all councils have in detecting assets when people are determined to keep them hidden.</p> | <p><b>High</b></p> | <p>Veritau has established relationships with senior management and officers responsible for the provision of Adult Social Care; concerns of fraud are regularly reported to the counter fraud team (CFT) for investigation. Internal audit (IA) will periodically conduct audits in higher risk areas, eg Direct Payments.</p> <p>CFT will deliver a rolling programme of fraud awareness to employees with responsibilities for assessment and payments.</p> <p>Investigation of fraud in this area provides a deterrent to those considering committing it and can assist the Council to recover losses through the court system.</p> |

| Risk Area      | Risk Description   | Inherent Risk | Risk Controls   | Residual Risk | Priorities for IA / CFT   |
|----------------|--|---------------|---|---------------|---|
| Creditor Fraud | <p>Fraud against creditor payment systems has increased in terms of volume and sophistication over the past three years. The mandatory publication of payment data makes councils particularly vulnerable to attack. Attacks are often the work of organised criminal groups who operate from abroad. Individual losses due to fraud can be extremely large (in excess of £1 million). The likelihood of recovery is low once a fraud has been successfully committed.</p> <p>The most common issue is mandate fraud (payment diversion fraud) where fraudsters impersonate legitimate suppliers and attempt to divert payments by requesting changes in bank details. Other types of fraud include whaling, where senior members of the Council are</p> | <b>High</b>   | <p>The Council has put strong controls in place to identify fraudulent attempts to divert payments from genuine suppliers and to validate any requests to change supplier details. Most employees joining the authority will be familiar with these practices which were previously implemented locally as a response to emerging threats.</p> <p>Segregation of duties exist between the ordering, invoicing and payments processes.</p> <p>The residual risk of creditor fraud is still considered to be high due to potentially high levels of loss, the frequency of attacks on public organisations, and potential employee adjustment to new teams and working practices as the authority forms. The Council's reliance on employees working for both the Council and its</p> | <b>High</b>   | <p>Veritau will regularly provide support and advice to finance officers responsible for the payment of suppliers.</p> <p>The IA plan will include audits of key financial systems and processes. This will include ordering and creditor payment processes, eg segregation of duties and controls to prevent mandate fraud. IA will also undertake duplicate payment checks on a regular basis.</p> <p>An e-learning module has been made available to all employees joining North Yorkshire Council and highlights threats to financial systems. CFT has delivered fraud awareness training to relevant teams ahead of the formation of the new authority. Increased awareness provides a greater chance to stop fraudulent attempts before losses occur.</p> |

| Risk Area | Risk Description  | Inherent Risk | Risk Controls  | Residual Risk | Priorities for IA / CFT   |
|-----------|---|---------------|--|---------------|---|
|           | <p>targeted and impersonated in order to obtain fraudulent payments.</p> <p>During its early operation, the Council may be at increased risk from impersonation-based attacks. Staff members joining new teams may be deceived by fraudsters posing as council officers or suppliers with whom they are not yet familiar in attempts to set up payments and release funds to non-supplier accounts.</p> <p>In recent years there have been increased instances nationally and regionally of hackers gaining direct access to email accounts of suppliers and using these to attempt to commit mandate fraud. These attempts can be much more difficult to detect and prevent.</p> |               | suppliers to follow processes, and human error are factors in many successful mandate fraud attacks. |               | <p>All instances of whaling fraud reported to CFT will be reported to the relevant agencies, such as the National Cyber Security Centre, as well as directly to the email provider from which false emails originated.</p> <p>The counter fraud team will share intelligence alerts relating to attempted fraud occurring nationally with relevant council officers to help prevent losses.</p> <p>As part of any investigation of attempted fraud in this area, the CFT will advise on improvements that will strengthen controls.</p> |

| Risk Area                         | Risk Description   | Inherent Risk | Risk Controls   | Residual Risk | Priorities for IA / CFT   |
|-----------------------------------|--|---------------|---|---------------|---|
|                                   | Increased remote working has resulted in greater opportunities for fraudsters to impersonate budget holders or suppliers in electronic communications to divert funds.   |               |   |               |   |
| <p>Cybercrime</p> <p>Page 124</p> | <p>Cybercrime is an evolving area where criminals are continually refining their techniques in order to overcome controls, obtain unauthorised access and information, and frustrate systems.</p> <p>As cybercrime can be perpetrated remotely, attacks can come from within the UK or overseas. Some cybercrime is motivated by profit, however, some is designed purely to disrupt services.</p> <p>Types of cybercrime experienced by local authorities include ransomware, phishing, whaling, hacking, and denial of</p> | <b>High</b>   | <p>The Council will bring together highly skilled ICT employees whose expertise can be used to help mitigate the threat of cybercrime. The ICT department has processes to review threat levels and controls (eg password requirements for employees) on a routine basis.</p> <p>The ICT department uses filters to block communications from known fraudulent servers and will encourage employees to raise concerns about any communications they do receive that may be part of an attempt to circumvent cybersecurity controls.</p> | <b>High</b>   | <p>IA will routinely include IT audits in the annual work programme.</p> <p>Raising awareness with employees can be crucial in helping to prevent successful cyberattacks. The CFT works with ICT to support activities on raising awareness. A campaign to mark cybersecurity awareness month will be undertaken annually.</p> <p>ICT can access free resources from the National Cyber Security Centre to help develop and maintain their cyber defence strategy.</p> |

| Risk Area                                   | Risk Description   | Inherent Risk | Risk Controls   | Residual Risk | Priorities for IA / CFT |
|---|--|---------------|---|---------------|-------------------------|
| <p style="text-align: center;">Page 125</p> | <p>service attacks. Attacks can lead to loss of funds or systems access/data which could impact service delivery to residents.</p> <p>During the period of transition to the new authority in North Yorkshire, some systems will remain as locally accessed until they can be integrated (eg Revenues and Benefits records). Ensuring consistent security measures across the Council's infrastructure will be important in protecting the wider system.</p> <p>There have been a number of high profile cyber-attacks on public and private sector organisations in recent years. Attacks stemming from the hacking of software or IT service providers have become more prevalent. These are known as supply chain attacks and are</p> |               | <p>Despite strong controls being in place, cybercrime remains a high residual risk for the Council. The potential for cybercrime is heightened by the availability of online tools. The National Crime Agency report that cybercrime can now be committed by less technically proficient criminals.</p> <p>Human error was found to be a factor in 82% of cyber breaches according to a recent study<sup>1</sup>. Council systems could be exposed by as yet unknown weaknesses in software. Suppliers of software or IT services could also be compromised which may allow criminals access to council systems believed to be secure. The residual risk of cybercrime remains high due to the constantly evolving methods employed by fraudsters which</p> |               |                         |

<sup>1</sup> [2022 Data Breach Investigations Report](#), Verizon

| Risk Area  | Risk Description   | Inherent Risk | Risk Controls  | Residual Risk | Priorities for IA / CFT  |
|--|--|---------------|--|---------------|--|
|  | used by hackers to target the end users of the software created by the organisations targeted.   |               | requires regular review of controls.   |               |  |
| Council Tax & Business Rates Frauds (discounts and exemptions)<br>Page 126 | Council Tax discount fraud is a common occurrence. CIFAS conducted a survey in 2022 in which 10% of UK adults said they knew someone who had recently committed single person discount fraud. In addition, 8% of people thought falsely claiming a single person discount was a reasonable thing to do. Individual cases of fraud in this area are of relatively low value but cumulatively can represent a large loss to the Council.<br>Business Rates fraud can also involve falsely claiming discounts that a business is not entitled to, eg small business rate relief. Business Rate fraud is less prevalent than Council | <b>High</b>   | The Council employs a number of methods to help ensure only valid applications are accepted. This includes requiring relevant information be provided on application forms, and visits to properties are undertaken where needed, to verify information.<br><br>The Council will routinely take part in the National Fraud Initiative (NFI). It will inherit the ongoing NFI exercise from the former district councils in North Yorkshire which may allow cross checking for potential instances of fraud in multiple locations (eg multiple claims for single person discount by an individual). | <b>Medium</b> | CFT will deliver periodic fraud awareness training to employees in revenues and customer services teams about frauds affecting Council Tax and Business Rates.<br><br>IA will routinely review the administration of Council Tax and Business Rates as one of the Council's key financial systems.<br><br>CFT provide a deterrent to fraud in this area through the investigation of potential fraud which can, in serious cases, lead to prosecution. CFT will also seek opportunities to raise awareness with the public about mechanisms for reporting fraud. |

| Risk Area                   | Risk Description  | Inherent Risk | Risk Controls   | Residual Risk | Priorities for IA / CFT   |
|-----------------------------|---|---------------|---|---------------|---|
|                             | <p>Tax fraud but can lead to higher losses in individual cases.</p> <p>The Council will be bringing together employees that previously operated separately across North Yorkshire. Fraudsters may try to take advantage of changes to working practice and levels of local knowledge to exploit opportunities to obtain discounts and exemptions.</p> |               | <p>The Council will periodically undertake reviews of single person discounts with companies who undertake data matching exercises.</p>   |               | <p>CFT will explore opportunities to proactively identify fraud through data matching in this area.</p>   |
| Council Tax Reduction Fraud | <p>Council Tax Reduction (CTR) is a council funded reduction in liability for Council Tax. It is resourced through council funds. Fraud and error in this area is of relatively low value on a case-by-case basis but cumulatively fraud in this area could amount to a substantial loss.</p>   | <b>High</b>   | <p>The Council undertakes eligibility checks on those who apply for support. Officers with suitable training in benefits will manage the assessment of new and ongoing claims for CTR to identify potential issues.</p> <p>The Council will routinely take part in the National Fraud Initiative (NFI). It will inherit the ongoing NFI exercise from the</p> | <b>Medium</b> | <p>CFT will routinely raise awareness of fraud with teams involved in processing claims for CTR.</p> <p>CFT provide a deterrent to fraud in this area through the investigation of potential fraud which can, in serious cases, lead to prosecution. Concerns of fraud can be reported to CFT by Council employees. CFT will also seek opportunities to raise</p> |

| Risk Area | Risk Description   | Inherent Risk | Risk Controls  | Residual Risk | Priorities for IA / CFT  |
|-----------|--|---------------|--|---------------|--|
|           | <p>CTR fraud can involve applicants failing to declare their total assets or income. Those receiving support are also required to notify relevant authorities when they have a change in circumstances that may affect their entitlement to support.</p> <p>The Council will be bringing together employees that previously operated separately across North Yorkshire. Fraudsters may try to take advantage of changes to working practice and levels of local knowledge to exploit opportunities to obtain funds.</p> <p>A new CTR policy will be introduced across North Yorkshire. It will standardise qualifying criteria and entitlements where there may have been variation prior to</p> |               | <p>former district councils in North Yorkshire which will help identify potential fraud and error.</p> <p>The DWP use data from HMRC on claimants' incomes which is then passed through to council systems. This mitigates the risk of claimant's not updating the Council with income details.</p> <p>There are established lines of communication with the DWP where claims for support are linked to externally funded benefits.</p> <p>The Council will report suspected fraud to the DWP but this does not always give the Council control over resolving false claims for CTR.</p> |               | <p>awareness with the public about mechanisms for reporting fraud.</p> <p>If fraud cannot be addressed by the Council directly it will be reported to the DWP.</p> <p>CFT engage with the DWP at a senior level to foster joint working wherever possible.</p> |



| Risk Area             | Risk Description   | Inherent Risk | Risk Controls  | Residual Risk | Priorities for IA / CFT   |
|-----------------------|--|---------------|--|---------------|---|
| Page 129              | <p>LGR. A lack of knowledge about the new scheme could lead to incorrect claims being made by residents.</p> <p>Most CTR claims are linked to state benefits (eg Universal Credit) which are administered by the Department for Work and Pensions (DWP). The Council has limited influence on DWP decision making which makes it harder to address fraud in this area.</p> |               |  |               |   |
| Housing related Fraud | <p>Council properties represent a significant asset to the Council. Housing fraud can deprive the Council of these assets through false applications for Right to Buy.</p> <p>Individuals may attempt to gain council housing by providing false information to meet eligibility criteria or</p>   | <b>High</b>   | <p>The Council has strong controls to prevent false applications for housing.</p> <p>The housing department will engage with tenants regularly to ensure properties are not being misused. They also conduct identity and money laundering checks on applicants during the Right to Buy process.</p> | <b>Medium</b> | <p>CFT will provide a deterrent to fraud in this area through the investigation of any suspected subletting of council properties using powers under the Prevention of Social Housing Fraud Act. Offenders face criminal prosecution and repossession of their council properties. The team will also support the Council in seeking Unlawful Profit Orders where</p> |

| Risk Area         | Risk Description  | Inherent Risk | Risk Controls  | Residual Risk | Priorities for IA / CFT   |
|-------------------|---|---------------|--|---------------|---|
|                   | <p>misrepresent their circumstances to increase their priority for a property.</p> <p>Tenants may sublet their property when they no longer need it in order to make a financial gain.</p> <p>Tenants who sublet or falsely obtain council properties remove a property from a person or family in true need of housing and can negatively affect the Council financially if people are in temporary accommodation and are waiting for a suitable property to become available.</p> |               |  |               | <p>council properties have been sublet for financial gain.</p> <p>CFT will offer support through verification exercises on Right to Buy applications that are likely to proceed.</p> <p>CFT will also seek opportunities to raise awareness with the public about mechanisms for reporting fraud, including through tenant newsletters.</p> |
| Procurement Fraud | Procurement fraud, by its nature, is difficult to detect but can result in large scale loss of public funds over long periods of time. The Competition and  | <b>High</b>   | The Council has established Contract Procedure Rules. The rules will be reviewed regularly and ensure the requirement for a competitive process (where | <b>Medium</b> | Continued vigilance by relevant employees is key to identifying and tackling procurement fraud. CFT will provide training to raise awareness of fraud risks and   |

