Castle House
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NG24 1BY

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Wednesday, 29 March 2023

Chairman: Councillor Mrs S Michael
Vice-Chairman: Councillor R Crowe

Members of the Committee:

Councillor R Blaney
Councillor Mrs B Brooks
Councillor D Cumberlidge
Councillor Mrs E Davis
Councillor P Harris
Councillor S Haynes
Councillor J Kellas
Councillor B Laughton
Councillor J Lee
Councillor T Smith

MEETING:	**Audit and Governance Committee**
DATE:	**Thursday, 6 April 2023 at 6.00 pm**
VENUE:	**Civic Suite, Castle House, Great North Road, Newark, NG24 1BY**

You are hereby requested to attend the above Meeting to be held at the time/place and on the date mentioned above for the purpose of transacting the business on the Agenda as overleaf.

If you have any queries please contact Karen Langford on Karen.Langford@newark-sherwooddc.gov.uk.

Any questions relating to the agenda items should be submitted to Nick Wilson- Business Manager - Financial Services, at least 24 hours prior to the meeting in order that a full response can be provided.

AGENDA

NEWARK AND SHERWOOD DISTRICT COUNCIL

Minutes of the Meeting of **Audit and Governance Committee** held in the Civic Suite, Castle House, Great North Road, Newark, NG24 1BY on Wednesday, 1 February 2023 at 6.00 pm.

PRESENT: Councillor Mrs S Michael (Chairman)
Councillor R Crowe (Vice-Chairman)

Councillor R Blaney, Councillor Mrs B Brooks, Councillor D Cumberlidge, Councillor P Harris, Councillor J Kellas, Councillor B Laughton, Councillor J Lee and Councillor T Smith

APOLOGIES FOR ABSENCE: Councillor Mrs E Davis (Committee Member) and Councillor S Haynes (Committee Member)

33 DECLARATIONS OF INTEREST FROM MEMBERS AND OFFICERS

That no Member or Officer declared any interest pursuant to any statutory requirement in any matter discussed or voted upon at the meeting.

34 NOTIFICATION TO THOSE PRESENT THAT THE MEETING WILL BE RECORDED AND STREAMED ONLINE

Other than the Council recording in accordance with usual practice, there were no declarations of intention to record the meeting.

35 MINUTES OF THE MEETING HELD ON 23 NOVEMBER 2022

AGREED that the minutes of the meeting held on 23 November 2022 be approved as a correct record and signed by the Chairman.

The Director of Housing, Health and Wellbeing provided the Committee with an update to the Gas Audits, noting that it had reduced to 5 properties out of compliance for a gas service. The Committee noted going forward gas and electric would be carried out at properties at the same time.

36 EXTERNAL AUDITORS AUDIT PROGRESS REPORT 2021/22

The Committee considered the report from the Business Manager for Financial Services presenting the External Auditor's Progress Report for Newark and Sherwood District Council for the 2021/22 audit based on work completed to date.

The representative from Mazars, present at the meeting provided progress to the Committee of the Auditor's External Audit Progress Report for 2021/22 at Appendix A summarising the work undertaken by the auditors for year ended 31 March 2022.

The Committee understood this was not the final report from the External Auditor noting it would conclude audit for the 2021/22 financial year. The Value for Money work is in progress, expected to be completed within 3 months of 5 January 2023 and will be brought to the next Audit & Governance Committee in April 2023.

The Mazars representative confirmed to the Chairman that the Value for Money was at the planning stage, Councillor Harris highlighting that the library park issue was part of the Vale for Money analysis which the Mazars representative would consider.

AGREED (unanimously) that Members considered and noted the External Auditor's Progress Report.

37 TREASURY MANAGEMENT STRATEGY 2023/24

The Committee considered the report from the Assistant Business Manager for Financial Services to seek approval for the Treasury Management Strategy, which incorporates the Borrowing Strategy, Investment Strategy, and Treasury Prudential Indicators, updated in accordance with latest guidance.

Before discussing the report, the Chairman thanked the Assistant Business Manager for Financial Services for arranging the Treasury Management training which was enjoyed by those who attended, although disappointed that not everyone was able to attend especially as it was an invitation to all Members not just those on the Audit & Governance Committee.

Councillor Blaney referring to the Reason for Recommendation, commented that the wording could be more clear in future; that policies, as opposed to the precise content of the strategies proposed, are a requirement of legislation and good practice. The Assistant Business Manager for Financial Services therefore noted for future reference.

Councillor Harris suggested local bonds to encourage investment, noting the Council has invested in a community lottery.

AGREED (unanimously) that:

a) the Committee approved each of the following key elements and recommended these to Full Council on 9 March 2023 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:
    - The Treasury Management Strategy 2023/24, incorporating the Borrowing Strategy and the Annual Investment Strategy (Appendix A).
    - The Treasury Prudential Indicators and Limits, contained within Appendix A.
    - The Authorised Limit Treasury Prudential Indicator contained within Appendix A.

38 CAPITAL STRATEGY 2023/24

The Committee considered the report from the Assistant Business Manager for Financial Services to seek approval to the Capital Strategy 2023/24, this incorporates the Minimum Revenue Provision Policy and Capital Prudential Indicators, updated in accordance with latest guidance.

The Assistant Business Manager for Financial Services explained to the Committee that this was a high level overview and may change in March when taken to Full Council. Councillor Harris referred to the weighting of the Prioritisation Criteria at Appendix E of the report; the Assistant Business Manager for Financial Services was happy to consider alternative proposals put forward by the Committee.

AGREED (unanimously) that:

a) the Committee approved each of the following key elements and recommended these to Full Council on 9 March 2023 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:
    - The Capital Strategy 2023/24 Appendix A.
    - The Capital Prudential Indicators and Limits for 2023/24, contained within Appendix A.
    - The Minimum Revenue Provision (MRP) Policy Statement as contained within Appendix C, which sets out the Council's policy on MRP.
    - The Flexible Use of Capital Receipts Strategy, contained with Appendix D.

39 INVESTMENT STRATEGY 2023/24

The Committee considered the report from the Assistant Business Manager for Financial Services explaining that this Investment Strategy is for 2023/24, meeting the requirements of statutory guidance issued by Department of Levelling Up, Housing and Communities DLUHC (previously MHCLG) Investment Guidance in January 2018.

The report provided a table summarising the proposed limits within the Investment Strategy 2023/24 for the non-treasury investments, the categories providing in more detail within the appendix and the report to also be taken to Full Council in March.

AGREED (unanimously) that:

a) the Committee approved each of the following key elements and recommended these to Full Council on 9 March 2023 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:
    - The Investment Strategy 2023/24 Appendix A.
    - The Investment Prudential Indicators and Limits for 2023/24, contained within Appendix A.

40 REVIEW OF SIGNIFICANT ISSUES IN THE ANNUAL GOVERNANCE STATEMENT

The Committee considered the report from the Business Manager for Financial Services updating Members of the Audit & Governance Committee on the significant governance issues identified in the Annual Governance Statement.

Members had approved the Annual Governance Statement for the financial year ended 31 March 2022 at it's meeting on 23 November 2022 and this report updated the Committee of the status of the governance issues identified.

Councillor Harris referred to minute 23 of the 23 November 2022 minutes, to bring Strategic Risk to the February meeting; the Chairman advised that this item would be brought to the April meeting, highlighting its inclusion on the Work Plan.

AGREED (unanimously) that the Committee noted the results of the review of significant governance issues as identified in the Annual Governance Statement.

41 SIX MONTH REVIEW OF THE COUNCIL'S REVISED GOVERNANCE ARRANGEMENTS

The Committee considered the report from the Assistant Director Legal & Democratic Services and Monitoring Officer with findings from the Governance Review Working Party's six-month review of the new executive governance arrangements.

The report proposed that a working group of Members be convened, to have oversight of the Member induction process following the May 2023 District Council elections, initially liaising with each of the political group leaders for nominations. The working group to meet in February/March. The Committee agreed for the Conservative group leader to nominate four, Labour group leader two and Liberal Democrat leader to provide one nomination.

AGREED (9 votes For and 1 vote Against) that:

a) a further review of the operation of the Council's governance arrangements should be undertaken at an appropriate point by the new Council;

b) for the further review of the operation of the Council's governance arrangements to include a request for specific feedback from the Tenant representatives on the Tenant Engagement Board;

c) to establish a Working Group of Members to have oversight of the Member induction process following the May 2023 District Council elections; for each political group leader to be asked to nominate Members to participate in the Working Group;

d) to note that a bi-annual 'What's on' presentation for all Members is included in the Transformation Business Unit's annual work programme;

e) to recommend the revised Urgency Procedure attached at Appendix 1 to Full Council for approval;

f) to note the amendments/corrections to the Constitution since May 2022 and that these will also be reported to Full Council for noting (attached at Appendix 2); and

g) for an annual review of the Council's Constitution to be included in the Committee's Work Plan.

42 REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) ANNUAL REPORT

The Committee considered the report from the Assistant Director Legal & Democratic Services and Monitoring Officer providing the following to the Committee:

i. Activity by the Council under RIPA from 2021 to date
ii. Relevant minor amendments to the RIPA policy
iii. An update on mandatory training for officers.

The report highlighted that the use of authorised RIPA surveillance remains low, which is in line with the majority of other authorities. The annual statistical return to IPCO for 2022 is submitted by the Council at the end of January with a Nil return since 2016.

AGREED (unanimously) that Members noted the content of the report.

43 REVIEW OF THE COUNCIL'S WHISTLEBLOWING POLICY

The Committee considered the report from the Assistant Director Legal & Democratic Services and Monitoring Officer providing an updated version of the Council's Whistleblowing Policy and proposals to raise awareness of the Policy.

The report explained how the Council has an adopted Whistleblowing Policy requiring updating as changes in the Council's structure along with external contacts. A review of the Policy has also been identified as an audit requirement for this financial year.

The Policy having been reviewed and updated as the revised Policy at Appendix 1 of the report and the current policy shown with tracked changes provided as Appendix 2.

Training for Councillors would be covered as part of the induction training.

AGREED (unanimously) that:

a) the Committee adopts the revised Whistleblowing Policy attached as Appendix 1 to this report subject to consultation with the Council's Joint Consultative Committee;

b) the Committee approves proposals for raising awareness of the Policy; and

c) the Committee includes an annual review of the Whistleblowing Policy and concerns raised under it in the Committee's work plan.

44 GIFTS AND HOSPITALITY PROTOCOL AND POLICY

The Committee considered the report from the Assistant Director Legal & Democratic Services and Monitoring Officer to review the Council's policies for Members and Officers (employees) for consistency and to ensure they are fit for purpose.

The report explained that Members are required to register gifts and hospitality over a certain value even if declined. The Code of Conduct did state that all gifts and hospitality with an estimated value of £50 be registered however the Protocol gave a figure of £100. The Protocol had not been updated and after the Committee Members discussed this it was agreed to reduce the figure to £25 and make a correction which as an amendment would be required to be reported through Full Council.

The report also highlighted the gifts and hospitality requirements be included as part of the new Member induction programme after the May 2023 elections.

AGREED (unanimously) that:

a) the report be noted;

b) the Committee includes an annual review of the operation of the Council's Gifts and Hospitality arrangements in the Committee's work plan; and

c) the Committee recommends to Full Council that all gifts and hospitality offered to Members over the value of £25 be registered and for the Code of Conduct for Councillors and Gifts and Hospitality Protocol to be amended accordingly.

45 AUDIT & GOVERNANCE COMMITTEE WORK PLAN

The Committee considered the Audit & Governance Committee Work Plan, noting a training session on Statement of Accounts to be confirmed in June 2023.

AGREED (unanimously) that the Audit & Governance Committee Work Plan be approved.

46 DATE OF NEXT MEETING - WEDNESDAY 26 APRIL 2023

The date of the next meeting was discussed by the Committee to bring forward to an earlier date in April 2023.

AGREED to consider by the Chairman to bring forward the date of the next meeting and to inform the Committee.

Meeting closed at 7.13 pm.

Chairman

NEWARK & SHERWOOD DISTRICT COUNCIL

Report to: Audit & Governance Committee Meeting 6 April 2023

Director or Business Manager Lead: Matthew Finch – Communities and Environment

Lead Officer: Richard Bates – Safety and Risk Manager.

Report Summary	
Report Title	Strategic Risk Management
Purpose of Report	To provide an update to members on the status of the Council's 2023/24 Strategic Risk Register.
Recommendations	Members of the Committee are asked to note amendments to the Strategic Risk Register and to highlight any issues of concern.
Reason for Recommendation	To ensure Committee members are aware of the status of the Council's strategic risks.

1.0 <u>Background</u>

1.1 Risk Management is the process of identification and management of risks faced by the Council which have the potential to significantly prevent it from achieving its key/agreed objectives. Proactively identifying potentially significant risks and implementing suitable control strategies help prevent these risks from being realised, or if this is not possible, to mitigate the risk to a tolerable level.

1.2 Strategic risks are those risks that have the potential to halt or significantly interfere with the ability of the Council to achieve its core objectives, priorities and/or ambitions. Those risks that have the potential to halt or interfere with the ability of business units to achieve their specific operational service priorities are detailed with the operational risk register.

1.3 Contents of the previous 22/23 strategic risk register were reviewed by Members in November 2022.

2.0 Strategic Risk Review 2023/24

2.1 In accordance with the Risk Management Policy, a facilitated strategic risk workshop was undertaken with the Senior Leadership Team (SLT) in Jan 2023. This workshop evaluated all existing strategic risks and identified emerging risks for the forth coming year.

2.2 Undertaking annual strategic risk reviews helps identify significant potential challenges the council may face so it may appropriately control or mitigate as required/where possible. The purpose of the annual strategic risk workshop is to:

a) Consider the suitability of the existing register,
b) Identify new, emerging or future significant risks, and
c) Develop a formal register to address these risks

2.3 During the recent annual workshop significant issues raised/topics discussed included:

- Cost of living
- Workforce
- Local economy
- Inflation
- Cyber
- Carbon reduction targets
- Environmental/climate targets
- Infrastructure
- Contracts/supply chain
- Digital inequality
- Financial sustainability of suppliers/contractors
- Partnership resilience
- Active 4 Today

2.4 It was agreed by SLT that:

a) 10 existing strategic risks should be retained,
b) 3 shall become operational risks, and
c) 1 be deleted from the register.

2.5 The previous risk register consisted of 14 strategic risks.

2.6 The table below identifies content of the 2023/24 risk register, as agreed by SLT during the facilitated strategic workshop.

2023/24 Strategic Register- Effective from 1st April 23				
Risk Code and Title		**Risk Owner**	**Current Risk**	**Target Risk**
SR301	Financial Sustainability- General Fund	Sanjiv Kohli	6	6
SR302	Financial Sustainability- HRA	Sanjiv Kohli & Suzanne Shead	6	4
SR303	Failure to deliver growth infrastructure	Matt Lamb	12	6
SR304	Contract/Supply Failure	Deborah Johnson & Suzanne Shead	8	4
SR305	Workforce	Deborah Johnson	9	6
SR306	Corporate Governance	Sue Bearman	9	6
SR307	Data Management Security	Sanjiv Kohli	9	9
SR308	Environment	Matthew Finch	6	6
SR309	Statutory Compliance Management	Sanjiv Kohli & Suzanne Shead	9	6

SR310	Cost of Living	Suzanne Shead	12	TBC

2.7 Details of the 4 amendments to the register, identified above, are listed below:

SR203 Safeguarding: This risk considers the effective management of safeguarding within the organisation. SLT consider that suitable systems are in place and embedded across the organisation and therefore the risk is now appropriately controlled and currently does not pose a strategic risk. This risk has consequently been removed from the strategic risk register and allocated to the Business Manager – Public Protection as an operational risk.