| Risk Area       | Risk Description   | Inherent Risk | Risk Controls   | Residual Risk | Priorities for IA / CFT   |
|-----------------|--|---------------|---|---------------|---|
|                 | <p>Markets Authority (CMA) estimates that having a cartel within a supply chain can raise prices by 30% or more.</p> <p>In 2020 CIPFA reported losses of £1.5m for local authorities, due to procurement fraud. It found that 8% of fraud detected in this area involved 'insider fraud'.</p> <p>Contracts and supplier arrangements may be subject to renewal and changes during the transfer of services under LGR. Increased procurement activity may present additional opportunities for fraud to enter the system.</p> |               | <p>required) through an e-tender system. A team of procurement professionals will provide guidance and advice to ensure procurement processes are carried out correctly.</p> <p>Contract monitoring will help detect and deter potential fraud.</p> |               | <p>investigate any suspicions of fraud referred.</p> <p>CFT and IA will monitor and share guidance on fraud detection issued by the Competition and Markets Authority and other relevant bodies.</p> <p>IA will regularly undertake procurement related work to help ensure processes are effective and being followed correctly.</p> |
| Theft of Assets | The theft of assets can cause financial loss and reputational damage. It can also negatively impact on employee morale and disrupt the delivery of services.   | <b>High</b>   | Specific registers of physical assets (eg capital items, property, and ICT equipment) will be consolidated and maintained.  | <b>Medium</b> | The transfer of asset registers will be an area of focus for CFT and IA in 2023/24.   |

| Risk Area      | Risk Description  | Inherent Risk | Risk Controls  | Residual Risk | Priorities for IA / CFT  |
|----------------|---|---------------|--|---------------|--|
|                | <p>The Council will own a large amount of portable, desirable physical assets such as IT equipment, vehicles and tools that are at higher risk of theft.</p> <p>North Yorkshire Council will take ownership of assets that were previously logged on separate asset registers at different organisations. During the period of transition – and while asset registers are centrally combined – it may be more difficult to identify instances of theft or loss.</p> |               | <p>The Council operates CCTV systems covering key premises and locations where high value items are stored.</p> <p>Entrance to council buildings is regulated and controlled via different access methods.</p> <p>The Council's whistleblowing arrangements provide an outlet for reporting concerns of theft.</p> |               | <p>Thefts will be reported to the police and Veritau. Instances of theft will be investigated by CFT where appropriate.</p>  |
| Internal Fraud | <p>Fraud committed by employees is a risk to all organisations. Internal fraud within North Yorkshire councils occurred infrequently and usually resulted in low levels of loss. However, if fraud or corruption occurs at a senior level there is the potential for a greater level</p>  | <b>Medium</b> | <p>The Council has approved new whistleblowing and anti-bribery policies. Campaigns will be held annually to promote the policies and to remind employees how to report any concerns.</p> <p>The Council has checks and balances to prevent individual</p>   | <b>Medium</b> | <p>Veritau will liaise with senior management on internal fraud issues. Where internal fraud arises, IA and CFT will review the circumstances to determine if there are underlying control weaknesses that can be addressed.</p> |

| Risk Area | Risk Description   | Inherent Risk | Risk Controls  | Residual Risk | Priorities for IA / CFT   |
|-----------|--|---------------|--|---------------|---|
|           | <p>of financial loss and reputational damage to the Council.</p> <p>There are a range of potential employee frauds including theft, corruption, falsifying timesheets and expense claims, abusing flexitime or annual leave systems, undertaking alternative work while sick, or working for a third party on council time. Some employees have access to equipment and material that may be misused for private purposes.</p> <p>Payroll related fraud can involve the setting up of 'ghost' employees in order to obtain salary payments. Merging of records into the Council's employee and payroll systems will need to be carefully managed to avoid errors, such as duplicate records.</p> |               | <p>employees being able to circumvent financial controls, eg segregation of duties.</p> <p>Controls are in place surrounding flexitime, annual leave and sickness absence.</p> <p>The Council will regularly participate in the National Fraud Initiative. Data matches will include checks on payroll records for potential issues.</p> |               | <p>CFT will provide training to HR officers on internal fraud issues. It will also provide training to all employees on whistleblowing and how to report concerns. An e-learning module on whistleblowing will be made available to all employees through the Council's learning platform.</p> <p>CFT will investigate any suspicions of fraud or corruption. Serious cases of fraud will be reported to the police. In some instances, it may be necessary to report individuals to their professional bodies.</p> <p>CFT will support any disciplinary action taken by the Council relating to internal fraud issues.</p> |

| Risk Area           | Risk Description  | Inherent Risk | Risk Controls  | Residual Risk | Priorities for IA / CFT   |
|---------------------|---|---------------|--|---------------|---|
| Recruitment Fraud   | <p>Recruitment fraud can affect all organisations. Applicants can provide false or misleading information in order to gain employment such as bogus employment history and qualifications or providing false identification documents to demonstrate the right to work in the UK.</p> <p>There is danger for the Council if recruitment fraud leads to the wrong people occupying positions of trust and responsibility, or not having the appropriate professional accreditation for their post.</p> | <b>Medium</b> | <p>The Council has controls in place to mitigate the risk of fraud in this area. DBS checks will be undertaken where necessary.</p> <p>Additional checks are made on applications for roles involving children and vulnerable adults.</p> <p>References will be taken from previous employers and there are processes to ensure qualifications provided are genuine.</p> | <b>Medium</b> | <p>Where there is a suspicion that someone has provided false information to gain employment, CFT will be consulted on possible criminal action in tandem with any disciplinary action that may be taken.</p> <p>Applicants making false claims about their right to work in the UK or holding professional accreditations will be reported to the relevant agency or professional body, where appropriate.</p> |
| Treasury Management | Treasury Management involves the management and safeguarding of the Council's cash flow, its banking, and money market and capital market transactions. The impact  | <b>High</b>   | Treasury Management systems are subject to a range of internal controls, legislation, and codes of practice which protect council funds.   | <b>Low</b>    | IA will conduct periodic work in this area to ensure controls are strong and fit for purpose.   |

| Risk Area                                   | Risk Description  | Inherent Risk | Risk Controls   | Residual Risk | Priorities for IA / CFT   |
|---|---|---------------|---|---------------|---|
|   | of fraud in this area could be significant.   |               | Only pre-approved employees can undertake transactions in this area and they work within pre-set limits.  |               |   |
| Fraudulent Insurance Claims<br><br>Page 135 | <p>The Council may receive exaggerated or fabricated insurance claims. If false claims progress unchecked this would negatively affect the Council in terms of the annual premiums it pays.</p> <p>The Council may receive claims from individuals who have previously tried – either successfully or unsuccessfully – to make claims against the former North Yorkshire Districts. These could represent attempts to gain duplicate pay-outs or revisit failed claims.</p> | <b>Medium</b> | While insurance fraud is common, the burden of risk is largely shouldered by the Council's insurers who have established fraud investigation systems. | <b>Low</b>    | CFT will explore any support that can be provided to the insurance team to complement established arrangements. |
| Blue Badge & Parking Fraud                  | Blue Badge fraud carries low financial risk to the authority but can affect the quality of life   | <b>Low</b>    | Measures are in place to control the issue of blue badges, to   | <b>Low</b>    | CFT will explore periodic proactive days of action with the Council's enforcement team. This will help          |

| Risk Area   | Risk Description   | Inherent Risk | Risk Controls   | Residual Risk | Priorities for IA / CFT  |
|---|--|---------------|---|---------------|--|
| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 136</p> | <p>for disabled residents and visitors. There is a risk of reputational damage to the Council if abuse of this scheme is not addressed.</p> <p>Other low level parking fraud is relatively common. For example, misuse of residential permits to avoid commercial parking charges.</p> |               | <p>ensure that only eligible applicants receive badges.</p> <p>The Council participates in the National Fraud Initiative which flags badges issued to deceased users, and badge holders who have obtained a blue badge from more than one authority, enabling their recovery to prevent misuse. Matches from the ongoing 2022/23 NFI exercise will be completed by the Council, identifying any potential instances of fraud and error.</p> |               | <p>raise awareness and act as a deterrent to blue badge misuse.</p> <p>Warnings will be issued to people who misuse parking permits and blue badges. Serious cases will be considered for prosecution.</p> |



## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

20 MARCH 2023

#### PROGRESS ON 2022/23 INTERNAL AUDIT PLAN

##### Report of the Head of Internal Audit

#### 1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the progress made to date in delivering the 2022/23 internal audit programme of work and the other related services provided to the County Council by Veritau (information governance and counter fraud). The report also highlights any issues likely to impact on the programme of work throughout the remainder of the year.

#### 2.0 BACKGROUND

- 2.1 The internal audit programme for 2022/23 totalled 950 days (plus 1,226 days for other work including the provision of counter fraud and information governance services). It is important that audit resources are used effectively and focus on those areas which add the most value. The programme of work is also designed to be flexible so that changes can be made as new risks are identified or priorities change. This has been particularly important this year as the County Council has prepared for local government reorganisation (LGR) on 1 April 2023.
- 2.2 This report provides details of the audit work that has been completed to date. Details of current and planned work are also provided.

#### 3.0 INTERNAL AUDIT PROGRAMME OF WORK (TO 28 FEBRUARY 2023)

- 3.1 The work programme for 2022/23 represents the systems and areas identified to be the highest priority, based on our assessment of risk. As expected, the primary focus of internal audit work in 2022/23 has been the LGR programme, and on those Council systems which are most directly and indirectly affected by the changes. Maintaining an effective control environment for existing key financial systems has also been a key focus for officers and for our work.
- 3.2 Work is planned to ensure there is sufficient coverage of the framework of governance, risk management and internal control. We have defined the following as areas where assurance is required in order to provide an evidence based opinion:
- Strategic planning
  - Organisational governance
  - Financial governance
  - Risk management

- Information governance
- Performance management and data quality
- Procurement and contract management
- People management
- Asset management
- Programme and project management
- ICT governance

3.3 The requirement for providing assurance across all of these areas is taken into account when prioritising work. The programme of work has been subject to ongoing review and has been adjusted in response to changes in the County Council's activities, risks, operations, systems and controls.

3.4 **Appendix 1** provides details of the internal audits completed or currently in progress. The remaining audit work is also summarised. As noted above, the majority of the audit work undertaken in the year to date has been related to LGR. This has included providing advice, constructive challenge and support to the various project workstreams. Some planned audit work has also been delayed or rescheduled to allow officers to focus on LGR activities. A programme of financial key controls testing was also developed in conjunction with the existing North Yorkshire district and borough councils. This programme of compliance testing was designed to ensure key financial controls continue to operate and remain effective through to vesting day. We expect all the outputs and knowledge gained through our work will contribute to the annual internal audit opinion.

### **Counter Fraud Work**

3.5 Veritau's Corporate Fraud Team (CFT) continues to investigate cases of suspected fraud or malpractice. Such assignments are carried out in response to issues raised by staff or members of the public via the whistleblower hotline, or as a result of management raising concerns. Since the start of the current financial year, 35 cases of suspected fraud or malpractice have been referred to Veritau for investigation, compared to 55 cases received in the corresponding period in 2021/22. For the current year, 12 of the cases relate to internal fraud, 12 relate to adult social care and 3 relate to external fraud, blue badge misuse, debt recovery, or abuse of the council's financial assistance scheme. A further 5 cases relate to applications for a school place. A number of these investigations are still ongoing. 3 cases were not taken forward because they did not meet the threshold for investigation.

3.6 We have organised a series of campaigns to raise awareness of whistleblowing and the risks of fraud. We also produced a fraud eLearning course specifically designed to raise awareness of the increased risks of fraud due to LGR. The eLearning course was made available to staff in all of the North Yorkshire councils, and it was mandatory for all finance staff.

3.7 The counter fraud policy framework was also reviewed and updated. The new policies were presented to this committee in December 2022 before being approved by County Council on 22 February 2023.

3.8 The National Fraud Initiative (NFI) is a large-scale data matching exercise that involves all councils and other public sector bodies in the UK. The work of the NFI is

overseen by the Cabinet Office. The data for the 2022/23 exercise was collated and submitted before the deadline in October 2022. The first matches have been received from the Cabinet Office and will now be investigated.

### **Information Governance**

- 3.9 Veritau's Information Governance Team (IGT) continues to handle a significant number of information requests received in accordance with the Freedom of Information Act 2000 (FOI) and Data Protection Act 2018 (DPA). The number of FOI requests received between 1 April 2022 and 28 February 2023 was 1,068 compared with 1,016 requests received during the corresponding period in 2021/22. The number of requests received in 2022/23 and answered within 20 working days is currently 87% (2021/22 – 88%). The IGT also coordinates the County Council's subject access requests (SARs) and has received 283 such requests between 1 April 2022 and 28 February 2023 compared to 245 requests received during the corresponding period in 2021/22.
- 3.10 Veritau acts as the County Council's Data Protection Officer and provides advice and support to the County Council on all aspect of data protection. The IGT also reviews compliance with the legislation and liaises with the regulator, the Information Commissioner's Office (ICO). Other work includes reviewing data protection impact assessments, preparing data sharing agreements, recording data security incidents and investigating serious data security incidents. Further details about the work of the IGT will be included in the annual information governance report, which will be presented to the next meeting of this committee.

### **Follow Up of Agreed Audit Actions**

- 3.11 Veritau follows up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. An escalation process is in place for when agreed actions are not implemented or where management fail to provide adequate information to enable an assessment to be made. At this stage in the year, there are no actions which have needed to be escalated. On the basis of the follow up work undertaken during the year to date, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.

#### **4.0 RECOMMENDATION**

Members are asked to note the progress made in delivering the 2022/23 Internal Audit programme of work and the other assurance related services provided by Veritau.

Report prepared and presented by Max Thomas, Head of Internal Audit

Max Thomas  
Head of Internal Audit

Veritau Limited  
County Hall  
Northallerton

28 February 2023

**Background Documents:** Relevant audit reports kept by Veritau

## 2022/23 INTERNAL AUDIT WORK PROGRAMME

## FINAL AUDITS ISSUED

| <b>Audit / Activity</b>                                       | <b>Month</b>   | <b>Assurance Level</b> |
|---|----------------|------------------------|
| ICT Capacity Management                                       | June 2022      | Substantial Assurance  |
| Harrogate Day Services  | June 2022      | No opinion given       |
| Visit to care providers – The Lodge, Scarborough              | July 2022      | Limited Assurance      |
| Symology  | July 2022      | Limited Assurance      |
| Learning disability and autism                                | July 2022      | Limited assurance      |
| Developing stronger families - June 2022 return               | July 2022      | No opinion given       |
| Pension fund investments                                      | July 2022      | Substantial Assurance  |
| Contain Outbreak Management Fund                              | July 2022      | No opinion given       |
| Pension Fund expenditure                                      | September 2022 | Substantial Assurance  |
| Pension Fund IT security                                      | September 2022 | Substantial Assurance  |
| Developing stronger families - September 2022 return          | September 2022 | No opinion given       |
| Expenses for Adoption Panel Members                           | October 2022   | No opinion given       |
| Learning disability care provider (Chopsticks, Northallerton) | October 2022   | No opinion given       |
| Easy Ayton School   | November 2022  | Limited Assurance      |
| Cyber readiness   | November 2022  | Substantial Assurance  |
| Contract waivers  | November 2022  | Reasonable Assurance   |
| Developing stronger families - December 2022 return           | December 2022  | No opinion given       |
| Hutton Rudby School   | January 2023   | Limited Assurance      |
| Schools themed audit (Lettings)                               | January 2023   | Reasonable Assurance   |
| Transitions from Children to Adults social care               | February 2023  | Reasonable Assurance   |

| <b>Audit / Activity</b>   | <b>Month</b>  | <b>Assurance Level</b> |
|---------------------------|---------------|------------------------|
| Declarations of interests | February 2023 | Reasonable Assurance   |

## **AUDITS IN PROGRESS**

| <b>Audit / Activity</b>                                 | <b>Status</b>    |
|---|------------------|
| Ripley Beckwithshaw Kettlesing Federation               | Draft Report     |
| Schools themed audit – schools financial value standard | Draft Report     |
| Risk management   | Work in progress |
| Highways' performance management                        | Work in progress |
| Payroll   | Work in progress |
| Main accounting system                                  | Work in progress |
| Creditors   | Work in progress |
| Debtors   | Work in progress |
| Library Payment System (Talis)                          | Work in progress |
| Liquid Logic  | Work in progress |
| Schools Themed Audits - related party transactions      | Work in progress |
| Schools Themed Audits - Schools ICT                     | Work in progress |
| Fairburn CP School                                      | Work in progress |
| Pension Fund income                                     | Planning         |
| Pension Fund expenditure                                | Planning         |
| Pension Fund investments                                | Planning         |

## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

20 MARCH 2023

#### 2023/24 INTERNAL AUDIT PLAN CONSULTATION

##### Report of the Head of Internal Audit

#### 1.0 PURPOSE OF THE REPORT

- 1.1 To seek Members' views on the priorities for internal audit in 2023/24, to help inform the focus of internal audit work. The report also sets out a proposed change to the arrangements for reporting the results of audit work.

#### 2.0 BACKGROUND

- 2.1 In accordance with professional standards<sup>1</sup> and the Council's Audit Charter, the programme of internal audit work must be risk based and take into account the requirement to produce an evidence based annual internal audit opinion. The Head of Internal Audit's annual opinion is based on an objective assessment of the effectiveness of the Council's framework of risk management, governance and internal control.
- 2.2 The responsibility for effective governance, risk management and control arrangements however remains with the Council. The Head of Internal Audit cannot be expected to prevent or detect all weaknesses or failures in internal control, nor can audit work cover all areas of risk across the organisation.
- 2.3 It is therefore important that audit resources are used effectively and focus on those areas which add the most value. This approach requires audit resources to be prioritised towards those areas which are considered to be the highest risk and/or which contribute the most to the achievement of the council's strategic priorities and objectives. The programme of work also needs to be flexible so that as new risks are identified, or priorities change it can be updated. Consultation with the Audit Committee is an essential part of this risk assessment process.

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<sup>1</sup> As set out in the Public Sector Internal Audit Standards and specific guidance on the application of those standards for local government, issued by CIPFA.

### 3.0 **CONSULTATION ON 2023/24 INTERNAL AUDIT WORK PROGRAMME**

3.1 As in previous years, the Audit Committee is asked to identify any specific areas which should be considered a priority for audit to review in 2023/24.

3.2 There are a range of possible areas that internal audit could cover. The first year of the new North Yorkshire Council is likely to result in various issues and risks being identified. Ensuring that all the new financial and governance arrangements provide the necessary control safeguards will be a significant challenge. Key plans, policies, processes and procedures will need to become embedded throughout the new organisation. In addition, the Council will be delivering a wide range of new and different services.

3.3 We have also defined 11 key areas where we require assurance during the course of the year in order to provide an evidence based opinion, as follows:

- Strategic planning
- Organisational governance
- Financial governance
- Risk management
- Information governance
- Performance management and data quality
- Procurement and contract management
- People management
- Asset management
- Programme and project management
- ICT governance

3.4 The table at **Appendix 1** includes some areas for consideration for audit in 2023/24. These are included to prompt discussion and are not intended to be a definitive or complete list of areas that could be subject to audit.

3.5 We will use the feedback provided by Members to help develop the initial programme of work for 2023/24. The Audit Committee will be asked to approve the programme at its next meeting.

### 4.0 **FUTURE PREPORTING ARRANGEMENTS**

4.1 The results of internal audit work have previously been reported as part of annual directorate reports, with corporate and thematic work also reported on an annual basis. This method of reporting is going to be more difficult with the new larger Council given the increase in service areas. It also means that there is often a significant delay between an audit being



completed and the results being reported to the Audit Committee. This is not considered to be ideal. Internal auditors are generally moving to more agile ways of auditing, with shorter more focused reviews and quicker reporting of the results. It is therefore proposed to start reporting the detailed results of audit work as part of the regular progress reports to the Committee.

## 5.0 **RECOMMENDATIONS**

### 5.1 Members are asked to:

- identify any specific areas which should be considered a priority for audit review as part of the internal audit programme of work in 2023/24.
- comment on the proposed change to reporting arrangements.

Report prepared and presented by Max Thomas, Head of Internal Audit

Max Thomas  
Head of Internal Audit  
Veritau Limited  
County Hall  
Northallerton

1 March 2023

**Background Documents:** None

**NORTH YORKSHIRE COUNTY COUNCIL  
INTERNAL AUDIT PROGRAMME OF WORK 2023/24**

| <b>Area</b>                                  | <b>Potential area of activity</b>   |
|--|---|
| Supporting the new council post vesting date | <ul style="list-style-type: none"> <li>• Internal control, data quality and other support to new council operations and ways of working</li> <li>• Support and advice to relevant areas</li> </ul>  |
| Strategic planning                           | <ul style="list-style-type: none"> <li>• Key strategy framework (e.g. The Council Plan, service planning, and new policies and procedures).</li> <li>• Environmental sustainability and climate change</li> </ul>   |
| Organisational governance                    | <ul style="list-style-type: none"> <li>• Areas of the council's new corporate governance framework (such as schemes of delegation, the constitution and transparency)</li> </ul>  |
| Financial governance                         | <ul style="list-style-type: none"> <li>• Key financial systems to ensure key controls are in place and operating effectively.</li> <li>• Medium term financial planning and budgeting</li> <li>• Assessment of arrangements with expectations per the Cipfa Financial Management Code.</li> </ul>   |
| Risk management                              | <ul style="list-style-type: none"> <li>• Review of risk management, business continuity, disaster recovery plans, and insurance arrangements</li> </ul>   |
| Information governance                       | <ul style="list-style-type: none"> <li>• Information governance and data protection – compliance, management of information assets, data sharing agreements, data storage arrangements.</li> </ul>  |
| Performance management and data quality      | <ul style="list-style-type: none"> <li>• Review of corporate and service performance management and data quality</li> </ul>   |
| People management                            | <ul style="list-style-type: none"> <li>• HR and organisation development</li> <li>• Workforce planning (such as absence management, training and development/ talent management)</li> </ul>   |
| Asset management                             | <ul style="list-style-type: none"> <li>• Security of assets being transferred to new council</li> <li>• Development of strategic arrangements</li> </ul>  |
| Programme and project management             | <ul style="list-style-type: none"> <li>• Corporate project management arrangements and project risk management</li> </ul>   |
| ICT governance                               | <ul style="list-style-type: none"> <li>• IT strategy and governance (information security policies, IT risk management, change management)</li> <li>• IT information security (server configuration, patch management and operating system configuration)</li> <li>• Cybersecurity</li> </ul>   |
| Service areas                                | <ul style="list-style-type: none"> <li>• Adult and children's social care</li> <li>• Partnership working, including with the NHS</li> <li>• Planning and Housing</li> <li>• Commercial Property and Procurement</li> <li>• Highways and Transportation</li> <li>• Environmental Services</li> <li>• Customer and Revenue and Benefits</li> <li>• Economic development</li> <li>• Contract Management</li> </ul> |

## NORTH YORKSHIRE COUNTY COUNCIL

### AUDIT COMMITTEE

20 MARCH 2023

#### INTERNAL AUDIT WORK FOR THE CENTRAL SERVICES DIRECTORATE

##### Report of the Head of Internal Audit

#### 1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the internal audit work performed for the period 1 February 2022 to 31 January 2023 for the Central Services (CS) directorate.

#### 2.0 BACKGROUND

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the Central Services directorate, the Committee receives assurance through the work of internal audit (as provided by Veritau), as well as receiving a copy of the latest directorate risk register.

- 2.2 This agenda item is considered in two parts. This first report considers the work carried out by Veritau and is presented by the Head of Internal Audit. The second part is presented by the Corporate Director and considers the risks relevant to the directorate and the actions being taken to manage those risks.

#### 3.0 WORK DONE FOR THE PERIOD TO 31 JANUARY 2023

- 3.1 Internal audit work is planned and delivered on the basis of risk. In the last year, audit work has been heavily focused on supporting the LGR programme. We have attended a number of LGR related project groups and meetings, and have provided advice, challenge and support to a variety workstreams. We are continuing to work with officers to understand the key changes to financial processes and controls which are planned for the new North Yorkshire Council. We have also provided advice and data analytics support in a number of areas including creditors, bank reconciliations and the feeders into the Oracle system.
- 3.2 Work is ongoing to complete our financial systems audits of Payroll, Main Accounting System, Creditors and Debtors. These audits are planned to be completed in time to inform the annual Head of Internal Audit opinion.
- 3.3 Details of the internal audit work undertaken for the directorate and the outcomes of these audits are provided in **Appendix 1**.
- 3.4 Veritau has also been involved in carrying out a number of other assignments for the directorate. This work has included:

- Providing advice and support as a result of specific control issues
  - Undertaking financial assessments on behalf of Central Services to support the Council's procurement process
  - Meeting regularly with Central Services management and maintaining ongoing awareness and understanding of key risk areas
- 3.5 As with previous audit reports an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking. The opinions and priority rankings used by Veritau are detailed in **appendix 2**. Where the scope of the audit work is limited, or the audit focused on value for money or the review of specific risks as requested by management then no audit opinion will be given. The work completed for the directorate and the opinions given following each audit contribute to the annual report and opinion of the Head of Internal Audit
- 3.6 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau follow up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. On the basis of the follow up work undertaken during the period, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.

#### 4.0 **RECOMMENDATION**

- 4.1 That Members note the results of internal audit work performed in the period for the Central Services directorate.

Max Thomas  
Head of Internal Audit

Veritau  
County Hall  
Northallerton

3 March 2023

**Background Documents:** None

Relevant audit reports kept by Veritau.