SR207 Emergency Response: Considered risks relating to resourcing a suitable emergency response, as required as Category 1 responder, whilst maintaining essential services. SLT have agreed that actions implemented have mitigated the risks associated with this threat and therefore does not continue to pose a strategic risk. This risk has therefore been removed from the strategic risk register and allocated to the Business Manager – Public Protection as an operational risk.

SR210 Arkwood Development: As an investment company the success of Arkwood is crucial to ensuring financial targets are delivered. This risk also considered the necessary governance arrangements required to manage the relationship between the council and company. The financial risks have now been accommodated within the SR301 Financial Sustainability- General Fund. Governance systems have also been established and embedded. This risk has therefore been removed from the strategic risk register and allocated to Chief Executive as an operational risk. This now mirrors the operational risk approach utilised for A4T.

SR211 Community Issues- Pandemic: Introduced during the COVID 19 pandemic to ensure the Council was able to resource a suitable response to manage the governmental requirements relating to the pandemic, whilst assisting vulnerable communities/people/businesses directly affected by COVID 19. Government restrictions have been removed for 12 months and are not now directly affecting delivery of services. However, legacy issues remain regarding vulnerable people and the economy. These remaining issues have now been embedded within SR310-Cost of Living and SR303-Failure to deliver growth infrastructure.

2.8 The following table illustrates the current risk scores for all 10 retained strategic risks and their prior direction of travel within the agreed corporate risk matrix.

Likelihood					
	4 Certain		SR304=	SR310=	
	3 Very likely			SR305↑, SR306↑, SR307, SR309 =	SR303=
	2 Likely			SR301→SR302=, SR308↓	
	1 Remote				
		1 Minor/ trivial	**2** Moderate	**3** Severe	**4** Critical
	Impact				

Risk Matrix Key	
Risk Tolerance	
Generally acceptable and require only monitoring with no further action.	
Present a higher level of risk /failure. They require an action plan that identifies how the risk is to be mitigated, managed or if possible eliminated.	
These risks present the highest risk of failure/loss and therefore require the greatest level of management.	
Risk Travel (2022/23)	
=	Risk score has remained static
↓	Risk score has decreased
↑	Risk score has increased
→	Risk change, however, score remains the same

2.8 The risk profiles of all 10 strategic risks are set out in Appendix one.

2.9 During the previous 12 months 4 strategic risks, retained within the 23/24 register, have experienced a change to their current risk score. 2 risks have increased their score whilst 1 has decreased. Details of these changes are listed below:

SR301 – Financial Sustainability – General Fund: Risk score has remained the same. However, risk scoring was altered at the last review to reflect a reduction in likelihood and an increase in potential severity. This has been undertaken as the Medium-Term Financial Plan includes all mitigating factors and controls to protect the budget.

SR305 Workforce: Likelihood score has increased from 2 (likely to occur) to 3 (very likely to occur). This is due to a worsening picture re workforce issues across the nation.

SR306 Corporate Governance: Likelihood score has increased from 2 (likely to occur) to 3 (very likely to occur). Increase in place until new cabinet system is fully embedded.

SR308 Environment: Likelihood decreased from 3 (very likely to occur) to 2 (likely to occur). This reduction is due to a maturing risk increasing the number of controls and actions now in place. Also, greater resource being acquired to help deliver the agenda.

2.10 Strategic risks SR303, SR305, SR306, SR307 and SR309 are currently all identified as red risks. Whilst every reasonable effort will be made to reduce the risk to a level to ensure compliance with the corporate risk appetite, it should be noted that the very nature of strategic risks are complex and influenced by many outside factors/controls. Some actions can be very long term and in other cases the ability to reduce the risk further may not be in the control of the council.

3.0 Strategic Risk Register 2023/24 - Development and Review

3.1 All 10 strategic risks identified within the 23/24 register are pre-existing and therefore already have fully developed and established action plans.

3.2 All strategic risk identified above are owned by a member of SLT. Risk owners, with the assistance of lead officers and Safety & Risk Manager and continue to meet on a quarterly basis to review and develop the risk.

3.3 All strategic risks continue to be reported to SLT, via our agreed assurance process, on a quarterly basis. The purpose of this process is to identify those risks that are red, failing or not reviewed during the previous quarter, for consideration by SLT.

3.4 All 10 current strategic risk assessments have been appended to this report in full.

4.0 Proposal/Options Considered

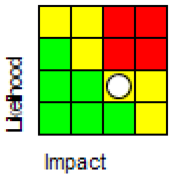
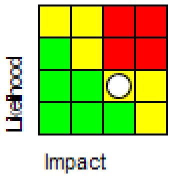
4.1 Members of the committee note the amendments to the Strategic Risk Register. An update report will be brought to the Audit and Governance Committee in 6 months.

5.0 Implications

In writing this report and in putting forward recommendation's officers have considered the following a range of implications. This report in itself does not have any implications. During the risk reviewing process any controls that are identified are considered in terms of the implications they may have before they are agreed as an appropriate control.

Background Papers and Published Documents
None for this report

APPENDIX 1 – Strategic Risks

<table>
<tr><th colspan="6">SR301 FINANCIAL SUSTAINABILITY – GENERAL FUND</th></tr>
<tr><td>Description</td><td colspan="5">Ensuring financial sustainability of the general fund to allow the council to undertake its core functions, deliver services, meet its corporate priorities and objectives</td></tr>
<tr><td>Risk Owner</td><td colspan="5">Kohli, Sanjiv (SLT)</td></tr>
<tr><td>Support Officers</td><td colspan="5">Nick Wilson</td></tr>
<tr><td>Current Risk Matrix</td><td>Date Last Reviewed</td><td>Impact</td><td>Likelihood</td><td>Risk Management</td><td>Target Risk Matrix</td></tr>
<tr><td>
</td><td>13-Mar-2023</td><td>3</td><td>B</td><td>Controlled</td><td>
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<tr><td>Controls/ Actions In Place</td><td colspan="5">

- Quarterly Capital monitoring meetings
- Investments approved in line with the annually agreed Treasury Management Strategy
- Annual refresh of Medium-Term Financial Plan including management of reserves
- Council approved Capital programme
- Financial implications added to Committee reports by Financial Services and a unique reference given each time
- Financial strategies and budget reviewed through Cabinet annually
- Use of external Medium Term Financial Plan tool which assists with forecasting future Business Rates income for the following year budget
- Assigned project manager for each major project the Council is embarking on
- Commercial officer group established to identify business opportunities in service areas
- Director/Business Unit Manager quarterly meetings reviewing Directorate financial position
- Approved Commercial strategy to support objectives set out in the MTFP
- Approved Investment Plan to support the objectives set out in the Commercial Strategy
- Nottinghamshire Business Rates Pool mitigating large impacts of reductions in Business Rates. This is kept under review by Nottinghamshire S151 officers
- Quarterly budget monitoring report tabled at SLT, Cabinet and PPIC
- Annual Financial Regulations training in place
- Lead authority for administration around Notts Business rates pool
- Contract procedure rules in Constitution refreshed May 22
- Acquisition and disposal policy - Approved Nov 2021
- Internal Audit
- Corporate land and property group established and meet regularly
- Review of chancellor's budget statements/fiscal events

</td></tr>
<tr><td>Risk Categories</td><td colspan="5">

- Financial
- Meeting corporate objectives
- Service delivery
- Reputation
- Governance
- Compliance

</td></tr>
<tr><td>Trigger/Event</td><td colspan="5">

- Unforeseen rise in interest rates over forecasted levels
- Changes in national policy eg. fair funding review, change to government political parties
- Change in local political balance resulting in change in priorities
- Banking crisis
- Over reliance and poor decision making on investments
- Member priorities diverging from corporate priorities
- Increase CPI/RPI figures

</td></tr>
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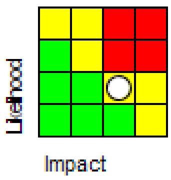
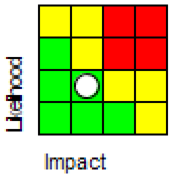
	• Failure of subsidiary companies • Major contract failure • Failure of HRA • Reduction in Business Rates • Poor decision making and business planning • Budgeted income levels not meeting target • Actual funding received not in line with expected funding (central Gov and Notts Pool) • Change in government policy significantly reducing income/funding • Changes in government policy/direction impacting resulting in additional costs • Failure in compliance/ governance • Fraud • Global Pandemic • Economic downturn • Cyber-attack/fraud • Utility price increase • Supply chain – significant sudden increase in costs • Levelling up Nottingham and Nottinghamshire project • Delivery of SLR – Remaining gap of Circa £3m is not forthcoming from NCC and therefore NSDC required to borrow to complete the scheme
Impact	• Inability to fund services resulting in reduction in discretionary services and reduction in quality-of-service provision • Inability to meet corporate priorities/community plan • Inability to meet legislative requirements • External auditors review • Government taskforce • Negative media/reputation • Loss of ability to make local decisions • Division between members and officers • Greater division between political parties • Staff morale, loss of key staff and reduction in workforce • Staff morale and loss of key staff • Fines/ enforcement • S151 officer issues S114 notice • Curtailment of activities of the subsidiaries/HRA/Major projects • Impact on residents and communities • Impact on income streams • Reduction/disposal of assets • Impact on the funding of the capital programme requiring reprioritisation of projects and a consequential impact on the GF due to additional interest cost/additional costs of borrowing

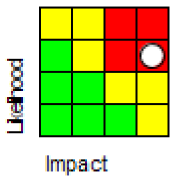
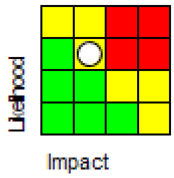
SR302 FINANCIAL SUSTAINABILITY - HRA

Description	Financial sustainability of the HRA to ensure the council is able to provide, maintain and develop its housing stock.
Risk Owners	Kohli, Sanjiv (SLT); Shead, Suzanne (SLT)
Support Officers	Nick Wilson, Suzanne Shead, Caroline Wagstaff

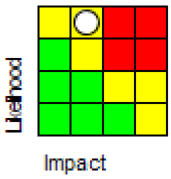
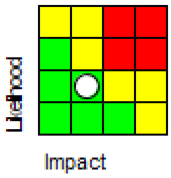
Current Risk Matrix	Date Last Reviewed	Impact	Likelihood	Risk Management	Target Risk Matrix
	06-Mar-2023	3	B	Control Pending	

Controls/ Actions In Place	• Quarterly Capital monitoring meetings • Investments approved in line with the annually agreed Treasury Management Strategy • Annual refresh of HRA financial business plan • Council approved Capital programme • Financial implications added to Committee reports by Financial Services • Financial strategies and budget reviewed through Policy and Finance Committee annually • Use of external HRABP tool allows scenario planning • Assigned project manager for each major project the Council is embarking on • Director/Business Unit Manager quarterly meetings reviewing Directorate financial position • Quarterly budget monitoring report tabled at SLT and Policy and Finance Committee • Annual Financial Regulations training in place • Current development programme ensuring growth in house numbers, over and above the offsetting disposals through Right to Buy • Attendance at Housing related horizon scanning events, in order to feed future impacts into HRABP • Review on housing management completed and housing service brought back in house. Efficiencies generated through budget review • Reserves in place
Risk Categories	• Financial • Meeting corporate objectives • Service delivery • Reputation • Governance • Regulation • Compliance
Trigger/Event	• Change in national policy & legislative requirements • Increase in interest rates • Increased rent arrears • Suitability of stock meeting future standards • Increase or change in standards required • Current stock does not meeting housing needs • Workforce issues • Failing to ensure compliance with relevant legislation causing regulatory bodies to intervene • Non-compliance with RSH regulatory standards • Meeting tenant priorities • Ineffective strategic decision making and business planning • Key HRA major projects failure

	• Ineffective management of housing maintenance function • Loss of critical income streams • Fraud • Failure to manage critical income streams/ invest • Global Pandemic • Supplier/contractor cost increases due to demand/supply issues changes in the economy • Inability to secure sufficient external funding to regenerate existing stock to meet enhanced standards • Conflicting strategic direction and lack of regular review of 30 year business plan • Zero carbon works identifies significant increase in costs • Stock condition survey identifies significant increases in costs
Impact	• Inability to maintain stock to acceptable level including development of future stock • Changes in national policy requiring internal funding above levels sustainable within business plan. • Increased requirement to use internal funding, • Reprioritisation of service delivery • Cash reserves used to right off rent arrears and voids • Substandard housing stock • Loss of morale and high staff turnover • Fines, notices, court cases and legal fees • Moratorium of services • Stakeholder Dissatisfaction with service delivery • Greater scrutiny on service slowing decision making • Poor local housing policy • Project failure • Contract disputes • S151 officer issues S114 notice • Failure to service debt • Legislative requirements not met • Impact on residents and tenants • Increase in void properties

SR303 FAILURE TO DELIVER GROWTH INFRASTRUCTURE					
Description	Facilitating the provision of key local infrastructure projects to ensure growth within the district to meet agreed plans & corporate priorities.				
Risk Owner	Lamb, Matt (SLT)				
Support Officers	Lisa Hughes, Matthew Norton				
Current Risk Matrix	**Date Last Reviewed**	**Impact**	**Likelihood**	**Risk Management**	**Target Risk Matrix**
	08-Mar-2023	4	C	Control Pending	
Controls/Actions in Place	• Community Plan • Infrastructure delivery plan • CIL charging schedule and infrastructure list • Development plan (Amended Core Strategy and Allocations and Development Management DPD) • Planning policy board • Cabinet and Full Council • Planning Committee • High performing planning service • Active Lobbying • Engagement with Developers, Stakeholders, Partners, infrastructure providers, utility providers • Economic Growth Strategy – Newark Town Investment plan & Visitor economy strategy • Continued liaison with National Highways to monitor progression of SLR and A1 over bridge. • Southern link road – Continued liaison with Homes England re funding package • Newark “levelling up” fund governance				
Risk Categories	Inability to deliver infrastructure projects to support growth. Specific projects include: **Direct NSDC influence** • A1Overbridge (and inter-relationship with A46 Newark northern bypass) **Indirect influence** • Southern link road - completion (grant funding) (and inter relationship with A46 Newark northern bypass) • Full Fibre broadband and/or 5(6)G provision • Electricity grid capacity • A614 roundabout (the Non-strategic Road Network Improvement Scheme NRNIS)– indirectly funding via section 106 • A46 improvement works – Influencing role • Political • Reputation • Financial • Partners, stakeholders, policy makers and funders • Economy, business and residents				
Trigger/Event	• Government change in policy • Partner funding withdrawn • Funding reduced/costs increased • Funding bid failure • Withdrawal of Partners				

	• Change in partnership priorities • Housing development stalls • Change in leadership • Poor strategic decision making • Failure of other related major infrastructure projects • A46 Newark northern bypass – Delivery and timing • A1 Over bridge – Technical constraints and increasing costs • Change in delivery method and/or partner • Insufficient capacity planning from infrastructure/utility providers • Inability to influence at national/regional level • Non-strategic major road network fund priority junctions (A614/A617/A6097 corridor) • Lack of coordination of delivery
Impact	• Infrastructure not delivered/ delivery delayed • Inappropriate infrastructure delivered • Growth within district affected • Inadequate service provision • Government sanctions for inability to deliver housing growth • Housing development stalls • Social Inequality • Large Employer relocating outside district • Inward investment stalls • Financial impact of failure to meet growth aspiration in Newark devolution agreement • Impact on council's MTFP • MTFP assumptions not realised • Slower/more expensive/less viable delivery • Commercial development stalls • Commercial attractiveness of district reduces

<table>
<tr><th colspan="6">SR304 CONTRACT/SUPPLY FAILURE</th></tr>
<tr><td>Description</td><td colspan="5">Managing contracts with key suppliers, including NSDC wholly own companies, to ensure the continued delivery of an effective service and ensure delivery of the council’s priorities and objectives.</td></tr>
<tr><td>Risk Owners</td><td colspan="5">Johnson, Deb (SLT); Shead, Suzanne (SLT)</td></tr>
<tr><td>Support Officers</td><td colspan="5">Andrew Kirk, Nick Wilson, Caroline Wagstaff, Dave Richardson, Alan Batty, Sue Bearman</td></tr>
<tr><td>Current Risk Matrix</td><td>Date Last Reviewed</td><td>Impact</td><td>Likelihood</td><td>Risk Management</td><td>Target Risk Matrix</td></tr>
<tr><td>
</td><td>20-Feb-2023</td><td>2</td><td>D</td><td>Control Pending</td><td>
</td></tr>
<tr><td>Controls/Actions in Place</td><td colspan="5">CONTRACT INCEPTION & MANAGEMENT
• Contract register developed using Pro-Contract and actively managed by legal and admin team (not fully populated or embedded yet see action) reviewed twice per year
• Contact renewal early warning provided by admin at quarterly meetings invite Di
• Procurement advice provided through Welland procurement
• Call off contract arrangements/template devised
• SLA template devised for consistency
• SLAs all reviewed
• SLA register devised and actively managed by service areas
• .Comprehensive audit undertaken of contracts

PROCUREMENT RULES
• Use of joint procurement service –Welland procurement
• Focus on local providers for some services
• Use of contract exemption forms where necessary

WHOLLY OWNED COMPANIES
• Management agreements regularly reviewed
• Contract managers named for each
• Regular contract management meetings in place
• Active partnership approach embedded

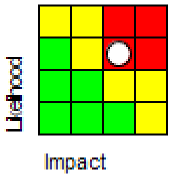
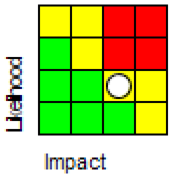
TRAINING
• Session delivered to BMs on contract management
• Session delivered to members on contract management</td></tr>
<tr><td>Risk Categories</td><td colspan="5">• Service delivery
• Financial
• Compliance (Regulatory, Health & Safety, Legislative)
• Governance
• Resources
• Reputational
• Procurement/lack of competition
• Project delivery</td></tr>
<tr><td>Trigger/Event</td><td colspan="5">CONTRACT INCEPTION
• Lack of understanding of requirements and different provision mechanisms available
• Lack of commercial approach and knowledge
• Inadequate/ambiguous specification
• Inadequate/ambiguous control/performance measures
• Inadequate/ambiguous exit arrangements</td></tr>
</table>

	• Failure to engage relevant specialists in contract design • Contract is not signed and saved in corporate register • Limited market supply • Over reliance on single supplier(s) • Lack of competence in procurement • Lack of resource dedicated to procurement • Lack of preplanning for contracts • Lack of appropriate exit strategies • Limited availability due to emerging industries/concepts/technology/demand CONTRACT MANAGEMENT • No assigned contract manager • Contract manager is not appropriately trained/skilled • Contract manager resource is insufficient • Ineffective performance monitoring and reviews • Evergreen contracts in place • Change control/variations are not appropriately managed • Lack of ongoing challenge throughout the contract • Loss of key personnel/ key resilience • Relationship breakdown • Contractor fails to deliver/ isn't able to deliver (bankruptcy) OTHER • Financial management not embedded as part of contract management process • Impact of Brexit • Business continuity/Emergency incident • Contracts not entered on contract register • Provision commences before contract is in place • Lack of appropriate overview of contract management • Pandemic • Impact of inflation • Government policy shift
Impact	FINANCIAL IMPACT • Additional costs to council (hidden costs, increased costs) • Best value not achieved • Fines • Failure to utilise grant(repay grant because of failure to contract or contract failure) SERVICE DELIVERY IMPACT • Provision is not timely/delayed • Poor/declining quality of service/provision • Increased unplanned demand • Inability to scale up/scale down provision to meet demand • Service failure • Not aligned to corporate objectives • Unable to procure • Project delivery failure LEGISLATIVE IMPACT • Data loss/GDPR compromised • Council's legislative obligations not met • Providers are not able to be challenged as contract not in place when service is commenced • Ombudsman X2 • Social housing regulator REPUTATIONAL IMPACT • Customer/service user complaints increase

	• Member complaints increase • Negative media coverage RESOURCE • Contract manager resource requirement is increased (leading to impact on other duties) • Other officer resource required to manage impacts (leading to impact on other duties) • Re-procurement additional resourcing • Project delay

SR305 WORKFORCE

Description	Ensuring the council is able to recruit, maintain and retain appropriate staffing resource to ensure it is able to deliver its services and meet its corporate objectives.
Risk Owner	Johnson, Deb (SLT)
Support Officers	Sarah Lawrie

Current Risk Matrix	Date Last Reviewed	Impact	Likelihood	Risk Management	Target Risk Matrix
	01-Mar-2023	3	C	Controlled	

Controls/Actions in Place

- Business Planning embedded throughout the Council with clear links to Community Planning and Performance framework
- Managing absence standards and guidance
- Senior HR Officers provide support to Business Managers to manage staffing issues, e.g. sickness absence, capability etc.
- Effective communication arrangements are in place.
- Rolling programme of review for HR policies to ensure they remain robust and fit for purpose.
- I-trent system provides Business Managers with ownership / control over staff sickness/Holiday approval etc. and provides corporate overview HR working closely with Business Managers to support organisational change.
- Partnership approach with recognised trade unions to support organisational change and current pandemic crisis (and any other similar extraordinary event).
- Counselling/therapy and welfare support services in place for staff.
- Visible inclusive leadership.
- Annual employee establishment planning process.
- Training and development programme to support ongoing development of skills and competencies and BM and other staff (i.e. change management, sickness and performance management and recruitment and softer skills)
- Targeted training interventions to support individual employee development and the facilitation of succession management.
- Family friendly policies added benefits such as reduced gym membership staff loans, temporary free parking to support during the cost of living enhanced workplace entitlements to attract and retain quality candidates including hybrid working, flexible working, employee counselling and therapy services, health and wellbeing initiatives).
- Approved corporate priorities within the Community Plan 2019-23
- Comprehensive programme of activities to embed our culture and improve our sense of wellbeing and belonging
- Annual staff reward and recognition awards and a basket of seasonal activities
- Apprenticeships and graduate placements to support service succession management.

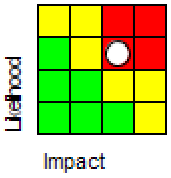
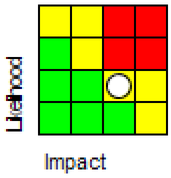
Risk Categories

- Service delivery and resources
- Financial
- Compliance
- Governance
- Reputational
- Competence and Capability
- Leadership
- Recruitment and retention
- Mobility and agility of workforce
- Safety of workforce
- Increased instances of mental health problems in workforce
- Culture – One council

Trigger/Event	• Key staff leaving e.g. with specific qualifications and/or experience and membership of professional body • Number of staff leaving from one area/high turnover • Inability to recruit to key posts or within a specific service area • Lack of development opportunity • Lack of team cohesion • Lack of organisational culture/collaboration • Lack of alignment with corporate values/behaviours/culture • Pressure of work • External Demand in a specific skill set • Uncompetitive in the job market place • Poor industrial relations and ineffective people management processes • Working environment • Key member of staff goes on long term sick, high level of sickness in one service area • Uncertainty and/or significant change • Aging workforce/retirement planning/succession planning • Pandemic or other significant emergency • Poor management/leadership • Inability to provide equipment/tools to allow staff to effectively perform their duties (e.g. shortage of laptops due to global microchip shortages) • Other external factors – cost of living, national shortages. • Projected national living wage increase leads to inability on pay structure to accommodate • National bargaining is protracted and leads to staff being disadvantaged • Current JE process is not fit for purpose – outdated. • Prolonged industrial action
Impact	• Service delivery impact –inability to deliver services or delivering reduced services • Reputational impact through poor service delivery • Reputation as an employer resulting in inability to recruit staff • Loss of capacity/under resourced • Loss of expertise and corporate memory • High recruitment costs • Additional time required to support recruitment activity and the induction of new staff and their development • Additional training costs • Impact on morale, culture and team performance • Increased levels of staff absence (ill health) • Increased levels of non-attendance in nominated workplace (lack of cohesion/culture) • Loss of opportunity through loss of networks • Increase in accidents • Impact of potential civil claim (e.g. employment tribunal. insurance) or criminal actions • Financial penalties/ombudsman decisions/other regulatory bodies • Increased demand on corporate services (e.g. HR,ICT)

SR306 CORPORATE GOVERNANCE

Description	Risk of failure in systems of governance within the council, council owned/influenced organisations and partnerships or other collaborative arrangements.
Risk Owner	Bearman, Sue (SLT)
Support Officers	Nigel Hill, Nick Wilson, Ella Brady, Deb Johnson

Current Risk Matrix	Date Last Reviewed	Impact	Likelihood	Risk Management	Target Risk Matrix
	01-Mar-2023	3	C	Control Pending	

Controls/Actions in Place

- Code of corporate governance created, maintained and monitored in accordance with CIPFA guidance.
- Corporate Governance self-assessment against the code of Corporate Governance undertaken periodically.
- Periodic review of governance by 3 statutory officers.
- Annual review of Constitution which includes fit for purpose and up to date
- -Officer code of conduct

-Officer registers of interests - Related third party transactions.
-Section 151 officer/Monitoring officer/Head of Paid Service.
-Gifts and hospitality - policy and register place.
-Council Financial regulations and procedures,
-Contract procedure rules
-Whistle blowing policy
-Anti-fraud and corruptions strategy

- Annual governance statement reviewed annually and reported to Audit and Governance Committee. Annual Governance Statement goes to November meeting of Committee
- Creation of annual combined assurance report in conjunction with SLT and BMs.
- Internal Audit work including risk-based Audit Plan.
- Effective use of External Auditor.
- Under executive arrangements with Cabinet structure and portfolio holders:

-Publishing of forward plan and all delegated decisions
-Mechanism for call in of all executive decisions
-Overview by Audit and Governance Committee
-Dedicated scrutiny committee under executive arrangements – Policy and performance improvement committee
-Tenant engagement board which ensures appropriate tenant involvement

• Staff and member training in place
-Training on governance issues including anti-fraud and financial regulations.
-Counter fraud training delivered
-Member induction at the start of each new Council cycle.

• Complaints:
-Localised standards framework and effective arrangements for dealing with complaints overseen by Audit and Governance Committee.
-Internal complaints procedure.

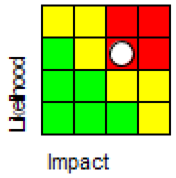
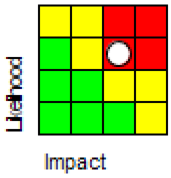
• Fraud
-Annual internal review of the Fraud Risk register to carry out proactive work, check on internal controls and is reported to members
-Participation with National Fraud Initiative process

	-Options appraisal for counter fraud and implementation of preferred option. -Appropriate insurance cover including Fidelity Guarantee. -Oversight of Active4Today, Newark and Sherwood Homes, Arkwood and East Midlands Building Control. -Appropriate monitoring of performance of the third party or alternative service delivery methods. • HR policies in place -Recruitment process controls, e.g. References, Immigration, DBS. • Horizon scanning at Business Manager briefings and effective communication between SLT and business managers. • Measures in place to ensure IR35 compliance • Schedules review of Corporate Governance (Q4 19/20 • Governance review ongoing with support from change to Executive Arrangements completed in May 2022 – 6-month review of effectiveness of arrangements to be considered by Audit and Governance Committee in November 2022 • Internal Audit of governance arrangements for Council-owned companies in 2022-3 audit programme
Risk Categories	• Service delivery • Governance • Fraud • Poor decision making/leadership • Reputation • Financial • Legal compliance • Partners/stakeholders
Trigger/Event	• Failure to communicate, define, review and uphold governance standards policies to ensure fitness for purpose. • Failure of staff and councillors to understand their governance roles and responsibilities. • Failure to observe good governance. • Failure to adequately manage risk or monitor performance. • Failure in Policy adherence (All policies). • Malicious event e.g., Fraud, money laundering, etc. • Reduction in capacity and loss of key personnel and resources • Failure to adequately oversee governance standards of partnerships and other entities that the Council is involved in. • Failure of governance in wholly council owned companies • Failure of governance in partnership organisations • Negative findings identified by other organisations/bodies – Ombudsman and External Audit • Overuse of “Call-in”, “Call for action” or “Urgency provision” • Inexperience with new system – procedures set out in constitution not followed • Influx of new elected members • No overall control achieved
Impact	• Loss of opportunity and ability to meet corporate priorities • Financial resource loss. • Poor or inadequate decision making. • Service delivery issues. • Criminal or civil liability. • Risk of successful judicial review • Regulator finding fault e.g. Internal Audit, External Audit, Ombudsman.

	• Government or peer intervention. • Failure of Council owned companies • Failure of partnerships • Ombudsman findings – Maladministration • Significant Audit findings – e.g. Public interest report • Reputational risk to the Council. • Negative media coverage. • Policies could be open to challenge. • Excessive legal costs incurred. • Poor staff morale. • High staff turnover. • Community disengagement. • Capacity redirected to address failures. • Inappropriate use of public office • Fraud and corrupt practice identified. • Fraud and corruption practices not identified or dealt with leading to an incident of fraud and corruption. • Slowing down of decision making

SR307 DATA MANAGEMENT AND SECURITY

Description	Deliberate or unintentional loss/disclosure of personal, sensitive, confidential, business critical information or breach of information governance legislation
Risk Owner	Kohli, Sanjiv (SLT)
Support Officers	Jill Baker, Nick Wilson, David Price, Dave Richardson, Sue Bearman, Stacy Carter

Current Risk Matrix	Date Last Reviewed	Impact	Likelihood	Risk Management	Target Risk Matrix
	15-Mar-2023	3	C	Control Pending	

Controls/Actions in Place

Policy and Guidance

Policy suite and supporting guidance including:
- ISMS
- Cyber security strategy
- IG strategy

Training/ Guidance
- Training for all staff taking payments in line with PCI-DSS requirements.
- Training for ICT staff.
- Data protection training including a section on information security and targeted training ongoing for staff located elsewhere and forms part of the induction process.
- Information governance check on furniture that is being disposed of.
- Information E Training completed by all staff.
- Annual review of Information Asset Register.
- Annual mandatory GDPR, cyber and spear phishing online training for all staff and councillors.
- Guidance and training available for elected members. 3 GDPR sessions provided for newly elected members.
- Guidance on security breach procedures for Business Managers as Information Asset Owners
- Data security communications to all staff following identification of risk

Governance and Compliance
- CIO/SIRO/DPO appointed
- Compliance with the government's security arrangements.
- PSN compliant data & internet connections implemented
- Compliance with new Cabinet Office email standards achieved.
- Weekly review of ICO guidance.
- Periodic PCI/DSS compliance checks
- Data Privacy Impact Assessment.
- Annual SIRO audit.
- Review of policies and procedures to ensure compliance with latest Payment Card Industry-Data Security Standard (PCI-DSS)
- Cyber Security now standing agenda item on monthly business unit management meetings.
- Governance arrangements established through CIGG with monthly review.
- CIGG meeting every quarter to review risks.
- External Audit on ICT security annually.
- Implementation of an ISMS project team