Report prepared by Ian Morton, Assistant Director – Audit Assurance, Veritau and presented by Max Thomas, Head of Internal Audit, Veritau

## FINAL AUDIT REPORTS ISSUED IN THE PERIOD TO 31 JANUARY 2023

|   | System/Area           | Audit Opinion        | Areas Reviewed  | Date Issued | Comments   | Action Taken   |
|---|-----------------------|----------------------|---|-------------|--|--|
| A | Registration Services | Reasonable Assurance | The audit reviewed the arrangements for managing wedding ceremonies. This included the systems and processes used to allocate work, and the controls in place to monitor the hours worked by staff on annualised contracts. | May 2022    | <p>The allocation of work to members of staff appeared to be fair and appropriate.</p> <p>Processes were in place to monitor hours worked by annualised staff members. However, there were some working practices which differed from normal HR expectations. There were also some inconsistent internal practices, for example in respect of staff 121s and the application of probation periods for new starters.</p> <p>It was noted that the mix of relief and annualise hours staff varied significantly between areas. This could lead to some areas of the service being vulnerable to staff shortages at peak times.</p> | <p><b>2 P2 and 3 P3 actions were agreed.</b></p> <p><b>Responsible Officer(s):</b><br/>General Manager-Registration, Archives and Coroners,</p> <p>Quarterly meetings will take place between the service and HR to clarify expectations and improve understanding.</p> <p>Information will be communicated to Area Managers to help ensure consistent practices are followed.</p> <p>A staffing review will be undertaken to help increase staffing resilience.</p> |

| System/Area |          | Audit Opinion       | Areas Reviewed   | Date Issued  | Comments   | Action Taken   |
|-------------|----------|---------------------|--|--------------|--|--|
| B           | Expenses | No opinion provided | The audit reviewed the process for claiming expenses in MyView. The audit was requested following a specific issue with the payment of Adoption Panel expenses. A significant overpayment occurred as a result of an input error by a claimant. The overpayment was identified by the claimant and repaid. | October 2022 | <p>The claimant entered an incorrect value into a field in MyView by mistake. This was the first claim they had made, and they were therefore unfamiliar with the system.</p> <p>As this was the first claim it was also not identified on the regular exception report.</p> <p>The claim was then authorised for payment by an officer who did not have direct responsibility for the service area.</p> <p>Whilst it is likely that the error would have been identified by the budget holder, other expected controls did not prevent the overpayment occurring.</p> | <p>Authorisation for this type of claim has been changed to the manager with direct responsibility for the service area.</p> <p>ESS staff have been reminded to notify authorising officers immediately of all errors.</p> <p>The monitoring of salary difference reports has also been improved.</p> <p>All similar payments in MyView now have a maximum limit of 9 units to prevent similar overclaims and to minimise the risk of future overpayments.</p> |

### Audit Opinions and Priorities for Actions

| <b>Audit Opinions</b>  |  |
|--|--|
| Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit. |  |
| Opinion  | Assessment of internal control   |
| Substantial Assurance  | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.  |
| Reasonable Assurance   | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.                     |
| Limited Assurance  | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.                       |
| No Assurance   | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

| <b>Priorities for Actions</b> |  |
|-------------------------------|--|
| Priority 1                    | A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management         |
| Priority 2                    | A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management. |
| Priority 3                    | The system objectives are not exposed to significant risk, but the issue merits attention by management.                                     |

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## North Yorkshire County Council

### Audit Committee

20 March 2023

#### Internal Control Matters for the Central Services Directorate

#### Report of the Corporate Director – Strategic Resources

#### **1.0 Purpose of the report**

- 1.1 To provide an update to Members of issues and progress against governance related areas identified within Central Services (CS) Directorate.
- 1.2 To provide details of the latest Risk Register for the CS Directorate.

#### **2.0 Background**

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the CS Directorate, the Committee receives assurance through the work of internal audit (detailed in a separate report to the Committee), details of the areas of improvement in the Annual Governance Statement (AGS), together with the Directorate Risk Register.

#### **3.0 Directorate update**

##### **3.1 Local Government Reorganisation (LGR)**

- 3.1.1 Capacity and prioritisation continue to be significant issues in the Directorate, particularly in light of the challenges presented by Local Government Reorganisation. The Directorate is playing a key role in this fundamental Council initiative to set up the new North Yorkshire Council and is involved in / leading several workstreams all of which are working to ensure all necessary arrangements for each service are in place for vesting day on 1 April 2023 including appropriate governance arrangements. The Central Services Directorate is principally involved in the following workstreams while providing support roles to all other workstreams:

- Finance
- IT
- Property
- Customer
- Corporate Governance
- Human Resources

- 3.1.2 To ensure appropriate governance and decision making processes are in place, all workstreams adhere to established and agreed decision making levels.

##### **3.2 External Factors - Covid-19 and Economic Climate**

- 3.2.1 As the County has now moved into a state of living with Covid, the implications for the CS Directorate as set out below. This update covers the involvement of the Directorate only at a high level. Naturally, there continues to be a lot of activity beyond this frame which cannot be covered through this report.

- 3.2.2 A key issue throughout the pandemic has been the access vulnerable people have to basic necessities, particularly those who have to self-isolate following a positive test or when requested to do so by NHS Test and Trace, but also those who are clinically vulnerable and were advised to self-isolate (“shielding”) prior to April 2021. The Stronger Communities team has continued to support the 23 Community Support Organisations it rapidly commissioned at the start of the pandemic to coordinate community led activity in localities including ensuring vulnerable people have access to basic necessities. The collaborative approach has been well received and has been extremely effective. The CSOs have also been supporting some people who received a lot of support during lockdowns and self-isolation to become more independent and to help ensure that support is available to vulnerable people particularly impacted by the cost of living crisis. The Stronger Communities team is also working with those CSOs who are interested in developing a longer term role in supporting their communities more broadly.
- 3.2.3 Supply chain resilience arrangements were put in place in response to Covid-19. This included targeted support for the Council supply chains. The intention was, as we transitioned back to life post-COVID the need for supply chain resilience would cease. It soon became apparent that the escalating situation in the Ukraine would result in far reaching repercussions. Inflation hit a high of 11.05%, this has resulted in our supply chains which were trying to recover from the pandemic being impacted by a number of factors. The Supply Chain Resilience Board (SCRB), set up in response to triage suppliers at risk due to the pandemic has remained in place. The social care sector has been impacted significantly by the pandemic and more recent market wide issues and we continue to see the effects on this sector in particular. The council’s internal governance processes are used to ensure an open, transparent and appropriate response to our supply chains.
- 3.2.4 During the course of the lockdown period and subsequent period of Coronavirus related restrictions staff working arrangements were implemented in accordance with government guidance. Where possible staff were advised to work from home. Where it was not been possible for staff to work from home strict Covid secure measures were established, including social distancing, enhanced cleaning regimes and increased ventilation. Support services adapted well to this new way of working and helped to ensure the Council was still able to perform as effectively as possible across all its services. In particular, ICT services have been vital to ensure staff have been able to work in an agile way throughout the pandemic and on the whole, technology has worked well and has been appreciated and well received by staff.
- 3.2.5 Following the ending of the Coronavirus restrictions office based staff have been able to work on a hybrid basis utilising a combination of office and home based working. The County Council’s Modern Council Programme continues to review government guidance and good practice information in respect of new ways of working and practice will evolve as we continue to develop the arrangements following the pandemic. This will include in the development of the working arrangements following the implementation of LGR.

### **3.3 I.T. Security**

- 3.3.1 Cyber-attacks on individuals and organisations continue to be a constant threat and at times NYCC can see significant levels of activity against our network, this activity was heightened in the run up to and during the start of the Ukraine conflict during the first quarter of 2022. As has been seen previously, a successful attack on a council seriously impacts their ability to deliver services. NYCC continues to follow national advice and guidance to put in a range of effective measures to protect NYCC as far as reasonably possible and having robust plans in the event that such an attack takes place.

- 3.3.2 During the year T&C continue to maintain the technical elements of NYCC security product portfolio to improve our resilience against cyber-attack and implement any guidance produced by the National Cyber Security Centre (NCSC) to improve our overall security posture and have proactively blocked incoming traffic from several countries when elevated malicious activity has been noticed.
- 3.3.3 The Head of Technology Solutions and the SISCO are continuing work with our emergency planning team to run awareness sessions with service areas to consider the impact of a cyber-attack on their ability to deliver services and update their business continuity plans accordingly.
- 3.3.4 The Technology and Change service maintained its certification of ISO 27001:2013 Information Security Management System standards which demonstrates NYCC continue to provide reliable documentation of how the Information Security Management System (ISMS) is achieving the intended outcomes, and how T&C continues to focus its efforts on maturing and improving the ISMS and the policies and procedures to embed information security to further optimise the business benefits.
- 3.3.5 All officers of the organisation play an important role in reducing the risk of a successful cyber-attack and two sets of training has been rolled out to raise awareness and guidance and test the organisations' ability to identify phishing attacks and improve overall information security awareness.
- 3.3.6 Throughout the year there have been a few minor incidents involving users clicking on email links. No matter how good our layers of security, a small percentage of phishing emails will always get through. These emails tend to be from compromised external accounts which our security applications see as coming from a legitimate domain, has a plausible subject line, and does not obviously contain malicious attachments, which means we are reliant on the vigilance of our staff in recognising and handling these emails correctly.

### **3.4 Legal and Democratic Assurance**

- 3.4.1 Part of the role of Central Services is to review risk within the Council and offer assurance against activity it undertakes. Within Legal and Democratic Services there are good measures in place to protect the Council through the Legal and Democratic Services team; including provision of clear advice being provided to all directorates, regular staff training and development and networking and forums.
- 3.4.2 Following the pandemic the Council's meetings are being held 'in person' and decision making processes have returned to normal. The key issue over the past year has been the preparations for LGR and the vesting of the new NYC on 1 April 2023. Having the new authority 'safe and legal' from vesting day is essential and the development of the new Constitution has been a major task as it brings together all the governance for the unitary authority. Over the past year Member working groups have considered various aspects of Governance and worked with officers to develop what will be the Constitution for the new Authority. The Constitution has been considered by the Executive on 17th January and was approved by Council in February 2023. The Democratic Services team have been integral to preparations to ensure governance arrangements are in place from vesting date with a calendar of meetings scheduled for the new authority so that decision making can continue in a seamless way.
- 3.4.3 The Council can be subject to prosecution, but no new prosecutions have been brought against the authority in the past 3 years.

### **3.5 Carbon Reduction**

3.5.1 Central Services teams are part of a dedicated project team driving the 'Beyond Carbon' change programme for North Yorkshire County Council to implement the Carbon Reduction Plan agreed by the Executive which sets out the Council's aspirations and actions in relation to carbon reduction in the context of national and regional commitments. A specific risk in relation to Carbon neutrality is included on the Central Services Risk Register and it is also highlighted as a corporate objective. A climate change impact assessment tool is used to enable managers and decision makers to understand and take appropriate action regarding the carbon implications of the policy and work of the Council. A one-off £1m pump-priming fund was committed in the Council's budget and has enabled the appointment of a dedicated officer and is supporting the development of business cases to reduce the Council's carbon footprint. Central Services teams have also made a significant contribution to the development of the draft Climate Change strategy for North Yorkshire Council.

### **3.6 Establishment of a Mayoral Combined Authority**

3.6.1 The Devolution deal with Government was announced on 1 August 2022. Work is now progressing in creating the York and North Yorkshire Combined Authority through the required legislative process. A governance review has been undertaken and approved by the NYCC Executive and the City of York Council.

3.6.2 Following the governance review period, the public consultation on the establishment of the Combined Authority took place during the year with a decision by Executive to progress with Devolution taking place in February 2023 having considered the outcome of the consultation. A joint-committee between North Yorkshire and City of York has been established as a "shadow board" to oversee progress and decision-making in moving the creation of the Combined Authority forward.

### **3.7 Commercial Agenda**

#### **North Yorkshire Highways Limited**

3.7.1 Central Services teams have played key roles in the ongoing service support to North Yorkshire County Council's newest wholly owned teckal company which was established on 1 June 2021 to deliver highways maintenance services. Support is provided from Finance, T&C, HR, BSS, Legal, Property and Procurement to ensure appropriate governance and internal control processes are in place and operating properly. Since go live, central services teams have provided day to day support to the company through service level agreements and essential support in resolving issues including system and governance procedures.

### **3.8 Other Issues**

3.8.1 Capacity and prioritisation continue to be significant issues in the Directorate, particularly in light of the challenges that have continued to be presented by Covid and the decision to move forward with Local Government Reorganisation as set out above. In addition to the existing capacity pressures presented by continuing to deliver Value for Money services, the Beyond 2020 Programme (including the ongoing need to achieve savings) and the various risks & issues outlined in this report; the Directorate will continue to play a key supporting role in a range of wider council initiatives, particularly Local Government Review and Devolution.

3.8.2 Other key issues facing the Directorate, however the detail of those having been covered elsewhere through the Audit Committee programme of work, include:

- Transformation post vesting date
- Property portfolio and rationalisation
- Information security

## 4.0 Directorate Risk Register

- 4.1 The Directorate Risk Register (DRR) is the end product of a systematic process that initially identifies risks at Service level, which then aggregates these via a sieving process to Directorate level. A similar process sieves Directorate level risks into the Corporate Risk Register.
- 4.2 The Risk Prioritisation System used to derive risk registers across the County Council categorises risks as follows:
- Category 1 and 2 are high risk (RED)
  - Category 3 and 4 are medium risk (AMBER)
  - Category 5 is low risk (GREEN)

The DRR represents the principal risks that may materially impact on the performance and financial outcomes of the Directorate.

- 4.3 A summary of the DRR is attached at Appendix A. As well as providing a quick overview of the risks and their ranking, it also provides details of the change or movement in the ranking of the risk since the last review in the left hand column.
- 4.4 The latest detailed DRR is shown at Appendix B showing a range of key risks with existing controls and additional actions to minimise them. The detail also shows a ranking of the risks both at the present time and after mitigating action.
- 4.5 An annual and interim review of the Risk Register has taken place since the last report to this Committee. The last review was carried out in February 2023. The Risk Register reflects the range of services but also includes many corporate initiatives given the leadership role of Central Services on such issues as the Information Governance and Security, Health and Safety and Carbon Neutral risks
- 4.6 The Risk Register continues with many risks that have previously been present but there have been the following changes since the last progress report to this Committee:

### *New and Deleted risks*

No new risks have been added and no risks have been deleted. This concurs with the additional work being undertaken for the Local Government Reorganisation which has already been taken into account.