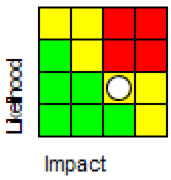
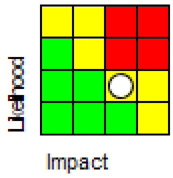
	ICT/Equipment specific controls Encryption for mobile devices. • VASCO tokens and Google Authenticator. • Quarterly ICT security checks internally. • Penetration test annually by external company - monthly scans of servers for weaknesses, monthly server updates and monthly scans of Microsoft Office and Windows. • Perimeter software - eg. mailmarshall & webmarshall. • Hardening test on new virtual servers. • Documents scanned reducing the need for paper. • Secure server room. • East Midlands WARP membership - alerting networking facility regarding any breaches. • Monthly updates of Adobe products. • Program in place to ensure the continual maintenance & upgrade of the ICT environment. • Secure portal for Members to access the Extranet. • Airwatch MDM (Mobile Device Management) implementation for mobile devices. • DMark, DKim SPF and TLS secure email authentication software. • Cryptshare for encrypting secure emails and large files for email. • Report & record all cyber-attacks/attempts and escalate to CMT where appropriate Users own devices cannot connect to network • ‘Consent’ tick box on appropriate forms. **Partners and Stakeholder specific controls** • Non-disclosure agreements in place for third party access. • Use of data processing and agreements with partners. • Use of licensed confidential waste handler. • Letters sent to all third parties who process personal data on behalf of NSDC advising of additional responsibilities under GDPR and data processing agreements in place. • Actions arising from report to SLT on third party users implemented.
Risk Categories	• Loss of vulnerable, personal, sensitive valuable data • Legal compliance • Reputation • Financial • Partners/stakeholders • Disruption of service- including from a cyber attack • Supply chain
Trigger/Event	*(Organisational)* • Personal, confidential or corporately sensitive/business critical information disclosed unintentionally or through error of judgement, data breach - intentional (malicious). • Theft or loss of equipment/papers/data belonging to the council, partners or third party companies. • Failure to respond to subject access requests/information requests accurately and within statutory timeframes • Failure to identify and respond to a data breach promptly and effectively • Failure to protect information from accidental loss, corruption or disclosure or other non compliance with Data Protection Principles, by NSDC or a third party, involving large volumes of personal data or smaller volumes of sensitive personal data • Repetition of reportable data security breach • Insufficient due diligence during procurement and termination of cloud base systems supported by third parties. • Accelerated delivery of digital agenda

	• Agile Working i.e. mobile/remote/home working/home printing/disposal of printed data/Outreach posts. • Loss of key resources/staff. • Reducing resources with less capacity for processing data. • New and inexperienced staff/elected members with access to data. • Lack of suitable training/competency/communications • Re-alignment and integration of new services *(Systems/assets)* • Cyber attack: (either targeted such as denial of service or unintentional human error e.g. - access to link on another website). • Failure to protect information assets from an internal malicious attack leading to a data breach, corruption of data assets, loss of asset or service. • Failure to adopt appropriate technical security measures for keeping data secure within our systems and platforms which results in a significant data breach • Accidental data breach through any electronic source • Use of BYOD (Bring your own device). • Unsupported software/unforeseen loss of support. • Decommissioning of property/asset *(Partners and stakeholders)* • Collaborative working, sharing, outsourcing and partnership working (including external printing and hybrid mail)/involvement in other peoples' data • Partnership working and sharing new service locations/data sharing issues. • Partner's/contractor's/host's poor data management and information security leading to data breach/loss. • Use of suppliers/third parties, etc. • Government integration agenda e.g. Increased working between public bodies • Local government reorganisation/Combined authority/change in service delivery model. • Third party access to IT systems. • Adoption of unsupported/dated systems from third parties *(Accreditations)* • Termination of PSN/GCSX standards by the Cabinet Office limiting options for securely sharing with some Public Sector organisations • Failure to comply with relevant standards and legislation including PCI-DSS/Cyber Essentials/NCSC best practice/PSN. *(External factors)* • Emergency event-eg power loss – leading to increased reliance upon ICT systems and potential loss of data/corruption of data
Impact	*(Finance/legal)* • Loss/damage to an individual where the Council inappropriately released their personal data • ICO fine/Civil claims. • Resource impact of Information Commissioner investigation.eg ICO actions • Breach of Access to Information legislation bringing about financial/legal damage - imposed on the Council by the Information Commissioner and other Statutory Bodies. • Disciplinary action taken against a member of staff and elected members if a breach is found to be deliberate/malicious. *(Resource)* • Drain on resources to process and enable conformity in legislation.

	• Greater demand on existing resource • Operational and resource issues eg. Service interruption - where focus has to be taken away from service delivery to dealing with the breach. • Reduced service provision resulting from lack of ability to work remotely and available physical resource • Increased demand on existing services • Inability to deliver critical/key services • Capability of infrastructure/system to deliver services – i.e. increased demand during emergencies *(Reputation)* • Damage to reputation of the Council/trust by the public. • Loss of confidence within the Council • Loss of confidence with partners and stakeholders • Negative media coverage *(Partners)* • Loss of provision to customers and partners e.g. Active4Today, DWP, • CCTV (under current arrangements) leading to disputes over SLAs and contracts and potential loss of income, e.g. partner rent for Castle House. • Loss of partner data where the council is the data processor - subsequent impact on partner's reputation. • Withdrawal of service from partners and stakeholder • Cyber-attack leading to system downtime/damage/loss of data (Ransom Ware) and financial loss/ resource drain *(Contractors/supply chain)* • Less direct control over data as we procure, migrate to and terminate cloud base systems

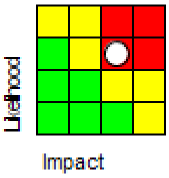
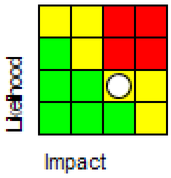
SR308 ENVIRONMENT

Description	Ability to meet requirements of the government's green agenda and aspirations/expectations of the NSDC community in delivering a greener/carbon neutral service.
Risk Owner	Finch, Matthew (SLT)
Support Officers	Briony Ashton, Ella Brady, Stephen Young

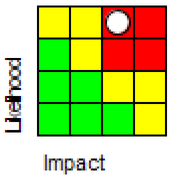
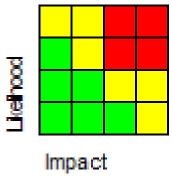
Current Risk Matrix	Date Last Reviewed	Impact	Likelihood	Risk Management	Target Risk Matrix
 	06-Mar-2023	3	B	Control Pending	

Controls/Actions In Place	• Climate emergency declared • Approved date for net neutral – 2035 • Costed action plan to support net neutral date • Appointed Environmental Policy and Projects Officer • Climate emergency project working group – meets quarterly • Project working group for depot development • Annual report to P&F – Activities undertaken and carbon footprint • Internal Audit • Urban tree challenge grant – 4000 trees planted • Developed business cases for kerb side food and glass collection • Financial planning – MTFP • Elected member working party utilised to develop climate emergency strategy plan • Community plan • Bid to public sector de-carbonisation fund • Successful bidding - LAD2 funding allocation (£750k) • 16) 2 x posts agreed for decarbonisation
Risk Categories	• Financial • Reputation • Statutory compliance • Disruption of service-Pressure groups /community action • Negative media/comms • Capacity to deliver on successful funding
Trigger/Event	• Climate change conference • Government policies and legislation- i.e. national waste and resources strategy, environment bill, 2030 internal combustion engine phase out, national tree strategy. • Budget pressure/planning/demand - MTFP • Lack of financial support from government to implement • Availability/cost/maturity of technology • Incentivising of tariffs – cost v return • Legacy issues -housing/fuels/infrastructure • Resident/User engagement/participation - Behaviour change • Active pressure groups • Political influence • Declaration of climate emergency • Impact of media/social media events/influential individuals • Poor communications • Partnership failure • Bidding arrangements/competition – restrictive nature of government funding to date • Future resourcing to deliver • Knowledge/skills gap within workforce

Impact	• Not meeting governmental targets/internal targets • Penalties -TBC • Reputation • Negative media • Political/public pressure for improvement/campaigns against • Increased scrutiny and workload • Budget gaps • Impact on other service provision • Lack of infrastructure to improve • Lack/loss of control in light of government mandated service provision • Increased costs arising from emerging technology, reduced tariffs and government policy • Unable to deliver due to access/obtain government funding/ technology • Unable to deliver on climate strategy • Customer disengagement • Greater demand on external expertise leading to greater costs lower internal expertise

SR309 STATUTORY COMPLIANCE MANAGEMENT					
Description	Implementation and maintenance of suitable statutory safety compliance management systems.				
Risk Owners	Kohli, Sanjiv (SLT); Shead, Suzanne (SLT)				
Support Officers	Mark Plant, Mark Eyre, Caroline Wagstaff				
Current Risk Matrix	**Date Last Reviewed**	**Impact**	**Likelihood**	**Risk Management**	**Target Risk Matrix**
	21-Nov-2022 (To be reviewed – 30/3/23)	3	C	Control Pending	
Controls/Actions In Place	• Policies and procedures – (Need for policy review) • Dedicated Compliance teams and compliance reporting • Dedicated software –asset compliance/management software ICT systems • Contract management systems • Performance management systems • Training and competence Staff/tenants/contractor • Information/education to tenants • Enforcement of tenancy agreements • Assurance and scrutiny process – operational and committee levels • Use of specialist contractors/advisors • Competent/licenced/registered engineers/inspectors • Auditing and inspection processes • Reconciliation processes • Complaints processes • Tenant engagement • Maintenance/inspection programmes • Pre let inspections • Business planning • Compliance with regulatory standards • Legal/enforcement action/Fines/Regulatory judgement • H&S • Civil claims • Service delivery - Loss of essential service & System/equipment failure/out of use • Negative media coverage • Reputation • Customer satisfaction/impact • Financial impact (rectification • Increased resource demand				
Risk Categories	• Legal/enforcement action/Fines/Regulatory judgement • H&S • Civil claims • Service delivery - Loss of essential service & System/equipment failure/out of use • Negative media coverage • Reputation • Customer satisfaction/impact • Financial impact (rectification) • Increased resource demand				
Trigger/Event	• Poor management systems				

	• Failure to undertake statutory examinations • Poor record keeping /management • Remedial works not undertaken in a timely manner • Contract management – controls to manage/address poor performance/contract exit arrangements, use of evergreen contracts (non-ending), poor procurement • Poor contractor engagement • Cyber-attack/Ransom ware –denied/denying access to records • Data protection loss/GDPR • Routine inspection/audit identifies failure • Incorrect response to an accusation, complaint or request for service • Unauthorised repairs, Sabotage, maintenance, alterations and installations • Pandemic • Emergency incident – fire, gas, flood, etc. • Hospitalisation/fatality - Investigations to establish cause/identify reports • Essential supplier chain failure/goes into administration. • Incorrect sub-contracting procedures • Change in legal/regulatory requirements • Failure of ICT and associated support systems • Recruitment – inability due to market demands • Loss of key personnel • Insufficient finance • Insufficient Resourcing
Impact	• Fines/enforcement action • Regulatory notice issued • Unable to deliver a suitable service/essential service • Resource demand/conflict • Financial – budget overspend, income generation/protection, rent loss, MTFP, viability of HRA business plan. Effect on GF income • Loss/reduction of service to Council, partners and tenants(commercial and domestic) • Reputation • Need to re home tenants • Leaseholders litigate • Negative local or national press coverage • Increased scrutiny/monitoring – customer, committees, Regulator etc. • Regulatory body short notice inspection • Self-referral to regulatory (co-regulation) • Commercial viability of building/site • Tenancy enforcement • Contract failure/suspension • Contract dispute • Increase turnover of staff • Inability to recruit the right staff • Poor morale/stress of workforce • Political engagement • Enforcement agency engagement • Accident/incident/poisoning • Civil claim due to failure • Criminal proceedings • Investigations to establish cause/identify reports for hospitalisation/fatality

<table>
<tr><th colspan="6">SR310 COST OF LIVING</th></tr>
<tr><td>Description</td><td colspan="5">To mitigate the effects of the cost of living crisis across the NSDC community (residents, businesses, tenants and colleagues) and understand support and delivery requirements.
Support – increased demand on services to support those affected by the cost-of-living crisis
Delivery – amending existing and providing new services to support those affected by the cost-of-living crisis</td></tr>
<tr><td>Risk Owner</td><td colspan="5">Shead, Suzanne (SLT)</td></tr>
<tr><td>Support Officers</td><td colspan="5">Matthew Finch, Nick Wilson, Phil Ward, Alan Batty, Julie Davidson, David Price, David Wright, Cara Clarkson, Victoria Endersby, Neil Cuttel</td></tr>
<tr><th>Current Risk Matrix</th><th>Date Last Reviewed</th><th>Impact</th><th>Likelihood</th><th>Risk Management</th><th>Target Risk Matrix</th></tr>
<tr><td></td><td>05-Dec-2022 (To be reviewed – 29/3/23)</td><td>3</td><td>D</td><td></td><td></td></tr>
<tr><td>Controls/Actions In Place</td><td colspan="5">• Cost of living response group
• Implementation of “Place board”
• Provision of employee support – loans, mental health champions, health and wellbeing activities, reduce leisure centre membership, free parking, agile working
• Workforce development strategy
• Health and Well Being Support to staff via intranet
• Financial advice support for staff – home budgeting etc.
• MTFP review and revision
• Supporting and delivering foodbanks/food clubs/ social supermarkets and hygiene banks
• Referrals to NCC household support fund
• Referrals to Holiday activity and food programme (HAF)
• Review of council tax relief re eligibility
• Council tax reduction scheme
• Benefits process scheme
• Supporting credit unions
• Third sector support – CAB, NS CVS, Homestart, NS community HUB
• Efficiency east midlands small grant funding
• Community grants fund
• Introduction of fuel bank scheme
• Helping hand scheme for NSDC tenants in arrears
• Increase in discretionary housing payments
• Referral to CAB for debt advice
• Starting well for new NSDC tenants
• Support identified for NSDC tenants by Tenancy assistance team
• Business growth and resilience programme
• Shared prosperity fund -22/25 (community, people and economy)
• Economic development service</td></tr>
<tr><td>Risk Categories</td><td colspan="5">• Service delivery
• Resourcing
• Financing
• Local economy
• Impact in known vulnerable groups GRT/elderly/single young families etc
• Legislative/Regulatory/Non-compliance
• Housing stock deterioration/disrepair issues
• Litigation</td></tr>
<tr><td>Trigger/Event</td><td colspan="5">• Increase in interest rates</td></tr>
</table>

	• Cost of essential food increase • Cost of utilities increase • Cost of Fuel • Cost of borrowing increases • Cost of materials/services • Availability of gas • Inability to deliver discretionary grants • Withdrawal/reduction of joint partnership services • Rent increase limit applied • Governmental directives issued • Previously unknown need/demand– Customers/residents • Extreme weather – harsh winter • Increase in mortgage defaults • Inability to recruit and return • Requests for hybrid working that cannot be accommodated • Benefit claims exceed current capacity • Demand exceeds resources • No skills or expertise to support some needs
Impact	**FINANCE** • Increased costs to maintain critical services – i.e. housing with care, workplaces, vehicles, etc • Loss or significant reduction in income/fees • Increase in debt to the council – i.e., rent arrears/council tax/business rates • Loss of funding (including joint partnership funding) • Impact on MTFP and 30-year HRA business plan • Increase in willingness to litigate • Management fees increase – A4T • Reduced investment return from Arkwood • Loss of income via business rates **SERVICE DELIVERY** • Restrict or stop delivery of non-core services • Impact on delivery of community plan • Significant/key projects stalling • Increased demands on council services to support those in crisis • New demands on council services • Partners withdrawing from projects/services • Loss of significant partner/contractor • Increase in homeless applications/housing need • Increase in demands for support/discount schemes • Reduction in third sector provision • Procurement/contract issues • Contractor/supplier goes into administration • Loss of commercial tenants • Deterioration in quality of property stock • Increased demands/costs in repairing/maintaining property portfolio • Increased need to take action due to reduction in maintenance of commercial stock by tenants **LOCAL ECONOMY** • Loss of local businesses • Reduction in local providers/contractors to provide services/goods • Bankruptcy/administration **LEGISALTIVE** • Self-referral to regulator for breaches in consumer standards • Enforcement action – Notices & fines

	<u>HEALTH</u> • Deterioration in Health and wellbeing of general population • Widened food/fuel poverty **<u>WORKFORCE</u>** • Workforce wellbeing/retention • Increased sickness/burnout and deterioration of workforce health • Increased demands on staff • Restriction of services due to demand

NEWARK & SHERWOOD DISTRICT COUNCIL

Report to:	Audit & Governance Committee Meeting 6 April 2023
Director or Business Manager Lead:	Sue Bearman, Assistant Director Legal & Democratic Services, Monitoring Officer 01636 655935, Sue.Bearman@nsdc.info
Lead Officer:	Nigel Hill, Business Manager Elections & Democratic Services 01636 655243

Report Summary	
Report Title	Councillor Induction Programme May 2023
Purpose of Report	To provide feedback from the Member Working Group established to have oversight of the Councillor induction process following the May 2023 District Council election
Recommendations	1. That the report be noted 2. That Councillor Learning and Development is included on the Committee's future work programme
Reason for Recommendation	To give the opportunity for all Councillors to develop the skills and knowledge to undertake their roles effectively; to reflect the Council's Community Plan values – always looking to improve and being professional.

1.0 Background

1.1 On 1 February 2023 Audit & Governance Committee considered the findings of a six-month review of the Council's executive governance arrangements, as adopted in May 2022.

1.2 One issue that came up during the review of governance was the importance of the new Member induction process following the elections on 4 May 2023. This was seen as an opportunity to drive engagement and inform Members as to the Council's decision-making processes. Democratic Services will work with service areas to create engaging induction content across all areas. Committee resolved for the proposed Member induction programme be reviewed by a working group of the Audit & Governance Committee to gain Member insight. This work should be completed in time for details of the induction programme to be shared in the candidate packs which are issued prior to the elections.

1.3 Each political group was invited to nominate Councillors to attend the Working Group (4 Conversative, 2 Labour, 1 Liberal Democrat), which took place on 8 March. Initial proposals developed by Officers were presented to the group for comment, and the Group was asked for suggestions and ideas. Feedback is summarised below.

2.0 Feedback from the Member Working Group

2.1 Welcome arrangements

- The Group supported proposals to issue information regarding the induction programme with the candidate packs that will be issued in early April
- The Group welcomed the proposal for a 'Welcome Pack' to be issued to all elected candidates at the count on 5 May; suggestions for content included an organisation chart, an induction checklist and useful contacts
- The Group was keen for candidates/newly elected Councillors to be provided with information about the role of councillor

2.2 Induction Timetable

The Group reviewed an early draft of the proposed induction timetable and made some suggestions regarding prioritisation, bearing in mind the date for first Full Council after the election and first meeting of Cabinet (23 May and 6 June respectively). It was noted that bespoke training, similar to that offered when governance arrangements changed in May 2022, would be offered to any new Cabinet Members. This would sit outside the induction timetable.

2.3 ICT Kit

The Group supported the proposals for issue of ICT kit. Replacement ICT kit is to be issued to all Councillors, whether newly elected or returning (as approved by the Portfolio Holder for Organisational Development & Governance following a review by Policy and Performance Improvement Committee). Councillors will need to undertake their ICT security and data protection induction before the kit is issued (also approved by the Portfolio Holder).

2.4 Principles for induction sessions

- The Group's preference is for all induction to be delivered in person rather than on Teams or in a hybrid format
- All sessions should start at 6pm
- Two sessions could be provided for more in-depth subjects - an 'introduction' followed later by a 'masterclass'
- Where possible microphones should be used by those delivering sessions
- The induction programme should be essential for all new and returning Councillors, with particular emphasis on 'masterclass' training for those appointed to committees
- All sessions should be recorded

2.5 The Group also suggested that it would be helpful for some of the induction programme to be delivered from sites other than Castle House, for example the Civil War Centre and the Business Innovation Centre.

2.6 The Group suggested early consideration be given to plans for Councillors who do not return. As explained above, all Councillors will be required to return their current ICT kit, but those who do not return will also need to be aware of arrangements for closing their email accounts and return of confidential documents for example.

2.7 Finally, the Group agreed that an ongoing personal development programme for Councillors would be beneficial, after the initial induction programme is completed. Audit & Governance Committee could have oversight of this programme.

3.0 Proposal/Options Considered

3.1 In view of the short timescale, officers working on induction arrangements have already incorporated the Working Group's feedback and suggestions as far as possible. Outline information regarding the induction programme will be issued with candidate packs in early April. The final induction programme and welcome pack are still being refined and will be approved by the Council's Senior Leadership Team in April.

3.2 The induction programme will include the following sessions: -

- A welcome event – introduction to the Council
- ICT, cyber security and data protection
- Software for access to agendas, reports and decisions
- Councillor Code of Conduct
- Governance, Cabinet and Scrutiny
- Communications
- Safeguarding
- Planning and Planning Committee
- Licensing & General Purposes Committee
- Audit & Governance Committee
- Policy and Performance Improvement Committee
- Financial Context
- Housing Revenue Account and Housing

3.3 The principles for delivery of induction session as agreed by the Working Group at 2.4 above will be followed as far as possible. Rooms have been booked to enable some of the sessions to be delivered away from Castle House. Officers have also started to make arrangements for Councillors who will not be returning.

3.4 It is proposed to bring a further report to Audit & Governance Committee with feedback from the induction programme and proposals for an ongoing personal development programme for Councillors.

4.0 Implications

In writing this report and in putting forward recommendations officers have considered the following implications; Data Protection, Digital and Cyber Security, Equality and Diversity, Financial, Human Resources, Human Rights, Legal, Safeguarding and Sustainability and where appropriate they have made reference to these implications and added suitable expert comment where appropriate.

Financial Implications (FIN23-24/143)

4.1 For the 2023/24 financial year, £3,000 has been budgeted for in order to fund the cost of training for Members.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Members Digital Tools delegated decision 4 January 2023 – published – https://democracy.newark-sherwooddc.gov.uk/ieDecisionDetails.aspx?ID=696

Six Month Review of the Council's revised Governance Arrangements 1 February 2023 – published – Item 10 – https://democracy.newark-sherwooddc.gov.uk/ieListDocuments.aspx?CId=298&MId=817

NEWARK & SHERWOOD DISTRICT COUNCIL

Report to:	Audit & Governance Committee Meeting - 6 April 2023
Director or Business Manager Lead:	Sue Bearman, Assistant Director Legal & Democratic Services, Monitoring Officer 01636 655935, Sue.Bearman@nsdc.info
Lead Officer:	Nigel Hill, Business Manager Elections & Democratic Services 01636 655243

Report Summary	
Report Title	Appointment of Independent Persons
Purpose of Report	To consider the appointment of Paul Cox and Sarah Britton as Independent Persons to the Council for a further 4-year term.
Recommendations	That Committee recommends to Full Council for Paul Cox and Sarah Britton to be appointed as Independent Persons to the Council for a further 4-year term.
Reason for Recommendation	The Council is required by law to appoint at least one Independent Person.

1.0 Background

1.1 The Monitoring Officer is required to undertake the initial assessment of Code of Conduct complaints in consultation with an Independent Person. A Councillor who is the subject of an allegation must also be able to consult an Independent Person. In addition, the Council's Independent Panel, which will offer the Council advice, views or recommendations on any proposal for the dismissal of a statutory officer, has two Independent Persons as members. It is therefore recommended to appoint two Independent Persons, to fulfil both functions as required.

1.2 On 21 May 2019 Full Council appointed Paul Cox and Sarah Britton as Independent Persons to the Council for a four-year term until May 2023.

1.3 They were appointed following an advertisement and interview process. The interview panel comprised of the Monitoring Officer, Deputy Monitoring Officer, Leader of the Council, Deputy Leader of the Council, and the Leader of the Major Opposition Group.

2.0 Proposal/Options Considered

2.1 The current arrangements are working well. Following consultation with the Chairman of Audit & Governance Committee, the Monitoring Officer approached the current Independent Persons to discuss the possibility of a further term of appointment. Both expressed a willingness to continue.

2.2 It is therefore proposed that Audit & Governance Committee recommends to Full Council that the current Independent Persons are appointed for a further term.

3.0 Implications

In writing this report and in putting forward recommendations officers have considered the following implications; Data Protection, Digital and Cyber Security, Equality and Diversity, Financial, Human Resources, Human Rights, Legal, Safeguarding and Sustainability and where appropriate they have made reference to these implications and added suitable expert comment where appropriate.

Financial Implications (FIN23-24/7069)

3.1 The annual rate for Independent Persons is £1,500 per annum, Committee may wish to consider an inflationary increase for next financial year.

3.2 For the 2023/24 financial year £3,500 has been budget for in terms of the cost of Independent Persons and therefore could accommodate a slight increase in inflationary cost.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Full Council report 21 May 2019 – Appointment of Independent Persons

NEWARK & SHERWOOD DISTRICT COUNCIL

Report to: Audit & Governance Committee Meeting 6 April 2023

Director or Business Manager Lead: Nick Wilson – Business Manager – Financial Services

Report Summary	
Report Title	Combined Assurance Report
Purpose of Report	To receive and comment upon the Combined Assurance Report for the 2022/23 financial year.
Recommendations	That the Committee consider and comment upon the report.
Reason for Recommendation	To ensure Committee members are aware of the levels of assurance the Council currently has.

1.0 Background

1.1 The Combined Assurance Report has been produced by Internal Audit working with Business Managers and the Senior Leadership Team. It demonstrates the level of assurance the Council has in its activities at a set point in time, and identifies any gaps. This is then used to inform the annual Internal Audit Plan for the next financial year. The report is attached at Appendix A.

2.0 Implications

2.1 No implications have been identified during the writing of this report.

Background Papers and Published Documents

None for this report

Combined Assurance Status Report 2022/23

Newark and Sherwood District Council
March 2023

Assurance LINCOLNSHIRE
For all your assurance needs

NEWARK & SHERWOOD DISTRICT COUNCIL

Contents

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Principal Auditor

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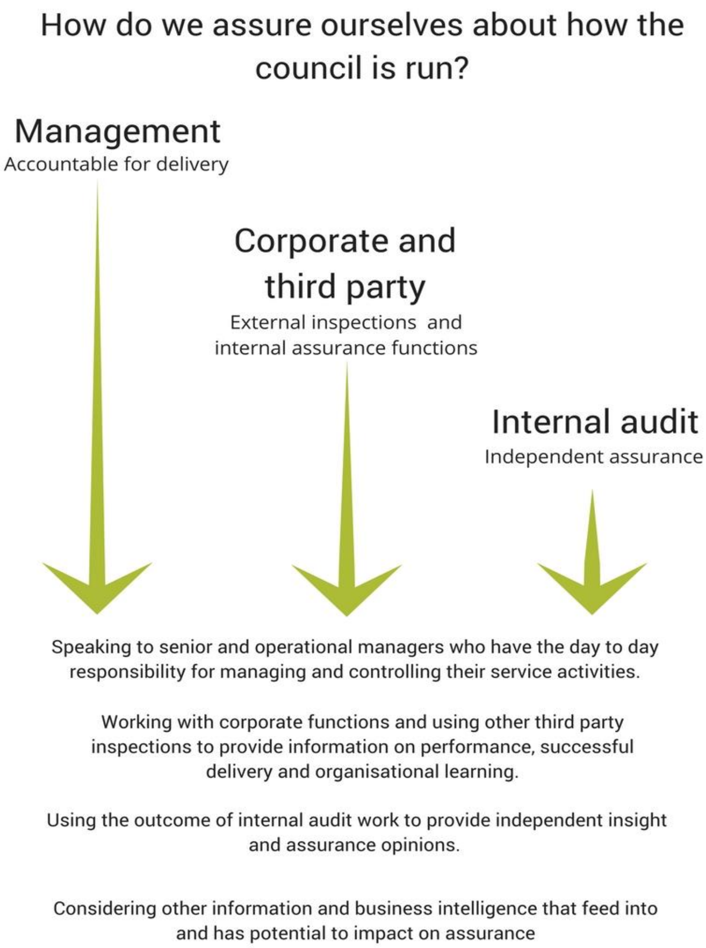
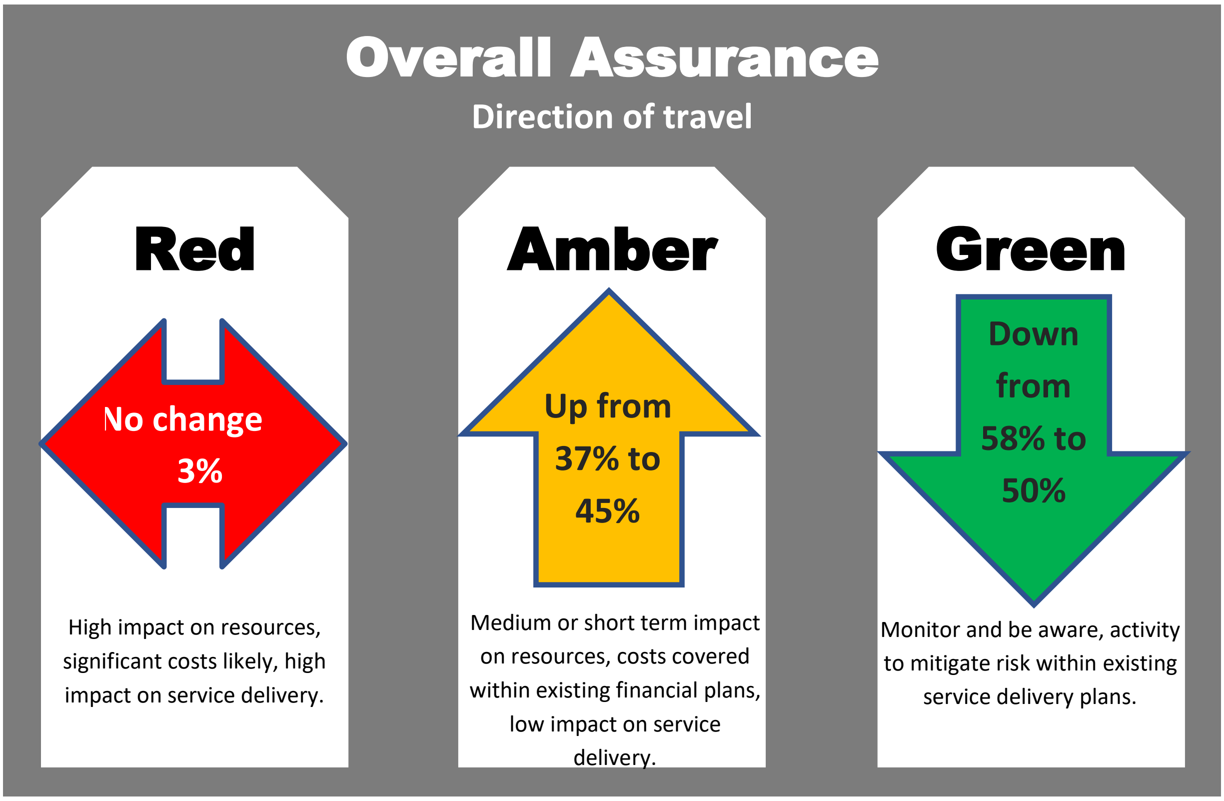
Overview of Assurance

Combined assurance is a structured means of identifying and mapping the main sources and types of assurance in the Council and coordinating them to best effect.