### *Other Notable Changes/Actions*

- i) Information Governance and Security risk – This risk continues to be an issue and also raises the awareness of the particularly heightened risk of information breaches occurring due to the changes happening during Local Government Reorganisation. However, there is a robust programme of governance to manage all of the changes taking place.
- ii) Effectiveness, Capacity and Skills of Staff and Workplace Health and Wellbeing risk – previously this risk was expanded to include workplace health and wellbeing. A health needs assessment will be carried out across all councils to benchmark this area.
- iii) Commercial Strategy risk – this risk concentrates on the governance arrangements and commercial financial issues of the Brierley Group companies. A report was brought to this Committee about the requirements of the recently published CIPFA 2022 best practice guidance on Local Authority companies in December 2022. A review of the principles contained within the CIPFA guidance against current arrangements will be carried out, and recommendations for any proposed changes to the commercial governance

environment arising from this review will be carried out as part of the work of the LGR Commercial workstream.

- iv) Carbon Neutral risk – this risk has increased its probability of occurring from a Low to a Medium at the first review. This has consequently changed the risk to Red.

## **5.0 Recommendation**

### **5.1 That the Committee:**

- i) Note the position on the Central Services Directorate key governance issues.
- ii) Note the Directorate Risk Register for the Central Services Directorate; and
- iii) Provide feedback and comments on the Directorate Risk Register and any other related internal control issues.

GARY FIELDING  
Corporate Director, Strategic Resources  
March 2023

Risk Register: month 6 (February 2023) – summary

Next review due: August 2023

Report Date: 7<sup>th</sup> February 2023 (pw)

| Change | Risk Title  | Identity<br>Risk Description   | Person     |              | Classification |     |     |      |     |     |     |             |      |     |     | Fallback Plan |        |                |     |               |
|--------|---|--|------------|--------------|----------------|-----|-----|------|-----|-----|-----|-------------|------|-----|-----|---------------|--------|----------------|-----|---------------|
|        |   |  | Risk Owner | Risk Manager | Pre            |     |     |      |     | RR  |     | Post        |      |     |     |               | FBPlan | Action Manager |     |               |
|        |   |  |            |              | Prob           | Obj | Fin | Serv | Rep | Cat | RRs | Next Action | Prob | Obj | Fin | Serv          |        |                | Rep | Cat           |
| ◀▶     | 15/161 - Information Governance and Security (corporate risk)   | Ineffective information governance arrangements lead to unacceptable levels of unauthorised disclosure of personal and sensitive data, poor quality or delayed responses to FoI requests, and inability to locate key data upon which the Council relies resulting in loss of reputation, poor decision making, fine, etc (including Brierley Group companies) Failure to put in place the appropriate cyber security arrangements could potentially lead to data breach, loss of data, loss of systems, loss of reputation with particular heightened risk due to the change during LGR | Chief Exec | CD SR        | H              | L   | M   | L    | H   | 1   | 11  | 31/03/2023  | M    | L   | M   | L             | H      | 2              | Y   | CD SR         |
| ▶      | 15/11 - North Yorkshire Transformation Programme  | Failure to deliver a coherent NY transformation programme which meets the needs of LGR transition, service operational requirements and savings requirements   | Chief Exec | CD SR        | H              | H   | H   | H    | H   | 1   | 4   | 31/03/2023  | M    | H   | H   | H             | H      | 2              | Y   | All Mgt Board |
| ▶      | 15/162 - Effectiveness, Capacity and Skills of Staff and Workplace Health and Wellbeing (including impact of LGR) | A lack of capacity and skills within Central Services together with insufficiently supported staff leads to a significant decline in effectiveness, service quality &/or insufficient progress in carrying out multiple priority areas including the LGR transition, Covid and Covid recovery alongside existing responsibilities.   | Chief Exec | CSD Mgt Team | H              | M   | L   | M    | M   | 2   | 11  | 31/03/2023  | H    | M   | L   | M             | L      | 2              | Y   | CSD Mgt Team  |
| ◀▶     | 15/201 - Commercial Strategy  | Failure to both put effective governance arrangements in place (including transparency and oversight for commercial operations) and appropriately influence commercial financial targets (eg. NY Brierley Group companies and NYES) commercial investments and commercial ventures particularly arising through LGR leading to poor decision making and financial loss.  | Chief Exec | CSD Mgt Team | M              | M   | M   | M    | H   | 2   | 6   | 31/03/2023  | M    | M   | M   | M             | H      | 2              | Y   | CSD Mgt Team  |
| ◀▶     | 15/243 - Carbon Neutral   | Failure to support the Council's aspiration to achieve carbon neutrality by 2030 resulting in unmet public expectation and missed opportunities for energy spend reduction   | Chief Exec | CSD AD PPC   | M              | L   | M   | L    | H   | 2   | 5   | 31/03/2023  | M    | L   | M   | L             | H      | 2              | N   |               |

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Risk Register: month 6 (February 2023) – summary

Next review due: August 2023

Report Date: 7<sup>th</sup> February 2023 (pw)

| Identity   |  | Person   |            | Classification |      |     |     |      |     |     |             |            |      |     |     | Fallback Plan |        |                |     |                  |
|------------|--|--|------------|----------------|------|-----|-----|------|-----|-----|-------------|------------|------|-----|-----|---------------|--------|----------------|-----|------------------|
| Change     | Risk Title   | Risk Description   | Risk Owner | Risk Manager   | Pre  |     |     |      |     | RRs | Next Action | Post       |      |     |     |               | FBPlan | Action Manager |     |                  |
|            |  |  |            |                | Prob | Obj | Fin | Serv | Rep |     |             | Cat        | Prob | Obj | Fin | Serv          |        |                | Rep | Cat              |
| ◀▶         | 15/183 - Health & Safety                           | Major Corporate Health and Safety failure resulting in injuries, claims, reputational and service delivery impact and possible prosecution (this includes the impact of communicable diseases for example monkey pox, Covid, associated emerging variants and LGR)   | Chief Exec | CD SR          | L    | M   | M   | M    | H   | 3   | 6           | 31/08/2023 | L    | M   | M   | M             | H      | 3              | Y   | CSD SR<br>HoHSRM |
| ◀▶         | 15/200 - Significant Incidents (Corporate)         | Failure to plan, respond to and recover effectively from significant incidents in the community resulting in risk to life and limb, impact on statutory responsibilities, impact on financial stability and reputation   | Chief Exec | Chief Exec     | L    | L   | H   | L    | H   | 3   | 8           | 31/03/2023 | L    | L   | H   | L             | M      | 3              | Y   | Chief Exec       |
| Page 160 ▶ | 15/29 - Corporate Governance and Ensuring Legality | Failure to ensure adequate Corporate Governance arrangements across the County Council to ensure that the Council acts lawfully in its operations and decision making resulting in inadequate control and stewardship; given the environment of greater risk taking and expansion of the types of activities the Council is now involved in resulting in challenge and non delivery of decisions, financial implications and loss of reputation particularly given service and statutory obligations | Chief Exec | CSD ACE<br>LDS | M    | L   | M   | M    | M   | 4   | 13          | 30/06/2023 | M    | L   | M   | M             | M      | 4              | Y   | CSD ACE<br>LDS   |



Risk Register: month 6 (Feb 2023) – detailed

Next review due: August 2023

Report Date: 7<sup>th</sup> February 2023 (pw)

| Phase 1 - Identification         |  |                   |   |   |                  |                       |                               |                  |                   |                  |                 |
|----------------------------------|--|-------------------|---|---|------------------|-----------------------|-------------------------------|------------------|-------------------|------------------|-----------------|
| <b>Risk Number</b>               | 15/161   | <b>Risk Title</b> | 15/161 - Information Governance and Security (corporate risk)   |   |                  |                       | <b>Risk Owner</b>             | Chief Exec       | <b>Manager</b>    | CD SR            |                 |
| <b>Description</b>               | Ineffective information governance arrangements lead to unacceptable levels of unauthorised disclosure of personal and sensitive data, poor quality or delayed responses to FoI requests, and inability to locate key data upon which the Council relies resulting in loss of reputation, poor decision making, fine, etc (including Brierley Group companies) Failure to put in place the appropriate cyber security arrangements could potentially lead to data breach, loss of data, loss of systems, loss of reputation with particular heightened risk due to the change during LGR |                   |   |   |                  | <b>Risk Group</b>     | Legislative                   | <b>Risk Type</b> | Corp 20/187       |                  |                 |
| Phase 2 - Current Assessment     |  |                   |   |   |                  |                       |                               |                  |                   |                  |                 |
| <b>Page 161</b>                  | <b>Current Control Measures</b>  |                   | Information Governance Strategy including the associated Policy and Procedure Framework; CIGG Action Plan; data breach process; messages from senior management; on-line training; staff induction; Information Asset Owners identified; information asset registers regularly updated; Internal Data Governance team with an identified representative for each Directorate (replacing DIGCs); Veritau appointed as DPO; posters; intranet information; regular monitoring of electronic communication by T&C; series of unannounced security compliance visits by internal audit Brierley Group companies' information governance procedures in place;<br><b>FoI</b> – controls include central monitoring of receipt and progress, regular review by Veritau and review of outstanding cases by the Chief Exec on a monthly basis; proactive monitoring of all data; terms of reference reviewed; Veritau investigate significant data breaches; CIGG consider reasons for data breaches and cascade lessons learned; secure physical storage and internal info transfer issues resolved; e learning training packages refreshed; Information Sharing Protocol in place;<br><b>SAR</b> - controls include central monitoring of receipt and progress; refreshed Information Governance page on intranet; Information Governance risk register completed; Data Quality Improvement Action Plan agreed; DPIAs in place;<br><b>Cyber Security</b> - application of all the features of the Information Security Management System (ISMS); cyber prevention tools are kept up to date; security team in place; Non NYCC Network Access Policy produced; e learning training packages refreshed; targeted phishing campaign; Directorates' discussion on the potential outcome of a cyber-attack carried out; regular updates and awareness communications to staff; information sharing agreements in place where required; UK GDPR compliance; robust programme of governance in place to manage all changes taking place in relation to LGR; |   |                  |                       |                               |                  |                   |                  |                 |
|                                  | <b>Probability</b>   | H                 | <b>Objectives</b>   | L | <b>Financial</b> | M                     | <b>Services</b>               | L                | <b>Reputation</b> | H                | <b>Category</b> |
| Phase 3 - Risk Reduction Actions |  |                   |   |   |                  |                       |                               |                  |                   |                  |                 |
| <b>Reduction</b>                 | 15/423 - Continue to emphasise personal responsibility of staff for all information in this area and consider disciplinary action in cases of data breaches  |                   |   |   |                  | <b>Action Manager</b> | CD SR<br>CSD ACE BS           | <b>Action by</b> | Thu-31-Aug-23     | <b>Completed</b> |                 |
| <b>Reduction</b>                 | 15/424 - Continue to review information asset registers and target training where appropriate (ongoing) (Info Gov)   |                   |   |   |                  | <b>Action Manager</b> | CSD SR AD T&C<br>Ho Int Audit | <b>Action by</b> | Thu-31-Aug-23     | <b>Completed</b> |                 |
| <b>Reduction</b>                 | 15/431 - Continue to work within services in a prioritised order to ensure information (electronic and physical) is secure and transferred securely (ongoing) (linked to Microsoft 365 roll out)   |                   |   |   |                  | <b>Action Manager</b> | CSD SR AD T&C                 | <b>Action by</b> | Thu-31-Aug-23     | <b>Completed</b> |                 |
| <b>Reduction</b>                 | 15/433 - Put in place a system to ensure regular communications to staff to ensure good Information Governance including messages from Management Board and associated campaigns   |                   |   |   |                  | <b>Action Manager</b> | CSD SR AD T&C                 | <b>Action by</b> | Thu-31-Aug-23     | <b>Completed</b> |                 |
| <b>Reduction</b>                 | 15/612 - Data Quality Improvement - implement an action plan to address the Data Quality issues that are impacting on the accuracy of operational management information, performance reports, transparency publications and statutory returns (Info Gov)  |                   |   |   |                  | <b>Action Manager</b> | CSD SR AD T&C                 | <b>Action by</b> | Sat-30-Sep-23     | <b>Completed</b> |                 |

Risk Register: **month 6 (Feb 2023) – detailed**

Next review due: **August 2023**

Report Date: **7<sup>th</sup> February 2023 (pw)**

|   |   |                               |               |                  |   |                 |   |                   |   |                       |   |
|---|---|-------------------------------|---------------|------------------|---|-----------------|---|-------------------|---|-----------------------|---|
| <b>Reduction</b>                                | 15/613 - Documents and Record Management including classification and retention - implement the approach to document and records management and storage with the Council that encompasses both physical and electronic information including classification and retention (linked to Microsoft 365 roll out) (Info Gov)         | CSD SR AD T&C                 | Thu-31-Aug-23 |                  |   |                 |   |                   |   |                       |   |
| <b>Reduction</b>                                | 15/636 - Review existing training and continue to develop and implement appropriate training relating to quality and security of information  | CSD SR AD T&C<br>Ho Int Audit | Thu-31-Aug-23 |                  |   |                 |   |                   |   |                       |   |
| <b>Reduction</b>                                | 15/793 - Review impact on Veritau and the resources required to provide the DPO service, and implement actions required (ongoing)   | CD SR                         | Thu-31-Aug-23 |                  |   |                 |   |                   |   |                       |   |
| <b>Reduction</b>                                | 15/1105 - Review and revise Business Continuity Plans with Directorates to take into account actions required following a cyber-attack (Cyber Security); workshops have taken place with T&C and Services, prioritising critical services. County and Districts/Boroughs to review BIA and IMP to reflect Covid, cyber and LGR. | CSD PPC HoR&E                 | Sat-30-Sep-23 |                  |   |                 |   |                   |   |                       |   |
| <b>Reduction</b>                                | 15/1550 - Implement the robust programme of governance to manage all changes taking place in relation to LGR  | CSD SR AD T&C                 | Fri-31-Mar-23 |                  |   |                 |   |                   |   |                       |   |
| <b>Reduction</b>                                | 15/1956 - Ensure information governance requirements are in place for wholly owned companies (review Information Governance Procedures in place for each of the Brierley Group companies to ensure they are up to date and fit for purpose)   | CSD AD SR (VD)                | Fri-31-Mar-23 |                  |   |                 |   |                   |   |                       |   |
| <b>Phase 4 - Post Risk Reduction Assessment</b> |   |                               |               |                  |   |                 |   |                   |   |                       |   |
| <b>Probability</b>                              | M   | <b>Objectives</b>             | L             | <b>Financial</b> | M | <b>Services</b> | L | <b>Reputation</b> | H | <b>Category</b>       | 2 |
| <b>Phase 5 - Fallback Plan</b>                  |   |                               |               |                  |   |                 |   |                   |   |                       |   |
| <b>Fallback Plan</b>                            | 15/514 - Review Action Plan and new technology and continue to raise awareness. Invite ICO to carry out an audit of NYCC IG systems   |                               |               |                  |   |                 |   |                   |   | <b>Action Manager</b> |   |
|   | CD SR   |                               |               |                  |   |                 |   |                   |   |                       |   |

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Next review due: August 2023

Report Date: 7<sup>th</sup> February 2023 (pw)

| Phase 1 - Identification                 |  |  |  |                  |   |                       |                   |                   |                       |                 |               |
|--|--|--|--|------------------|---|-----------------------|-------------------|-------------------|-----------------------|-----------------|---------------|
| <b>Risk Number</b>                       | 15/11  | <b>Risk Title</b>  | 15/11 - North Yorkshire Transformation Programme |                  |   |                       | <b>Risk Owner</b> | Chief Exec        |                       | <b>Manager</b>  | CD SR         |
| <b>Description</b>                       | Failure to deliver a coherent NY transformation programme which meets the needs of LGR transition, service operational requirements and savings requirements |  |  |                  |   | <b>Risk Group</b>     | Strategic         |                   | <b>Risk Type</b>      | SR 32/206       |               |
| Phase 2 - Current Assessment             |  |  |  |                  |   |                       |                   |                   |                       |                 |               |
| <b>Current Control Measures</b>          |  | Transformation programme; review of areas of overspend and actions to mitigate; review (deep dives) into specific high-risk base budgets such as HAS Care and Support, SEN Transport, and Home to School transport carried out; BEST approach embedded into service planning; performance monitoring through Q reports; emerging LGR transition work streams; PMO in place; LGR governance agreed; |  |                  |   |                       |                   |                   |                       |                 |               |
| <b>Probability</b>                       | H  | <b>Objectives</b>  | H  | <b>Financial</b> | H | <b>Services</b>       | H                 | <b>Reputation</b> | H                     | <b>Category</b> | 1             |
| Phase 3 - Risk Reduction Actions         |  |  |  |                  |   |                       |                   |                   |                       |                 |               |
|  |  |  |  |                  |   | <b>Action Manager</b> | <b>Action by</b>  | <b>Completed</b>  |                       |                 |               |
| <b>Reduction</b>                         | 15/634 - Continue to identify the output from LGR transition work streams and resource accordingly   |  |  |                  |   | CSD SR AD T&C         |                   | Fri-31-Mar-23     |                       |                 |               |
| <b>Reduction</b>                         | 15/635 - Identify all statutory and policy driven initiatives across the Council which require some form of transformation                                   |  |  |                  |   | CSD ACE LDS           |                   | Fri-31-Mar-23     |                       |                 |               |
| <b>Reduction</b>                         | 15/865 - Deliver a consolidated programme plan   |  |  |                  |   | All Mgt Board         |                   | Fri-31-Mar-23     |                       |                 |               |
| <b>Reduction</b>                         | 15/867 - Continue to review and transform operational service requirements as part of the Programme in order to maximise efficiency                          |  |  |                  |   | All Mgt Board         |                   | Fri-31-Mar-23     |                       |                 |               |
| Phase 4 - Post Risk Reduction Assessment |  |  |  |                  |   |                       |                   |                   |                       |                 |               |
| <b>Probability</b>                       | M  | <b>Objectives</b>  | H  | <b>Financial</b> | H | <b>Services</b>       | H                 | <b>Reputation</b> | H                     | <b>Category</b> | 2             |
| Phase 5 - Fallback Plan                  |  |  |  |                  |   |                       |                   |                   |                       |                 |               |
| <b>Fallback Plan</b>                     | 15/561 - Carry out a full review and ensure an effective revision of the programme plan  |  |  |                  |   |                       |                   |                   | <b>Action Manager</b> |                 | All Mgt Board |

Risk Register: month 6 (Feb 2023) – detailed

Next review due: August 2023

Report Date: 7<sup>th</sup> February 2023 (pw)

| Phase 1 - Identification         |  |  |   |           |   |            |            |            |         |              |   |
|----------------------------------|--|--|---|-----------|---|------------|------------|------------|---------|--------------|---|
| Risk Number                      | 15/162   | Risk Title   | 15/162 - Effectiveness, Capacity and Skills of Staff and Workplace Health and Wellbeing (including impact of LGR) |           |   |            | Risk Owner | Chief Exec | Manager | CSD Mgt Team |   |
| Description                      | A lack of capacity and skills within Central Services together with insufficiently supported staff leads to a significant decline in effectiveness, service quality &/or insufficient progress in carrying out multiple priority areas including the LGR transition, Covid and Covid recovery alongside existing responsibilities. |  |   |           |   | Risk Group | Capacity   | Risk Type  |         |              |   |
| Phase 2 - Current Assessment     |  |  |   |           |   |            |            |            |         |              |   |
| Current Control Measures         |  | Reviewing of Transformation resources; savings re-profiled and included in budget/MTFS report; Looking After You North Yorkshire intranet area; #askSAL; return to office based work risk assessments and induction; Corporate Workplace Health and Wellbeing Group established including Directorate representatives; Boost H&W intranet pages; Health Assured 24 staff care network helpline; post established within H&W to lead on development of H&W promotion materials for the workforce; communications plan established including regular intranet communications on health and wellbeing campaigns and initiatives, 6 weekly blog; regular updates to HRSMT and Corporate Management Board; procurement of extra resources for LGR transition; review priorities of systems and projects across the Council; funding secured for LGR transition additional support; support groups and diversity networks protected characteristics established and process in place to add further groups and networks; Workplace Health Improvement Adviser position established |   |           |   |            |            |            |         |              |   |
| Probability                      | H  | Objectives   | M   | Financial | L | Services   | M          | Reputation | M       | Category     | 2 |
| Phase 3 - Risk Reduction Actions |  |  |   |           |   |            |            |            |         |              |   |
| Reduction                        | Description  | Action Manager   | Action by   | Completed |   |            |            |            |         |              |   |
| Reduction                        | 15/111 - Regularly perform skills gap analysis and review succession planning based on current and future requirements and use to inform CS workforce training plan and monitor effectiveness  | CSD Mgt Team   | Mon-31-Jul-23   |           |   |            |            |            |         |              |   |
| Reduction                        | 15/475 - Continue to prioritise and manage pressures on services on an ongoing basis   | CSD Mgt Team   | Mon-31-Jul-23   |           |   |            |            |            |         |              |   |
| Reduction                        | 15/520 - Identify and secure additional capacity following procurement to support the LGR transition (start Nov 2021)  | CSD SR AD T&C  | Fri-31-Mar-23   |           |   |            |            |            |         |              |   |
| Reduction                        | 15/591 - Collaborative working between District and County Councils' staff to address transition work  | CSD Mgt Team   | Fri-31-Mar-23   |           |   |            |            |            |         |              |   |
| Reduction                        | 18/819 - Continue to enable staff to initiate and develop initiatives to improve their health and wellbeing at work including the long term effect of Covid  | HAS HoHR   | Fri-30-Jun-23   |           |   |            |            |            |         |              |   |
| Reduction                        | 18/820 - Progress a series of health and wellbeing initiatives (eg. Introduction of eBikes; wellbeing roadshows; local yoga classes; craft groups; green gym; walking / running groups etc including the long term effect of Covid   | HAS HoHR   | Fri-30-Jun-23   |           |   |            |            |            |         |              |   |
| Reduction                        | 18/821 - Continued promotion of good mental health including Mental Health Awareness week activities   | HAS HoHR   | Fri-30-Jun-23   |           |   |            |            |            |         |              |   |
| Reduction                        | 18/824 - Develop wellbeing spaces in major offices and workplaces  | HAS HoHR   | Fri-30-Jun-23   |           |   |            |            |            |         |              |   |
| Reduction                        | 18/841 - Share wellbeing resources across all of the councils involved in LGR  | HAS HoHR   | Fri-30-Jun-23   |           |   |            |            |            |         |              |   |
| Reduction                        | 18/885 - Look to develop an approach to wellbeing that ensures help and resources are available to those staff who do not have regular access to technology  | HAS HoHR   | Fri-30-Jun-23   |           |   |            |            |            |         |              |   |

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 Report Date: **7<sup>th</sup> February 2023 (pw)**

|   |   |                   |   |                  |   |                 |                   |                       |   |                 |   |
|---|---|-------------------|---|------------------|---|-----------------|-------------------|-----------------------|---|-----------------|---|
| <b>Reduction</b>                                | 18/886 - Conduct a health needs assessment across all councils to benchmark in this area                                  |                   |   |                  |   | HAS HoHR        | Fri-30-<br>Jun-23 |                       |   |                 |   |
| <b>Phase 4 - Post Risk Reduction Assessment</b> |   |                   |   |                  |   |                 |                   |                       |   |                 |   |
| <b>Probability</b>                              | H   | <b>Objectives</b> | M | <b>Financial</b> | L | <b>Services</b> | M                 | <b>Reputation</b>     | L | <b>Category</b> | 2 |
| <b>Phase 5 - Fallback Plan</b>                  |   |                   |   |                  |   |                 |                   |                       |   |                 |   |
| <b>Fallback Plan</b>                            | 15/515 - Review and revise resource allocation where possible and consider additional funding and capacity where required |                   |   |                  |   |                 |                   | <b>Action Manager</b> |   |                 |   |
|   |   |                   |   |                  |   |                 |                   | CSD Mgt Team          |   |                 |   |

Risk Register: month 6 (Feb 2023) – detailed

Next review due: August 2023

Report Date: 7<sup>th</sup> February 2023 (pw)

| Phase 1 - Identification                 |   |                   |  |                  |   |                       |                                       |                   |                |                  |   |
|--|---|-------------------|--|------------------|---|-----------------------|---------------------------------------|-------------------|----------------|------------------|---|
| <b>Risk Number</b>                       | 15/201  | <b>Risk Title</b> | 15/201 - Commercial Strategy   |                  |   |                       | <b>Risk Owner</b>                     | Chief Exec        | <b>Manager</b> | CSD Mgt Team     |   |
| <b>Description</b>                       | Failure to both put effective governance arrangements in place (including transparency and oversight for commercial operations) and appropriately influence commercial financial targets (eg. NY Brierley Group companies and NYES) commercial investments and commercial ventures particularly arising through LGR leading to poor decision making and financial loss. |                   |  |                  |   | <b>Risk Group</b>     | Strategic                             | <b>Risk Type</b>  |                |                  |   |
| Phase 2 - Current Assessment             |   |                   |  |                  |   |                       |                                       |                   |                |                  |   |
| <b>Current Control Measures</b>          |   |                   | Brierley Group of Companies (including NYES); Brierley Group Board; Shareholder Committee; regular reports to Overview and Scrutiny Committee; Brierley Group companies business plans in place; commercial challenge sessions and deep dives for each company on an annual basis; Brierley Group Performance report on a quarterly basis; selection criteria for commercial opportunities; NYCC Commercial: Commercial strategy; service plan challenge sessions on an annual basis; Commercial Investments Board; investment decisions scrutinised; decision process for investments in place; internal communications plan to publicise the Commercial Strategy; LGR work streams and governance processes; CIPFA 2022 best practice guidance on Local Authority owned companies; review of Commissioning and Contract Management carried out with strengthening of central Procurement and Contracting Team support; |                  |   |                       |                                       |                   |                |                  |   |
| <b>Probability</b>                       | M   | <b>Objectives</b> | M  | <b>Financial</b> | M | <b>Services</b>       | M                                     | <b>Reputation</b> | H              | <b>Category</b>  | 2 |
| Phase 3 - Risk Reduction Actions         |   |                   |  |                  |   |                       |                                       |                   |                |                  |   |
| <b>Reduction</b>                         | 15/609 - Deliver commercial training for board members  |                   |  |                  |   | <b>Action Manager</b> | CSD AD SR (VD)                        | <b>Action by</b>  | Sun-31-Dec-23  | <b>Completed</b> |   |
| <b>Reduction</b>                         | 15/610 - Ensure appropriate visibility around commercial decision making  |                   |  |                  |   | <b>Action Manager</b> | CSD AD SR (VD)                        | <b>Action by</b>  | Sun-31-Dec-23  | <b>Completed</b> |   |
| <b>Reduction</b>                         | 15/721 - Ensure the Council takes advantage of available central government incentives such as grants and any potential funding is monitored, together with engagement in relevant consultations  |                   |  |                  |   | <b>Action Manager</b> | CD SR<br>CSD ACE BS<br>CSD AD SR (VD) | <b>Action by</b>  | Fri-31-Mar-23  | <b>Completed</b> |   |
| <b>Reduction</b>                         | 15/781 - Ensure full awareness of developments and changes to legislation and/or guidance that affect commercial investments in a detrimental way (ongoing)   |                   |  |                  |   | <b>Action Manager</b> | CSD AD SR (VD)                        | <b>Action by</b>  | Fri-31-Mar-23  | <b>Completed</b> |   |
| <b>Reduction</b>                         | 15/784 - Ensure commercial ventures are an integral part of the LGR work streams to ensure appropriate oversight and understanding of risk and that each entity has appropriate governance on vesting day   |                   |  |                  |   | <b>Action Manager</b> | CSD AD SR (VD)                        | <b>Action by</b>  | Fri-31-Mar-23  | <b>Completed</b> |   |
| <b>Reduction</b>                         | 15/1551 - Review and ensure compliance with CIPFA 2022 best practice guidance on Local Authority owned companies including reporting current position and future actions to Audit Committee for review and challenge  |                   |  |                  |   | <b>Action Manager</b> | CD SR                                 | <b>Action by</b>  | Sun-31-Dec-23  | <b>Completed</b> |   |
| Phase 4 - Post Risk Reduction Assessment |   |                   |  |                  |   |                       |                                       |                   |                |                  |   |
| <b>Probability</b>                       | M   | <b>Objectives</b> | M  | <b>Financial</b> | M | <b>Services</b>       | M                                     | <b>Reputation</b> | H              | <b>Category</b>  | 2 |