It enhances risk management by providing an effective and efficient framework of sufficient, regular and reliable evidence of assurance on organisational stewardship and management of major risks to the Council's success.

We do this using the 3 lines of defence model.





Note: 2% of the activity is unknown. These relate to emerging issues e.g. Levelling Up Fund Level 2, Levelling Up Regeneration Bill and new partnerships.

Chief Executive's Summary

This Assurance Report provides a helpful and necessary stock-take of the Council's operating environment and the control measures that are employed to ensure good governance and due diligence.

The Council is ambitious for its community. This means that we take a broad perspective on our role and responsibilities and as a result, we achieve a great deal and our agenda is heavy. We wouldn't want it any other way but it means that we must take care not to over-stretch ourselves and ensure that risks are properly identified and managed.

Whilst highlighting many areas of progress and positive developments, the Assurance Report rightly draws attention to an ever more demanding and challenging context. Demand for our services has increased, from tenants and residents and local businesses. Local authority pay is under pressure and we are experiencing significant recruitment and retention challenges. Requirements surrounding regulatory compliance are increasing, especially relating to housing management and we continue to do our upmost to support the community through the Cost of Living crisis while contending with the impact of rising prices on our own operations.

These and other challenges are reflected in our risk profile and whilst significant, I am assured that we have the capacity and the capability to manage them.

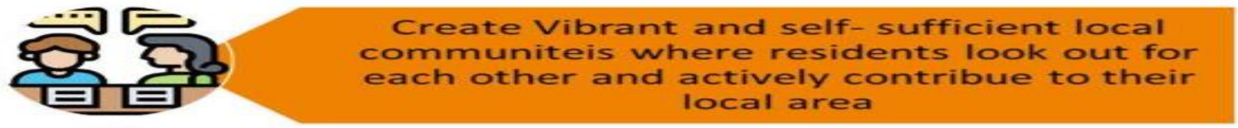
As always, I'm extremely grateful for the superb support that we receive from our workforce and for the leadership of our elected members.

Link to Community Plan Objectives

The Council updated its Community Plan in February 2019, and the next update is expected after the May 2023 Local elections when the Community Plan will be fully reviewed. As part of the assurance process the activities and projects have been mapped against each of the 7 Objective for 2020 – 2023 set out below.

The Council has been undertaking significant development and implementation work around Performance Management to ensure key and meaningful performance indicators are measured, monitored and where necessary improvement action put in place to address areas where the performance is not achieving the desired outcomes. This work has now been fully embedded within the Council's processes.

Currently, the progress on the Performance Indicators is reported to the Policy and Performance Improvement Committee and the Cabinet via the Leader's Portfolio. Detailed below are our Community Plan objectives and the identified performance indicators, which we are currently measuring and monitoring. We continue to refresh and identify any additional performance indicators which are relevant and meaningful to support achievement of the set objectives.

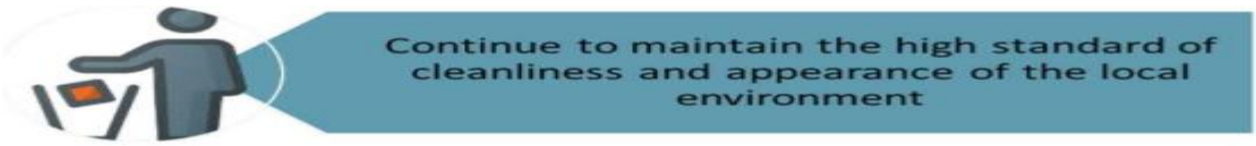


Success measures
% of residents who felt belong to their immediate neighbourhood
% of funding allocated to local causes
% of residents attending a digital skills course who now feel more confident in using our services online

Success measures
Number of council owned commercial units currently let.
Number of businesses supported through advice, mentoring or financial help.
Monitoring of unemployment rates and number of supported persons finding employment Monitoring annual value of the district's visitor economy through independent national data.

Success measures
Number of homes delivered by the Council's development Company (Arkwood Development).
Number of dwellings completed through our role as a landlord, developer and planning authority.

Link to Community Plan Objectives



Success measures
% of fly tipping incidents removed within 24 hours of reporting.
% of graffiti reports removed within 24 hours.
% of residents satisfied with the cleanliness of their local area.

Success measures
% of our parks maintaining green flag status
% of residents satisfied with green spaces in the district

Success measures
Number of enforcement actions undertaken.
% reduction in level of all crime.
% of residents satisfied with their local area as a place to live.
% residents with improved feelings of safety.
% reduction in number of ASB incidents.

Success measures
Develop and provide opportunities for inactive people' to increase levels of physical activity and sport.
Number of residents provided and supported with general energy advice.
Number of private sector residents participating in the Council's fuel poverty alleviation schemes in the district.

Strategic Risks

Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability.

This put us in a stronger position to deliver our goals and provide excellent services. Our Strategic Risk Register is regularly reviewed, and our risks are being effectively managed.

Risk	Risk Rating	Level of Combined Assurance	Risk description and risk control position	Direction of travel
SR301 Financial sustainability - General Fund	Amber	Amber	Ensuring financial sustainability of the general fund to allow the Council to undertake its core functions, deliver services, meet its corporate priorities and objectives. Risk score has remained the same. However, risk scoring was altered at the last review to reflect a reduction in likelihood and an increase in potential severity. This has been undertaken as the Medium-Term Financial Plan includes all mitigating factors and controls to protect the budget. The anticipated target risk is Amber.	
SR302 Financial sustainability - HRA	Amber	Amber	Financial sustainability of the HRA to ensure the Council is able to provide, maintain and develop its housing stock. Controls are in place and further controls are pending. Risk actions have been identified however, implementation of a significant number of these actions is ongoing or planned for during the current year. The target risk score is Green when all actions have been fully implemented.	
SR303 Failure to deliver growth infrastructure	Red	Red	Facilitating the provision of local infrastructure to ensure growth within the district to meet agreed plans & corporate priorities. Some controls are in place and additional actions have been identified to reduce the current level of risk. A significant number of risk actions have not been fully implemented and work is ongoing. The anticipated target risk is Amber.	
SR304 Contract/supply failure	Amber	Amber	Managing contracts with key suppliers, including NSDC wholly own companies, to ensure the continued delivery of an effective service and ensure delivery of the council's priorities and objectives. Some controls are in place and additional controls/actions have been identified to reduce the current level of risk. Implementation of the additional controls/actions is ongoing.The anticipated target risk is Green.	

Strategic Risks

Risk	Risk Rating	Level of Combined Assurance	Risk description and risk control position	Direction of travel
SR305 Workforce	Red	Red	Ensuring the council is able to recruit, maintain and retain appropriate staffing resource to ensure it is able to deliver its services and meet its corporate objectives. Some controls are in place and additional controls/actions have been identified to reduce the current level of risk. Likelihood score has increased from 2 (likely to occur) to 3 (very likely to occur). This is due to a worsening picture re workforce issues across the nation. The anticipated target risk is Amber.	
SR306 Corporate Governance	Red	Red	Risk of failure in systems of governance within the Council, Council owned/influenced organisations and partnerships or other collaborative arrangements. Likelihood score has increased from 2 (likely to occur) to 3 (very likely to occur). Increase in place until new cabinet system is fully embedded. The anticipated target risk is Amber.	
SR307 Data Management & Security	Red	Red	Deliberate or unintentional loss/disclosure of personal, sensitive, confidential, business critical information or breach of information governance legislation. Some controls are in place and additional controls/actions have been identified to reduce the current level of risk. Implementation of the additional controls/actions is ongoing. The anticipated target risk is Red.	
SR308 Environment	Amber	Amber	Ability to meet requirements of the government's green agenda and aspirations/expectations of the NSDC community in delivering a greener/carbon neutral service. Likelihood decreased from 3 (very likely to occur) to 2 (likely to occur). This reduction is due to a maturing risk increasing the number of controls and actions now in place. Also, greater resource being acquired to help deliver the agenda. The anticipated target risk is Amber.	
SR309 Regulatory and statutory compliance management	Red	Red	Implementation and maintenance of suitable statutory safety compliance management systems. Some controls are in place and additional controls have been identified to further reduce the current level of risk. Improvements made in implementing some of the identified action, however, more work is still required to ensure all actions are fully implemented.	

Strategic Risks

Risk	Risk Rating	Level of Combined Assurance	Risk description and risk control position	Direction of travel
			Implementation of the additional controls/actions is ongoing. The anticipated target risk is Amber.	
SR310– Cost of Living	Red	Red	To mitigate the effects of the cost of living crisis across the NSDC community (residents, businesses, tenants and colleagues) and understand support and delivery requirements. Support – increased demand on services to support those affected by the cost-of-living crisis. Delivery – amending existing and providing new services to support those affected by the cost-of-living crisis This is a new risk with several identified actions which need to be implemented. The anticipated target risk is to be confirmed.	

Key	Risk	Management
Red	High impact on resources, significant costs likely, high impact on service delivery	These risks present the highest risk of failure/loss and therefore require the greatest level of management. Low level of confidence over the design and operation of controls, performance or management of risk
Amber	Medium or short term impact on resources, cost covered within existing financial plans, low impact on service delivery	Present a higher level of risk /failure. They require an action plan that identifies how the risk is to be mitigated, managed or if possible, eliminated Medium level of confidence over the design and operation of controls, performance or management of risk.
Green	Monitor and be aware, activity to mitigate the risk within existing service delivery plans / management arrangements	Generally acceptable and require only monitoring with no further action. High level of confidence over the design and operation of controls, performance or management of risk

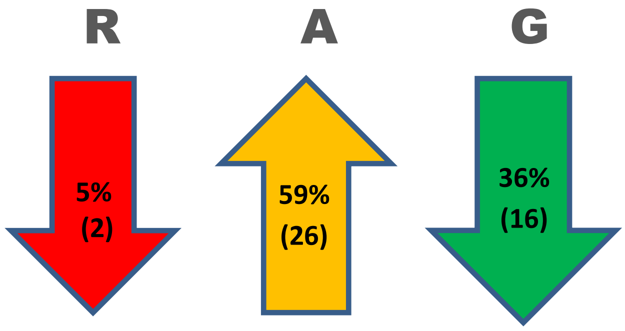
Director's Key Messages

Deputy Chief Executive and Resources

Business Units – Financial Services, Corporate Property, Revenues and Benefits, and ICT and Digital Services.

Overall Assurance

Direction of travel



R	A	G
Down from 8.1% to 4.5%	Up from 40.5% to 59.1%	Down from 51.4% to 36.4%

Critical activities
Amber
Corporate Counter Fraud (General)
Asset register & Asset valuation
Treasury management
Capital programme
Value Added Tax
Strategic Asset Management (Including Acquisition and disposal)
Energy/Carbon Management (ESCo)
Estates Management (Corporate)
Car Parks and Lorry Park Services
Corporate Property Project Delivery
ICT Organisational Services
ICT User Education Awareness and Network Access Controls
ICT Compliance Services (PCIDSS and PSN)
ICT Applications

Key projects
Amber
HRIS (iTrent) system implementation
ICT Corporate programmes and projects
32 Stodman Street project
Lorry Park relocation
Business Park development (dependent on the Lorry Park relocation)
Clipstone Holdings
Newark Hospital Car Park Construction
Delivery of the HRA Affordable Housing Programme

Key risks
Red
SR209 Data Management & Security
SR213 - Regulatory and statutory compliance management
Amber
SR201 Financial sustainability - General Fund
SR202 Financial sustainability - HRA
Project delivery operational risks
Biodiversity Net gain legislation (impacts)

A. Finance

The Council has agreed the budget for 2022/23 and the Medium-Term Financial Plan (MTFP) for the years 2022/23 to 2025/26. The budget for 2023/24 and MTFP for 2023/24 to 2026/27 is to be approved by Cabinet on 21st February 2023 and full Council on 9th March 2023.

The further delay in reforms of Local Government Finance has been beneficial for the Council and has enabled reserves to be set aside for the outcome of the Fair Funding review and the business rates reset (now anticipated earliest in 2025/26).

Financial modelling provided by the Council's advisers PIXEL forecasts a reduction in funding in 2025/26 from the business rates reset of circa £3.7m. This is clearly a significant reduction in funding; however the Council's finances are in a strong position and the MTFP sets out measures to deal with this anticipated reduction in funding.

The MTFP demonstrates how a combination of use of the MTFP reserve, efficiency savings, and additional income from the delivery of the commercialisation plan together with dividends from Arkwood Developments Limited will bridge the anticipated funding gap. It is however imperative that Business Units work collectively to realise the savings and additional income beginning in 2023/24 through to 2026/27. This position will be kept under review as part of the quarterly financial monitoring under the council's performance management framework.

Commercial Plan

The Commercial Strategy and the Commercial Plan identifies areas of savings or income generation over the short (within existing resources), medium term (with additional resources) and over the long term (where feasibility and options will need to be considered and project plans developed). The activities need to generate additional income of £200K by 2024/25. The delivery of the activities in the Commercial Plan will be reviewed quarterly as part of the Council's performance management framework.

Service Reviews and Business Process Reengineering

The MTFP includes £100K savings from service reviews and £200K from business process reengineering. The finance officers will need to work with the Council's Transformation business unit and with the respective Business Managers to identify and implement plans to deliver these savings from 2023/24 to 2026/27.

Arkwood Developments Limited

The MTFP includes a minimum estimate £2.150m of dividends from 2023/24 to 2026/27. It is not only important that the Council receives this level of dividend income from its wholly owned company but that it also seeks to maximise returns from the Company via interest on loans and provision of services. The Company will need a pipeline of sites to develop in order to deliver this level of minimum returns to the Council.

Corporate Property Strategy and Delivery

In 2022/23, the Asset Management and Car Parks Business Unit was further restructured and re-purposed. The Business Unit's responsibilities have grown and developed significantly over the last two years. The responsibilities of this Business Unit include Asset Management and Car Parks, Estates Management, Repairs, Maintenance, Surveying and Facilities Management. The team also manage the Newark Beacon business centre and the redevelopment/ tenancies at the Buttermarket.

The Housing Revenue Account(HRA) Housing delivery team also moved to this Business Unit in order to make the most of shared experience, knowledge and to provide resilience to both teams. The Business Manager, supported by the surveyors, works closely with the Economic Growth Business Unit on the Towns Fund Projects, including the redevelopment of the former Marks and Spencer building on Stodman Street that was purchased by the Council as a strategic site in 2020; re-location of the lorry park and development of a business case for SisLog, acquisition and development of the Clipstone Holding site, and development of the car park for the NHS Trust on the recently acquired site on Bowbridge Road.

Review of the Council's land and property assets and to identify suitable opportunities in accordance with the Council's Acquisition and Disposal Policy.

In support of the Council's Climate Change Strategy, Asset Management will ensure that all procurement and decisions about property embed energy management outcomes. The condition surveys will feed back into the Asset Management Strategy and where appropriate will link into the Climate Change Strategy for use of renewable technology from suitable assets.

Director's Key Messages

Car Parks- Further improvements have been made to our car parks with the installation of a number of EV charge points. More charge points will be planned in line with the Carbon Management Plan.

Lorry Park- Further improvements have been made to the lorry park with new showers and controlled access. This has improved the facility to drivers resulting in an increase in fee income. With the demolition of the Livestock Market and the development of the Air and Space Institute, together with plans to dual the A46, options to relocate the Lorry Park are being considered together with redevelopment options for the current lorry park site.