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| Phase 5 - Fallback Plan |  | Action Manager |
|-------------------------|--|----------------|
| <b>Fallback Plan</b>    | 15/550 - Review financial position and invoke budget cuts as necessary | CSD Mgt Team   |

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Report Date: 7<sup>th</sup> February 2023 (pw)

| Phase 1 - Identification                 |   |                   |   |                  |   |                            |                       |                   |                  |                       |            |
|--|---|-------------------|---|------------------|---|----------------------------|-----------------------|-------------------|------------------|-----------------------|------------|
| <b>Risk Number</b>                       | 15/243  | <b>Risk Title</b> | 15/243 - Carbon Neutral   |                  |   |                            | <b>Risk Owner</b>     | Chief Exec        |                  | <b>Manager</b>        | CSD AD PPC |
| <b>Description</b>                       | Failure to support the Council's aspiration to achieve carbon neutrality by 2030 resulting in unmet public expectation and missed opportunities for energy spend reduction  |                   |   |                  |   | <b>Risk Group</b>          | Environmental         |                   | <b>Risk Type</b> | PPC 343/241           |            |
| Phase 2 - Current Assessment             |   |                   |   |                  |   |                            |                       |                   |                  |                       |            |
| <b>Current Control Measures</b>          |   |                   | Leadership commitment; Executive member with portfolio responsibilities; Scrutiny working group; street light conversion to LEDs; Corporate Building energy efficiency schemes; LGA guidance for councillors; Carbon Reduction Plan for Council adopted by Executive & Chief Executive; Beyond Carbon board and programme management established within NY Transformation Programme and LGR Programme; climate change impact assessment tool enables decision makers to better understand the impact of the decisions that they are being asked to make; £1m pump-priming fund established in MTFS to support implementation of carbon reduction plan; integrated carbon reduction plan into council plan and KPIs into Q performance reports |                  |   |                            |                       |                   |                  |                       |            |
| <b>Probability</b>                       | M   | <b>Objectives</b> | L   | <b>Financial</b> | M | <b>Services</b>            | L                     | <b>Reputation</b> | H                | <b>Category</b>       | 2          |
| Phase 3 - Risk Reduction Actions         |   |                   |   |                  |   |                            |                       |                   |                  |                       |            |
|  |   |                   |   |                  |   |                            | <b>Action Manager</b> | <b>Action by</b>  | <b>Completed</b> |                       |            |
| <b>Reduction</b>                         | 343/777 - Utilisation of £1m pump-priming fund established in MTFS to support implementation of carbon reduction plan.  |                   |   |                  |   | CSD AD PPC                 |                       | Fri-30-Jun-23     |                  |                       |            |
| <b>Reduction</b>                         | 343/786 - Ongoing review of implementation of climate change impact assessment tool to ensure that it is effective and efficient in enabling decision makers to better understand the impact of the decisions that they are being asked to make |                   |   |                  |   | CSD AD PPC                 |                       | Fri-30-Jun-23     |                  |                       |            |
| <b>Reduction</b>                         | 343/870 - Work through the detailed property related carbon reduction considerations; proposals to be developed through the property service with initial County Hall issues to be resolved   |                   |   |                  |   | CSD AD PPC<br>CSD SR Ho PS |                       | Fri-31-Mar-23     |                  |                       |            |
| <b>Reduction</b>                         | 343/871 - Monitor progress on the detailed motor related carbon reduction issues (proposals being developed through BES) and raise concerns where appropriate   |                   |   |                  |   | CSD AD PPC                 |                       | Fri-31-Mar-23     |                  |                       |            |
| <b>Reduction</b>                         | 343/902 - Work to agree the NYC Climate Change Strategy   |                   |   |                  |   | CSD AD PPC                 |                       | Fri-30-Jun-23     |                  |                       |            |
| Phase 4 - Post Risk Reduction Assessment |   |                   |   |                  |   |                            |                       |                   |                  |                       |            |
| <b>Probability</b>                       | M   | <b>Objectives</b> | L   | <b>Financial</b> | M | <b>Services</b>            | L                     | <b>Reputation</b> | H                | <b>Category</b>       | 2          |
| Phase 5 - Fallback Plan                  |   |                   |   |                  |   |                            |                       |                   |                  |                       |            |
| <b>Fallback Plan</b>                     |   |                   |   |                  |   |                            |                       |                   |                  | <b>Action Manager</b> |            |



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| Phase 1 - Identification                 |  |                   |  |                  |   |                       |                   |                       |                  |                 |       |
|--|--|-------------------|--|------------------|---|-----------------------|-------------------|-----------------------|------------------|-----------------|-------|
| <b>Risk Number</b>                       | 15/183   | <b>Risk Title</b> | 15/183 - Health & Safety   |                  |   |                       | <b>Risk Owner</b> | Chief Exec            |                  | <b>Manager</b>  | CD SR |
| <b>Description</b>                       | Major Corporate Health and Safety failure resulting in injuries, claims, reputational and service delivery impact and possible prosecution (this includes the impact of communicable diseases for example monkey pox, Covid, associated emerging variants and LGR) |                   |  |                  |   | <b>Risk Group</b>     | Legislative       |                       | <b>Risk Type</b> | SR 32/194       |       |
| Phase 2 - Current Assessment             |  |                   |  |                  |   |                       |                   |                       |                  |                 |       |
| <b>Current Control Measures</b>          |  |                   | HSRM Service Plan feeding into Directorate Action Plans; H&S team; Corporate H&S Policy; Corporate and Directorate H&S procedures; intranet and NYES sites; Directorate RM groups; H&S Champions and lead officers; reporting on a regular basis; on-going H&S risk assessment, training, monitoring and audit (including the checking and advising on Covid controls); managers' and employees' online H&S training and other modules; shared service with City of York Council and deliver to 4 of the 7 District Councils; BondApp B-Safe system implemented; accident reporting and investigation and B-Safe well embedded, trend analysis provided to RM Groups; B-Safe Risk Assessment and Safe System of Work modules implemented |                  |   |                       |                   |                       |                  |                 |       |
| <b>Probability</b>                       | L  | <b>Objectives</b> | M  | <b>Financial</b> | M | <b>Services</b>       | M                 | <b>Reputation</b>     | H                | <b>Category</b> | 3     |
| Phase 3 - Risk Reduction Actions         |  |                   |  |                  |   |                       |                   |                       |                  |                 |       |
|  |  |                   |  |                  |   | <b>Action Manager</b> | <b>Action by</b>  | <b>Completed</b>      |                  |                 |       |
| <b>Reduction</b>                         | 15/248 - Continue delivery of the programme of H&S monitoring of audits and inspections (ongoing)  |                   |  |                  |   | CSD SR HoHSRM         | Thu-31-Aug-23     |                       |                  |                 |       |
| <b>Reduction</b>                         | 15/255 - Ensure appropriate operating standards of H&S risk assessments exist and are being implemented locally and across the NYCC property portfolio   |                   |  |                  |   | CSD SR HoHSRM         | Thu-31-Aug-23     |                       |                  |                 |       |
| <b>Reduction</b>                         | 15/257 - Review and revise the corporate H&S procedures ready for the new Council  |                   |  |                  |   | CSD SR HoHSRM         | Thu-31-Aug-23     |                       |                  |                 |       |
| <b>Reduction</b>                         | 15/417 - Consider H&S implications of significant changes for delivery of services within the Council and factor into Directorate H&S action plans including the potential increased risk of influenza   |                   |  |                  |   | CSD SR HoHSRM         | Thu-31-Aug-23     |                       |                  |                 |       |
| <b>Reduction</b>                         | 15/651 - Ensure understanding of H&S operating environment of NYCC through regular attendance at Corporate and Directorate Risk Management Groups, and develop H&S Improvement Plans which are agreed by the relevant Groups (ongoing)                             |                   |  |                  |   | CSD SR HoHSRM         | Thu-31-Aug-23     |                       |                  |                 |       |
| <b>Reduction</b>                         | 15/866 - Consider requirements relating to H&S policies and procedures in relation to the new unitary Council and put together an action plan  |                   |  |                  |   | CSD SR HoHSRM         | Thu-31-Aug-23     |                       |                  |                 |       |
| Phase 4 - Post Risk Reduction Assessment |  |                   |  |                  |   |                       |                   |                       |                  |                 |       |
| <b>Probability</b>                       | L  | <b>Objectives</b> | M  | <b>Financial</b> | M | <b>Services</b>       | M                 | <b>Reputation</b>     | H                | <b>Category</b> | 3     |
| Phase 5 - Fallback Plan                  |  |                   |  |                  |   |                       |                   |                       |                  |                 |       |
|  |  |                   |  |                  |   |                       |                   | <b>Action Manager</b> |                  |                 |       |
| <b>Fallback Plan</b>                     | 15/538 - Liaise with HSE, media management, implement fatal/serious injury response guide  |                   |  |                  |   |                       |                   | CSD SR HoHSRM         |                  |                 |       |

Risk Register: month 6 (Feb 2023) – detailed

Next review due: August 2023

Report Date: 7<sup>th</sup> February 2023 (pw)

| Phase 1 - Identification                 |  |                   |  |                  |   |                       |                   |                   |                  |                 |                |            |
|--|--|-------------------|--|------------------|---|-----------------------|-------------------|-------------------|------------------|-----------------|----------------|------------|
| <b>Risk Number</b>                       | 15/200   | <b>Risk Title</b> | 15/200 - Significant Incidents (Corporate)   |                  |   |                       |                   | <b>Risk Owner</b> | Chief Exec       |                 | <b>Manager</b> | Chief Exec |
| <b>Description</b>                       | Failure to plan, respond to and recover effectively from significant incidents in the community resulting in risk to life and limb, impact on statutory responsibilities, impact on financial stability and reputation   |                   |  |                  |   | <b>Risk Group</b>     | Performance       |                   | <b>Risk Type</b> | Corp 20/244     |                |            |
| Phase 2 - Current Assessment             |  |                   |  |                  |   |                       |                   |                   |                  |                 |                |            |
| <b>Current Control Measures</b>          |  |                   | NYLRF and RMCI; experience and resources of partners; existing plans incl public health (training and exercises); RET; partnership working with District Councils; community resilience; silver response in the County Council major incident plan tested; approach to BCP refreshed to strengthen service resilience; Resilience Direct portal; regional multi agency pandemic exercise held; effectiveness and robustness of resilience plans relating to the public health and social care of the NY population tested; NYCC action plan developed and implemented based on the debrief report recommendations and all multi agency learning (including the flood reporting tool and simplification of information flow); members of national steering group on volunteers; BCP post audit action plan; Multi Agency cyber threat event held; Ready for Anything campaign; provided input to and engaged with national learning and development of best practice following incidents locally, regionally and nationally; use of Office 365 tools to increase engagement and response capability in effective planning and coordination of incidents; increased team to support Covid response and ability to deal with concurrent incidents; LRF workplan through to 2024; partnership work with Directorates, District Councils, Migration Yorkshire and other partners to support refugee resettlement in the County. |                  |   |                       |                   |                   |                  |                 |                |            |
| <b>Probability</b>                       | L  | <b>Objectives</b> | L  | <b>Financial</b> | H | <b>Services</b>       | L                 | <b>Reputation</b> | H                | <b>Category</b> | 3              |            |
| Phase 3 - Risk Reduction Actions         |  |                   |  |                  |   |                       |                   |                   |                  |                 |                |            |
| <b>Reduction</b>                         | 15/614 - Continue to work with our partners in Public Health England, the NHS and the wider North Yorkshire local resilience forum to share the information and messages of reassurance being issued by the lead agencies  |                   |  |                  |   | <b>Action Manager</b> | Dir Public Health |                   | <b>Action by</b> | Fri-30-Jun-23   |                |            |
| <b>Reduction</b>                         | 15/637 - Continue to ensure business continuity plans are reviewed, exercised and kept up to date for County Council services and trading companies  |                   |  |                  |   | <b>Action Manager</b> | CD SR             |                   | <b>Action by</b> | Fri-30-Jun-23   |                |            |
| <b>Reduction</b>                         | 15/652 - Continue to work with Directorates, District Councils, Migration Yorkshire and other partners to support refugee resettlement schemes, both into permanent housing in the County and whilst in temporary placements organised by the Home Office in bridging hotels in the County |                   |  |                  |   | <b>Action Manager</b> | CSD AD PPC        |                   | <b>Action by</b> | Fri-30-Jun-23   |                |            |
| <b>Reduction</b>                         | 20/970 - Continue to ensure effective co-ordination and communication with County and District/Borough Council services & NYLRF in light of reduction in resources including LGR (ongoing)   |                   |  |                  |   | <b>Action Manager</b> | CSD AD PPC        |                   | <b>Action by</b> | Fri-30-Jun-23   |                |            |
| <b>Reduction</b>                         | 20/971 - Continue to ensure effective and efficient processes are embedded amongst all partners to prioritise work streams (incl. plans, training and exercises) (ongoing)   |                   |  |                  |   | <b>Action Manager</b> | CSD AD PPC        |                   | <b>Action by</b> | Fri-30-Jun-23   |                |            |
| <b>Reduction</b>                         | 343/788 - Respond to call to evidence on review of local resilience, National Resilience Strategy and Civil Contingencies Act; responded as required and now waiting for legislative changes   |                   |  |                  |   | <b>Action Manager</b> | CSD PPC HoR&E     |                   | <b>Action by</b> | Sat-30-Apr-22   |                |            |
| <b>Reduction</b>                         | 343/790 - Continue to embed the recommendations from Covid debrief within practice through the Corp R&E Group  |                   |  |                  |   | <b>Action Manager</b> | CSD PPC HoR&E     |                   | <b>Action by</b> | Fri-30-Jun-23   |                |            |
| <b>Reduction</b>                         | 343/854 - Work through the LGR sub work streams to ensure that emergency response and bcp arrangements remain robust throughout the transition and transformation phases (safe and legal)  |                   |  |                  |   | <b>Action Manager</b> | CSD PPC HoR&E     |                   | <b>Action by</b> | Fri-31-Mar-23   |                |            |
| Phase 4 - Post Risk Reduction Assessment |  |                   |  |                  |   |                       |                   |                   |                  |                 |                |            |
| <b>Probability</b>                       | L  | <b>Objectives</b> | L  | <b>Financial</b> | H | <b>Services</b>       | L                 | <b>Reputation</b> | M                | <b>Category</b> | 3              |            |