The data management system, Concerto has now been fully implemented.

ICT and Digital Services

The Digital Strategy and Plan is imbedded within the core activities of the Council and progress on delivery of the actions underpinning the Strategy are regularly reported to the Portfolio Holder for ICT and Digital Services.

A Digital Transformation Board (DTB) made up of key officers from across the Council has been established. The Board undertakes a review of all digital projects and prioritises these projects in accordance with the Council's Community Plan objectives, with criteria and weightings as bulleted below. This provides Senior Leadership and Members assurance that digital projects align with the Community Plan, accurately reflect a return on investment, provide value for money and thereby ensure a benefit to our communities and service users.

The Digital Strategy Action plan has been created with a detailed summary of strategic alignment and project detail. The action plan is a working document based on the business planning cycle, with priority matrices and the principles established from the local digital declaration and supported by officers on the Digital Transformation Board.

In addition, the Corporate Information Governance Group (CIGG) made up of key officers from across the Council is now well established. The Board undertakes operational and strategic risk reviews of cyber, information security and information governance activities. This provides Senior Leadership and Members assurance that data is held, processed and transmitted securely and any risks associated are captured.

Successful key digital projects, delivered in 2022/23, include:

- Replacement and improvement of two key line of business systems; HR/Payroll system and Housing asset management system.
- Implementation of a DLUHC funded Housing Repairs Online solution – reducing telephony contact and providing a 24/7 service.
- Migration of data to cloud storage, reducing need for large capital replacement in future years and providing resilient solutions for our data needs.
- Development and implement the NSDC My Account (MyNS); to provide residents with the ability able to self-serve and to see key information about all of their accounts with the Council at any time, when it suits them, together with the ability to track existing progress.
- Implementation of Agile Devices Phase 1; improving the ability of our workforce to access information and data from any location, thereby reducing visits back to the office base.
- Implementation of two internal business systems; legal case management and improved service desk functionality that will streamline business processes making our services more effective and efficient.
- Enabling council e-newsletters; a modern approach to communication with communities whilst reducing paper copies produced and engaging through digital channels.
- Activation of customer webchat; a modern communication channel that continues to improve our customer service options for all customers providing an additional

channel of communication.

- Further Cyber Resilience; Implementation of a Cyber Security Strategy, Cyber360 and Cyber exercising with the LGA, whilst ensuring systems are up-to-date, that risk to information and data held on the corporate network is manageable and within risk tolerances.

In the next 12 months, the following digital projects will be delivered, as identified in the Digital Strategy Action Plan, Digital Strategy and Cyber Security Strategy and Plan:

- Replacement of the Housing Management System, providing our tenants with a modern and customer focused system that aims to improve processing times, communication, and efficiency.
- Suitable devices, support and training for members post May 2023 elections.
- Replacement of the Palace Theatre ticketing solution and website.
- Improving our community digital offer and cost of living initiatives, providing residents and tenants with a range of digital solutions.
- Further migration of data to the cloud reducing our reliance on physical infrastructure.
- Internal communication improvements with a new intranet for staff and members.
- Implementation of modern network solutions providing cost saving and improving our network security.
- Analogue to Digital work programme; careline, telephone lines and analogue broadband replacement and solutions.
- Improving our compliance culture; working towards ISO27001 compliance.

The delivery of these key projects link to the Commercialisation Plan and to the business process reengineering savings incorporated to the MTFP of £200K in 2023/24 to 2025/26.

B. Revenues and Benefits

The Revenues and Benefits business unit has had a particularly challenging three years. The Revenues service, as well as ensuring that council tax and business rates billing was carried out on time and collection rates for both were maintained, the Business Manager and the Senior Revenues Officers worked closely with colleagues in the Finance and Economic Development Team to pay further grant to businesses and continue to administer payment of energy support payments to residents.

The Council Tax Benefits and Housing Benefits teams have had to administer additional hardship grants to residents whilst maintaining the speed of processing new claims and change of circumstances. This has been challenging with performance dipping slightly in 2022/23.

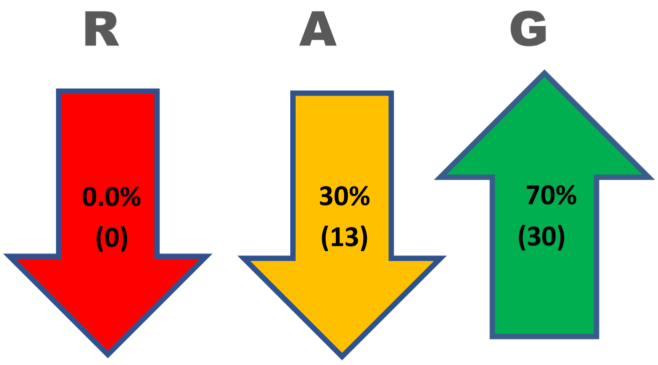
The Council's transformation officer and the Digital Transformation officer will be working with the Business Manager for Revenues and Benefits in 2023/24 to review current processes in order to identify, and implement, new more efficient ways of processing applications for Council Tax Benefits and Housing Benefits.

Director's Key Messages

Communities and Environment

Business Units – Environmental Services, Public Protection and Heritage & Culture.

Overall Assurance Direction of travel



Down from 2.8% to 0%	Down from 33.3% to 30.2%	Up from 63.9% to 69.8%

Critical Activities
Amber
CCTV

Key projects
Amber
Development of Master Plan for the Brunel Drive sites
Parks Investment
Kerbside Glass Recycling
National Heritage Lottery – Stage 1 Development Funds
Castle Gatehouse Project

Key risks
Amber
SR203 - Safeguarding
SR207 – Emergency response
SR212 - Environment
Emerging issues (Amber)
National Waste Strategy impacts & kerbside recycling
Transport/Vehicle Maintenance/Fleet

Key partnerships
Amber
CCTV partnership
• Newark Heritage Forum • Friends of the National Civil War Centre

Significant progress has been made in terms of making Newark and Sherwood cleaner, safer and greener:

Litter levels remain low, the Council's Days of Actions have resumed, fly-tipping has seen a drop year on year and more volunteers across Newark and Sherwood are positively engaged in litter picking in their communities.

On an enforcement front, the Council has issued more than 3,000 fixed penalty notices for littering and other environmental crimes as a result of its partnership with WISE. The Council has also issued more than 200 Fixed Penalty Notices for fly-tipping in its own right and undertaken a number of successful prosecutions where it has been possible and appropriate to do so.

All crime is down on pre-pandemic levels with notable reductions in crime types such as burglary, robbery, theft, and theft from a motor vehicle. Whilst better offender management will have played a significant part in the reductions, there is no doubt that the Council's successful Safer Streets initiatives will have played a role too. In 2022, we were awarded just under £500,000 for a further safer streets project in Newark and a rural safer streets project too. This has taken the total funding package to more than £1 million over the past two years and has been spent on interventions such as target hardening the properties of burglary victims, Automatic Number Plate Recognition (ANPR), CCTV, better lighting and door entry systems to communal flats.

Whilst Anti-Social Behaviour is up slightly on pre-pandemic levels, so too is the Council's enforcement activity. Over the past few years, we have obtained five Anti-Social Behaviour injunctions, six Criminal Behaviour Orders, a Closure Order on a problem property, more than 30 Community Protection Warnings and Notices and 24 Acceptable Behaviour Contracts with young people.

Director's Key Messages

Work continues to progress on the Council's Climate Emergency. The Council has now given away or planted almost 18,000 trees, including the planting of a substantial new Jubilee Wood of 4,000 trees at Vicar Water. The garden recycling service continues to grow, and our recycling rate is now the highest it has ever been. In February 2023, the Cabinet will decide whether to introduce a new kerbside glass collection service in response to community demand. Meanwhile, Spring will see the introduction of photovoltaics onto five Council buildings, estimate to save around 100 CO_2 equivalent tonnes of carbon per annum.

The Heritage and Culture Business Unit has shown great innovation to continue to engage audiences in new ways through the pandemic, whilst navigating forced closures and furlough, to ensure that the services were delivered on budget overall. Post the ending of restrictions, the Business Unit continues to recover and regain audience confidence. This year, the service was successfully awarded Heritage Lottery Fund development funding towards the exciting plans for the Castle Gatehouse. This could potentially be worth £1.4-million and is in addition to the successful completion of the Outline Business Case for £3 million of Towns Fund money towards the same project. In Autumn, the quality of the service was recognised nationally with the award of Arts Council England National Portfolio Organisation status, which brings with it almost £1 million of funding over the next three years.

Emergency response

The longevity of the Emergency Planning response to the pandemic has been unprecedented since the Second World War. Add to that the complexity of rapidly changing local, regional, and national circumstances, and this has dominated emergency planning work.

A previous red risk reflected concerns about the ability of the Council to respond to a concurrent event in this context. However, with the easing of more and more restrictions, this risk has been reduced to amber.

Community issues – pandemic

The government has spent billions of pounds in response to the pandemic, whilst there have been shifts in the economy and differences in how communities have been affected by the pandemic. It is likely that there will be a longer-term impact to be felt as a result of these and other factors.

The Council has identified this as a strategic risk and a cross Council group has been created to try to understand how these impacts may play out and how they can be mitigated. It is now proposed that this risk is removed as it is now reflected in the Cost-of-Living risk.

Environment

The UK Government has made a pledge for the UK to be carbon net neutral by 2050, whilst a host of Councils have followed suit with their own net neutral targets. The Council's own survey work with residents shows how important this agenda is to local residents. However, with the Council's carbon footprint only accounting for 1-2 per cent of emissions in the district, it is not yet clear how some of those national pledges (including those in the Environment Act in relation to recycling) are going to be implemented or financed. Hence, there is a risk both in terms of financing and managing expectations.

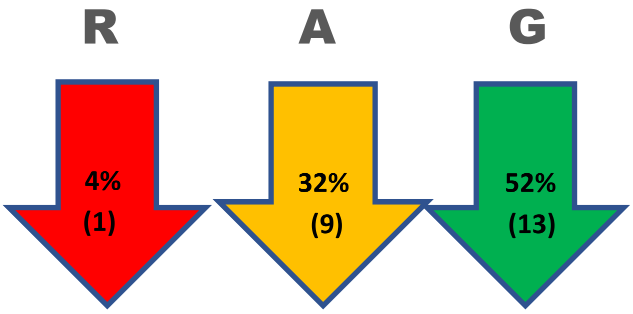
Director's Key Messages

Planning and Growth

Business Units – Economic Growth and Visitor Economy, Planning Development and Planning Policy.

Overall Assurance

Direction of travel



Down from 5% to 4% | Down from 40% to32% | Down from 55% to 52%

No RAG rating for 2% of the directorate activities. These relate to Levelling-up fund Level 2, Levelling Up & Regeneration Bill and general economic impacts.

Critical activities
Amber
Processing Planning Applications and Fee Income
Planning policy / LDF (including Duty to co-operate)
Key projects
Amber
Land East of Newark
Funding, designing, and building, A1 Overbridge at Fernwood
Southern Link Road - Funding
Ollerton Roundabout Improvement
Newark Northern A46 Bypass / Link Road
Gypsy and Travellers Community
Delivery of Newark Town Fund programmes
Key risks
Red
SR204 Failure to deliver growth infrastructure

Significant progress continues to be made on key Council priorities, notably the Newark Towns Fund priority projects, many of which have moved to the delivery phase.

Housing numbers, both private and affordable continue to significantly exceed delivery targets. The Council, as developer, is also now making a significant direct contribution to providing needed new homes through the continuation of the HRA Affordable Housing Development Program and Arkwood.

New road and community infrastructure has progressed. The Council has worked closely with National Highways on the A46 Bypass, enabling colleagues to accelerate the project to allow a Development Consent Order in July 2022 for an expected start on site in March 2025. Likewise, securing the £20m Levelling Up Round 1 and NCC Contributions for the Newark Southern Link Road is expected to finally secure a start on site in March 2023 for completion by March 2025. Ongoing liaison with National Highways and Nottinghamshire County Council is required for the A1 Overbridge and A614 Corridor improvements respectively.

High streets and town centres continue to experience challenges, with residents identifying decline as a key priority. Interventions such as the Newark Towns Fund, the Heritage Action Zone, and Shop Local campaigns continuing to assist footfall and vibrancy. Work the Newark Masterplan, Edwinstowe Forest Corner, and Ollerton Hub will be future priorities.

The Council has cemented relationships with and between educators, businesses, investors, and residents to ensure resiliency and maximise opportunity, ambition, and potential.

There remain challenges to address meeting housing needs for our Gypsy and Traveller communities which will be tackled through ongoing work on the Council's Development Plan.

Director's Key Messages

Cost of Living

The Directorate continues to support business and industry, building upon the Economic Growth & Covid Recovery Plan, and Economic Growth Strategy.

We continue to sign-post grant and support opportunities and undertake key-account management.

Economic Development & Skills

Economic support and activity has significantly increased via a raft of programs, projects, and successful competitive grant bids aimed at supporting businesses, employers, educators, students, and residents to fulfil their limitless potential.

This has included securing £3.1m from the UK Shared Prosperity Fund to address challenges across key thematic areas of Communities and Place, Business and Skills etc.

Additionally, the Council has hosted a Growth Conference and undertaken numerous events to support the economic development of the area from teenage markets, procurement events, and the Careers EXPO.

Newark Southern Link Road

The Council, in partnership with the County Council and master developer, Urban & Civic, have secured £20m of funding support from the Government's Levelling Up Fund, towards delivery of the road, in addition to the Council's Capital contribution. This has been supplemented with securing an additional £3m contribution from NCC alongside working with National Highways to design and secure funds for revisions to the scheme allowing an optimum interface between the SLR and A46 Bypass.

The Council continues to act as curator and accountable body to ensure delivery, agreeing the funding profile and project outputs to be monitored through an evaluation framework.

Ollerton Roundabout Improvement

The Council continues to be committed to working with Nottinghamshire County Council in delivering improvements to Ollerton Roundabout, identified as a key project in the Nottinghamshire Strategic Infrastructure Plan and featuring as a key the County Council's A614/A6097 Major Road Network scheme.

Department for Transport has confirmed approval of the outline business case, allocating £24.4m to the scheme, designed to support growth and development through reduced congestion at key intersections, improving the predictability of journey times and providing more traffic capacity for future growth.

Proposed works to the roundabout have an estimated cost of c.£7.4 million, including:

- enlarged conventional roundabout – 5 arms instead of 6
- capacity increases
- speed limit reduced on approaches
- 2x toucan crossings
- scheme requires third party land – VIA East Midlands will try to purchase all land by negotiation

Newark A46 Bypass

The A46 Newark Bypass features as one of the schemes in National Highways' (NH) second Road Investment Strategy (RIS2). Since NH's public consultation in early 2021, which presented possible options for improving the A46 between the Farndon and Winthorpe roundabouts, the Council has continued to engage with NH and a wide range of stakeholders to contribute local knowledge in the development of a preferred route option for improving this section of the A46.

A preferred route has been published with NSDC working with National Highways to address issues and accelerate delivery. The scheme remains on track for a March 2025 start and is a key priority of Midlands Engine, Midlands Connect, and every planning, highway, and LEP authority from the Humber Ports to Tewkesbury.

Failure to deliver growth infrastructure (SR104)

Progress on the Newark Southern Link Road has been significant. If a contract is let for its construction in Q4 2022/23 the level of risk exposure to delivering growth will significantly reduce.

Highways England are commissioned to progress with the next stage of the A1 over-bridge design work and continue to assist and influence the Non-Strategic Road Network proposals across the A614/617 corridor and Ollerton Roundabout.