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Risk Register: **month 6 (Feb 2023) – detailed**  
 Next review due: **August 2023**  
 Report Date: **7<sup>th</sup> February 2023 (pw)**

| Phase 5 - Fallback Plan |   | Action Manager |
|-------------------------|---|----------------|
| Fallback Plan           | 20/207 - Embedded practice based on Response to Major and Critical Incident protocols | Chief Exec     |

Risk Register: month 6 (Feb 2023) – detailed

Next review due: August 2023

Report Date: 7<sup>th</sup> February 2023 (pw)

| Phase 1 - Identification         |  |                   |   |                  |   |                       |                   |                   |                |                   |   |
|----------------------------------|--|-------------------|---|------------------|---|-----------------------|-------------------|-------------------|----------------|-------------------|---|
| <b>Risk Number</b>               | 15/29  | <b>Risk Title</b> | 15/29 - Corporate Governance and Ensuring Legality  |                  |   |                       | <b>Risk Owner</b> | Chief Exec        | <b>Manager</b> | CSD<br>ACE<br>LDS |   |
| <b>Description</b>               | Failure to ensure adequate Corporate Governance arrangements across the County Council to ensure that the Council acts lawfully in its operations and decision making resulting in inadequate control and stewardship; given the environment of greater risk taking and expansion of the types of activities the Council is now involved in resulting in challenge and non delivery of decisions, financial implications and loss of reputation particularly given service and statutory obligations |                   |   |                  |   | <b>Risk Group</b>     | Legislative       | <b>Risk Type</b>  | LDS<br>17/6    |                   |   |
| Phase 2 - Current Assessment     |  |                   |   |                  |   |                       |                   |                   |                |                   |   |
| <b>Current Control Measures</b>  |  |                   | Lawyers and DSO's engage with 2020 Programme and services; delegation scheme; constitution; training; legislation monitoring and advice notes/briefings; increased monitoring of committee reports; ACE LDS on MB; Proforma for Executive Reports covering major issues; Monitoring complaints and commendation policy and system; monitoring of the Forward Plan; Democratic Services IT system; compliance with rules on access to information; Corporate Governance Officers Group; Local Code of CG; Corporate Governance Checklist; Annual Governance Statement; Statements of Assurance across the Council; Controls in Risk management, Business Continuity and Information Governance; views of external Auditors; Audit Committee in-depth consideration; LGA corporate peer review; GDPR impacts understood; Exec subcommittee and Brierley Board established as part of governance arrangements; introduction of virtual decision making processes |                  |   |                       |                   |                   |                |                   |   |
| <b>Probability</b>               | M  | <b>Objectives</b> | L   | <b>Financial</b> | M | <b>Services</b>       | M                 | <b>Reputation</b> | M              | <b>Category</b>   | 4 |
| Phase 3 - Risk Reduction Actions |  |                   |   |                  |   |                       |                   |                   |                |                   |   |
| <b>Reduction</b>                 |  |                   |   |                  |   | <b>Action Manager</b> | <b>Action by</b>  | <b>Completed</b>  |                |                   |   |
| <b>Reduction</b>                 | 15/57 - Continue to ensure effective monitoring of governance and operational requirements of new legislation (eg. Health Integration, Combined Authorities) and make sure services and teams are aware impact on their areas  |                   |   |                  |   | CD SR<br>CSD ACE LDS  | Fri-30-<br>Jun-23 |                   |                |                   |   |
| <b>Reduction</b>                 | 15/251 - Continue to ensure compliance with rules on access to information   |                   |   |                  |   | CSD ACE LDS           | Fri-30-<br>Jun-23 |                   |                |                   |   |
| <b>Reduction</b>                 | 15/369 - Review decision and procedures after a successful challenge   |                   |   |                  |   | CSD ACE LDS           | Fri-30-<br>Jun-23 |                   |                |                   |   |
| <b>Reduction</b>                 | 15/449 - Continue to provide governance and legal advice on key issues (eg. impact of staff shortages due to Covid, devolution, LGR)   |                   |   |                  |   | CD SR<br>CSD ACE LDS  | Fri-30-<br>Jun-23 |                   |                |                   |   |
| <b>Reduction</b>                 | 15/513 - Annual Review of Corporate Governance Arrangements by Audit Committee   |                   |   |                  |   | CD SR                 | Fri-30-<br>Jun-23 |                   |                |                   |   |
| <b>Reduction</b>                 | 15/824 - Continue to strengthen links with Directorates including liaison by Monitoring Officer and team with Directorates and ensure consultation on legality of major initiatives  |                   |   |                  |   | CSD ACE LDS           | Fri-30-<br>Jun-23 |                   |                |                   |   |
| <b>Reduction</b>                 | 15/825 - Ongoing monitoring of committee reports and decision making to ensure Council decision making takes account of relevant considerations including EIAs and consultation requirements   |                   |   |                  |   | CSD ACE LDS           | Fri-30-<br>Jun-23 |                   |                |                   |   |
| <b>Reduction</b>                 | 15/838 - Carry out mandatory governance training for new Members covering key areas eg data protection, ethical standards  |                   |   |                  |   | CSD ACE LDS           | Fri-30-<br>Jun-23 |                   |                |                   |   |
| <b>Reduction</b>                 | 17/47 - Ensure the council recognises that health integration ICS is a large area of new and complex business that needs the right approach to ensure sustainable success  |                   |   |                  |   | CSD ACE LDS           | Fri-30-<br>Jun-23 |                   |                |                   |   |
| <b>Reduction</b>                 | 17/134 - Maintain the trust and confidence in member/officer relations   |                   |   |                  |   | CSD ACE LDS           | Fri-30-<br>Jun-23 |                   |                |                   |   |

Risk Register: **month 6 (Feb 2023) – detailed**

Next review due: **August 2023**

Report Date: **7<sup>th</sup> February 2023 (pw)**

|   |  |                   |               |                  |   |                 |   |                   |   |                       |             |  |
|---|--|-------------------|---------------|------------------|---|-----------------|---|-------------------|---|-----------------------|-------------|--|
| <b>Reduction</b>                                | 17/502 - Ensure we continue to provide adequate support to the newer councillors to enable them to make appropriate decisions within the legislative framework   | CSD ACE LDS       | Fri-30-Jun-23 |                  |   |                 |   |                   |   |                       |             |  |
| <b>Reduction</b>                                | 17/588 - Continued liaison with procurement to ensure that processes remain robust and resistant to challenge  | CSD ACE LDS       | Fri-30-Jun-23 |                  |   |                 |   |                   |   |                       |             |  |
| <b>Reduction</b>                                | 20/454 - Monitor details of future trading relationships and understand the local implications of any guidance provided relating to CPR and Subsidy Control. Act upon guidance issued by the Competition and Markets Authority when more detail is provided on the new regulatory function and how Subsidy Control will be enforced. | CSD ACE LDS       | Fri-30-Jun-23 |                  |   |                 |   |                   |   |                       |             |  |
| <b>Phase 4 - Post Risk Reduction Assessment</b> |  |                   |               |                  |   |                 |   |                   |   |                       |             |  |
| <b>Probability</b>                              | M  | <b>Objectives</b> | L             | <b>Financial</b> | M | <b>Services</b> | M | <b>Reputation</b> | M | <b>Category</b>       | 4           |  |
| <b>Phase 5 - Fallback Plan</b>                  |  |                   |               |                  |   |                 |   |                   |   |                       |             |  |
|   |  |                   |               |                  |   |                 |   |                   |   | <b>Action Manager</b> |             |  |
| <b>Fallback Plan</b>                            | 15/169 - Review failing areas in existing arrangements and plan for improvement  |                   |               |                  |   |                 |   |                   |   |                       | CSD ACE LDS |  |

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**AUDIT COMMITTEE - PROGRAMME OF WORK 2022/23**

|                              | ANNUAL WORKPLAN  | MAR 23 | JUNE 23 | OCT 23 | NOV 23 | DEC 23 |
|------------------------------|--|--------|---------|--------|--------|--------|
|                              | <b>Audit Committee Agenda Items</b>                                  |        |         |        |        |        |
| <b>A</b>                     | Training for Members (as necessary)                                  |        |         |        |        |        |
|                              | Annual Internal Audit Plan   | x      | x       |        |        |        |
|                              | Annual report of Head of Internal Audit                              |        | x       |        |        |        |
|                              | Progress Report on Annual Internal Audit Plan                        | x      |         | x      |        |        |
|                              | Internal Audit report on Children and YP's Service                   |        | x       |        |        |        |
|                              | Internal Audit report on Computer Audit/Corporate Themes/Contracts   |        |         |        |        | x      |
|                              | Internal Audit report on Health and Adult Services                   |        |         |        |        | x      |
|                              | Internal Audit report on BES   |        |         | x      |        |        |
|                              | Internal Audit report on Central Services                            | x      |         |        |        |        |
|                              |  |        |         |        |        |        |
| <b>B</b>                     | Annual Audit Letter  |        |         | x      |        |        |
|                              | Annual Audit Plan (NYCC & NYPF)                                      |        |         |        |        |        |
|                              | Annual Report / Letter of the External Auditor (ISA 260)             |        |         |        | x      |        |
|                              | Interim Audit Report   |        |         |        |        |        |
|                              | External Audit Appointments from April 2023                          | x      |         |        |        |        |
|                              | External Audit Progress Update                                       |        |         |        |        |        |
| <b>C</b>                     | Statement of Final Accounts including AGS (NYCC + NYPF)              |        |         |        | x      |        |
|                              | Letter of Representation   |        |         |        |        |        |
|                              | Chairman's Annual Report   |        |         | x      |        |        |
|                              | Audit Committee - terms of reference / effectiveness                 |        | x       |        |        |        |
|                              | Changes in Accounting Policies                                       | x      |         |        |        |        |
|                              | Corporate Governance – review of Local Code + AGS                    | x      |         |        |        |        |
|                              | – annual report inc re AGS   |        | x       |        |        |        |
|                              | Risk Management (inc Corporate R/R) – annual report                  |        |         |        |        | x      |
|                              | Partnership Governance – annual report                               |        |         | x      |        |        |
|                              | Information Governance – annual report                               |        | x       |        |        |        |
|                              | Review of Finance./Contract/Property Procedure Rules                 |        |         |        |        |        |
|                              | Business Continuity – annual report                                  |        |         | x      |        |        |
|                              | Counter Fraud Policy Framework                                       |        |         |        |        | x      |
|                              | Counter Fraud strategy (inc risk assessment) – annual report         | x      | x       |        |        |        |
|                              | Procurement and Contract Management – annual report                  |        |         |        |        | x      |
|                              | CIPFA FM Code  |        |         |        |        | x      |
|                              | Treasury Management – Executive February                             | x      |         |        |        |        |
| Commercial Governance Review |  |        |         |        | x      |        |
|                              | VFM – annual assurance review  |        | x       |        |        |        |
| <b>D</b>                     | Work Programme   | x      | x       | x      |        | x      |
|                              | Progress on issues raised by the Committee (inc Treasury Management) | x      | x       | x      |        | x      |
| <b>E</b>                     | Agenda planning / briefing meeting                                   |        |         |        |        |        |
|                              | Audit Committee Agenda/Reports deadline                              |        |         |        |        |        |
|                              | <b>Audit Committee Meeting Dates</b>                                 | 20/03  |         |        |        |        |

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- A = Internal Audit
- B = External Audit
- C = Statement of Final Accounts / Governance
- D = Other
- E = Dates

- ⊙ Meetings to be sorted
- 1 Governance of External Companies (inc NY Highways) & Commercial Investments
- 2 LGR Update – MTFs & Governance Issues
- 3 Pensions Governance
- 4

OFFICIAL

Agenda Item 15

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