Whilst progress is positive, with big steps forward risks remain until such time as the SLR, A46, and Ollerton Roundabout have progressed to delivery stage. Cost inflation remains a significant risk.

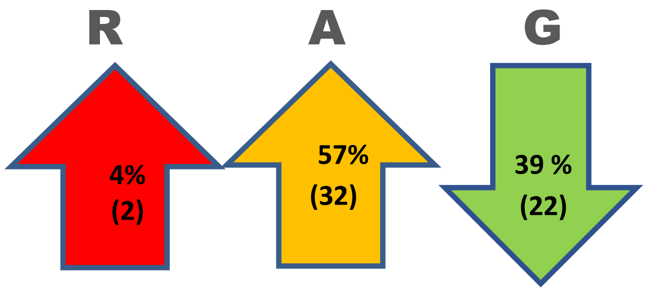
Director's Key Messages

Housing, Health, and Wellbeing

Business Units – Housing Strategy and Regeneration, Housing and Estates Management, Housing Management and Asset Management, and Housing Income and Leasehold Management.

Overall Assurance

Direction of travel



Up from 0% to 3.6%	Up from 52.3% to 57.1%	Down from 43.2% to 39.3%

Critical Activities	
Red	
Gas servicing	
Amber	
S106 negotiations	Humanitarian Assistance Response Team
Resettlement Co-Ordination	HRA Self Financing Business Plan
Covid 19 Response & Recovery	Inputting and processing of housing applications
Repairs service	Fire Safety in homes and communal areas
Housing Stores & procurement of HRA works and services	Communal area inspections
Careline Services	Estate Walkabouts
Health and Safety	Investment - property improvements and Decent Homes Standard

Key Projects	
Amber	
Housing regeneration - Yorke Drive	Implementation of Apex Compliance & Asset Management software
Procurement and installation of Housing Asset Management System	Upgrade of SOR for costing repairs
Procurement of Careline service	Gap analysis on Charter for Social Housing Residents
Decarbonisation for fleet vehicles and social housing stock	

Key risks
Red
SR213 - Regulatory and statutory compliance management
SR214 Cost of Living
Amber
SR202 Financial sustainability - HRA
SR205 - Contract/supply failure
Emerging issues (Amber)
Current Tenants Charter Bill
Building and Fire Safety Bill
Damp and Mould
New Decent Homes Standard
Recruitment

Significant partnerships
Newark and Sherwood Resettlement Partnership
Active4Today and Southwell Leisure Centre
Capita – provision of housing management software

Director's Key Messages

Critical Activities

Responding to the war in Ukraine has been a key focus in 22-23 alongside the emerging challenges around energy, fuel and food with high inflation and the cost-of-living crisis. The Council have responded strongly with financial support packages that focus on maximising the performance of the Council's key services and targeting support to improve residents personal circumstances including signposting to partners.

Work around health and food security remains a key focus with District partners to maintain better health where incomes are being squeezed and residents are making tough choices for their families.

Our leisure offer, strengthened with the addition of Southwell Leisure Centre also brings additional risk around budgets with the impact of high energy costs. Renewed focus is on scrutiny of performance and ensuring Active4Today's business plan supports the wider Council objectives. In 2023-24 we will have a fresh strategic view of the Districts sports facilities and playing pitches to target support to those communities and sports that need it.

The redevelopment of Seven Hills and reduction in temporary accommodation is being managed well and delays from the demise of the previous development contractor have been minimised, with new contractors being procured.

For housing services, focus remains on delivering fundamental services, recovering the gas servicing programme performance and preparing for changes in regulation and legislation from the Charter for Social Housing Residents and Social Housing ~(Regulation) Bill expected to be law by April 2023. Alongside focus on the sector around rent capping, stock decency and a sustained focus on building and fire safety.

Regulatory Framework

Key elements of the Charter for Social Housing Residents have been released over the last year including the introduction of tenant satisfaction measures and Building and Fire Safety legislation. The Council are preparing for proactive regulation and the Tenant Satisfaction Measures which start in April 2023, enabling the Council's performance to be benchmarked against other providers so tenants can clearly see performance comparison.

With an inspection regime due to commence in 2024, the Council must use this preparatory time to ensure readiness for external and internal scrutiny and ensure risks around systems, resources and culture are mitigated and managed. This is supported by the creation of the Housing Assurance Board who will oversee all regulatory compliance activity. The Council has completed self-assessments against the Housing Ombudsman Effective Complaints Handling Code, strengthening learning from developing a positive complaints culture and listening to tenants experience of services.

Housing Strategy and Regeneration

Resettlement activities have been brought together under Housing Options and Housing Choices with resources to support service delivery for two years. This ensures consistency across the different activity streams and integrates the service to enable Community Engagement to revert to other priorities.

Yorke Drive remains a key project with risks around increased inflationary costs being regularly reviewed to ensure the key objectives of the project are met.

Housing Services

Our careline services are being upgraded to address the switch from analogue to digital as well as procuring a new provider for our careline that responds to current needs of users and helps keep them safe in their homes.

Getting to know you visits are a key tool to manage risk of failing tenancies and failing properties with processes in place to raise issues around damp, mould and property issues as well as person centred issues of debt, mental health and substance misuse.

A real strength in this area is the tenant engagement framework which is reaching more tenants year on year and enabling the Council to show how tenants views are influencing and shaping housing services. The Tenant Engagement Board sees all performance and complaints data as well as sight of cabinet papers that they may wish to influence.

Professionalism of the sector will be in the spotlight over this next year, requiring the Council to review the training and qualifications offer for housing colleagues to meet the requirements likely to come from the Social Housing Bill. Alongside this, the Council is refreshing its customer strategy to refresh service standards and customer service training.

Housing Maintenance and Asset Management

This service area is of greatest importance to tenants and carries significant risk around the decency of homes, the efficiency and energy performance and how quickly we put service failures right. Challenges in the labour market and cost of materials puts pressure on service delivery which we mitigate using a mix of in-house and contractor resources. The Council are looking broadly at pay and improving both performance and working conditions to ensure a strong repairs service can be given.

The Council have sought to review stock condition of 48% of its stock to reset investment planning based on current data. Significant investment is required to ensure homes remain decent and meet future Decent Homes standards, whilst also seeking cost effective opportunities to decarbonise stock whilst keeping the costs of running a home affordable to tenants. Availability of skilled trades to fit and maintain gas heating alongside the support required to support tenants with operating new systems are significant risks as we move away from gas and look to achieve Energy Performance Certificate C by 2035. A consortium bid will help the Council test new technologies and benefit from shared knowledge and resources.

Compliance

Compliance has been and continues to be a focus and we a new system for both asset and compliance data will improve our knowledge of housing stock and compliance responsibilities, reducing risks of operating contracts outside of a system, including standard performance reports to manage programmes and contractor management.

Housing Income and Leasehold Management

Our arrears performance remains strong. We have a number of projects to support tenants who experience difficulties or just to give people a great start in their tenancy. Rent de-pooling will be explored to ascertain the benefits and challenges as well as how any scheme would be implemented.

ICT Systems

Significant progress has been made procuring and implementing a new compliance system to provide greater assurance around the management of our key health and safety responsibilities as well as enabling us to model future investment plans based on stock condition surveys. Procurement of a new housing management system is also underway to ensure we know our tenants, our homes and our data so we have efficient modern, agile digital services and meet the requirements of the consumer standards.

This is an opportunity to take a fresh look at processes to reduce duplication, achieve better value for money and provide a better customer experience for tenants and applicants. Resourcing this project will need careful management to ensure we keep existing services operational whilst designing, implementing and training out a new system carries inherent risk and also a resource challenge to ensure we secure a well-designed system that meets our needs – and our aspirations.

HRA 30-year business plan

We are directing our thinking into our long-term stability and how the expectations on service development will be financed. The landlord strategy gives an overview of key activities and services that must be delivered, prioritising safety and essential services. The impact of stock condition survey information will impact investment plans and the risk that our stock condition is out of kilter with our current data, the analysis is being prioritised to update assumptions in the business plan.

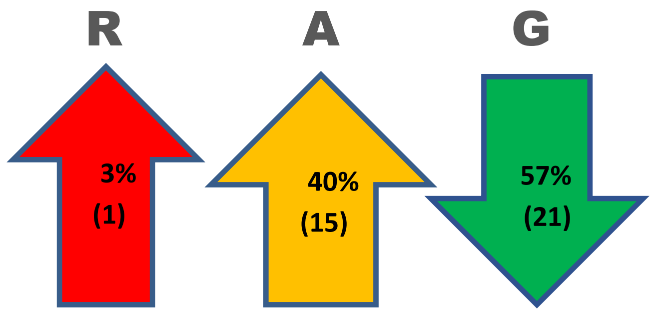
Director’s Key Messages

Customer Services and Organisational Development

Business Units – Human Resources and Training, Customer Services, Communications and Marketing, Corporate Administration and Transformation and Service Improvement.

Overall Assurance

Direction of travel



R	A	G
Up from 0% to 2.7%	Up from 32.4% to 40.5%	Down from 61.8% to 56.8%

Critical activities
Amber
Recruitment and retention
Training
Equality and diversity
Corporate policy
Assurance functions
Contract register
Reputation management

Key projects
Amber
Customer strategy
Customer Comments Review
Implementation of new HRIS (iTrent)
Workforce Development Strategy
Document consistency project
Public Switch Telephone Network
5 x Service reviews

Key risks
Red
SR206 - Workforce
Amber
SR205 - Contract/supply failure
Mail handling – emerging risk

Performance Management and Assurance

Great strides have been made this year to move to an organisation with a clear performance culture. Performance is reported quarterly to senior management and members. It focuses on our progress towards delivering the Community Plan (activities and PIs) as well as analysing local statistics, customer feedback and workforce statistics, thus creating a full account of the performance of the Council. This has been well received; the report is supplemented by operational performance data which is reported to the director quarterly. There has been progress in embedding a performance culture within the organisation and this will continue to develop.

The Transformation and Service Improvement team support of the work the Public Protection Business Unit and produce quarterly assurance reports to SLT. These cover compliance and risk management. Reporting is by exception and a new robust reporting template has been developed. Going forward the Risk and Safety Officer will present these reports so that areas of concern can be discussed. This approach is now embedded so the next quarter risk rating for this activity will reduce to green.

Corporate Planning

The annual business planning cycle is now well embedded, and all Business Units have approved business plans with clear objectives and measurable performance targets, which are appropriate and linked to the Community Plan. No issues identified in this area and progressing well for 2023/24

Director’s Key Messages

Human Resources and Training

The new HRIS (iTrent) has been implemented, whilst there have been the usual teething problems with any new software, phase 1 is now complete. Work will begin this year on phase 2 which will include the full recruitment The improved functionality will provide greater assurance in all aspects of the HR function and the organisation’s responsibilities as an employer.

The approved Workforce Development Strategy has a comprehensive action plan for implementation, which covers 4 years of work. This will include a revised approach to training which focuses on the skills gaps of the organisation.

Recruitment across the board, and particularly in key activities is proving more difficult. This is a trend seen across the public sector and work is being undertaken to better promote the Council as an employer of choice, the recruitment process has been amended to make it simpler and funds have been set aside to assist with recruitment difficulties. Work on this is ongoing but in a difficult marketplace will need to be kept under constant review.

Work will be undertaken this year to look at our job evaluation model which hasn’t been reviewed for a number of years. The aim will be to ensure the Council has a relevant and effective way of evaluating jobs and their demands.

The level of the living wage and national pay awards have resulted in an erosion of pay differentials which will also be examined as part of the wider review of the job evaluation model.

Customers (Customer Services and Customer Feedback)

Customer services is a well-established business unit which reacts accordingly to customer demand. It has an excellent record in service delivery, with an impressive track record of dealing with 95% of all calls at first point of contact. This is especially remarkable when considering the wide range of service and software applications the team interact with. The team continue to deal with more complex enquiries and have knowledge and skills at depth as well as breadth.

The team is well managed and able to deal with fluctuation demands.

The initial management of customer feedback submitted through the corporate customer feedback system is carried out by Customer Services team leaders. The feedback is then passed on to the relevant business managers who provide responses. The Council’s new website now includes a feedback button on the front page to make it easier for customers to tell us about their experience. The Council is an organisation that welcomes feedback and learns from all the comments which are received.

Training for all business units on how to deal effectively with complaints is being rolled out across the Council.

The Customer Strategy is being developed with a working group of members as part of the Policy & Performance Improvement Committee. It will lead to an agreed customer charter on the levels of service all customers can expect.

The customer services Business Manager effectively monitors and manages correspondence with and from both the Housing and Local Government & Social Care Ombudsman.

Registers

The transformation team keep a list of all policies and strategies as well as a partnership register. These are reviewed but there is reliance upon relevant business units to inform the team of any changes that take place.

The contract management register is held on Pro-contract and is accessible to our procurement provider, Welland. Smaller contracts are added as business units raise them but historically this has been patchy.

Projects & Working Groups

The Transformation and Service Improvement team will undertake 5 service reviews within the next year. Each will have a slightly different focus, but all will be looking to improve service delivery for the customer.

The Transformation and Service Improvement team continue to support working groups of the Policy and Performance Improvement Committee as part of the new governance arrangements. Two successful working groups have completed with their recommendations taken forward; one group is currently active.

Communication and Engagement

Consultation and Engagement Policy was approved July 2022, this followed a recommendation by Audit and Governance Committee and is being embedded across the Council. This places a greater emphasis on considering residents views when introducing policies and amending service delivery. A consultation and engagement calendar is held by the Communication and Marketing team to ensure an appropriate, proportionate and timely approach.

A Communications strategy is due to be considered April 2023 with a focus on a corporate voice and approach to reputation management.

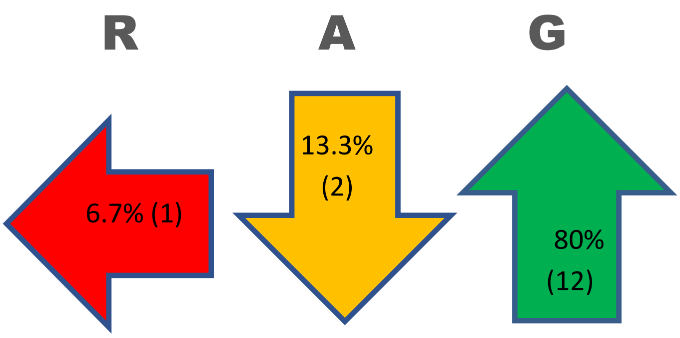
Director’s Key Messages

Legal and Democratic Services

Business Units – Law and Information Governance, Elections and Democratic Services and Monitoring Officer responsibility.

Overall Assurance

Direction of travel



R	A	G
No change	Down from 20% to 13.3%	Up from 73.3% to 80%

Critical Activities

Red and Amber

None

Key projects

Amber

Information Management Project (Digital)

Key risks

Red

SR209 – Data Management & Security

Amber

SR208 – Corporate governance

Electoral Services

In 2022-23 the Service successfully ran 1 Parish and 2 District by-elections. Elections for the entire District and all Town and Parish Councils are due to take place in May 2023. Electoral reform in the form of Voter ID and accessibility of polling stations will be in effect for these elections. In readiness for elections, the Service is required by law to publish the Annual Register of Electors on 1 December 2023, and to keep it updated throughout the year.

The need for further resource was identified in 2021-22 and the structure of the elections service was increased by 1 x FTE early in 2023 in readiness for the district-wide elections and electoral reform.

Democratic Services

In 2022-3 the Service successfully implemented the Council’s new governance arrangements, which took effect from May 2022. The Council moved to ‘Executive Arrangements’ or ‘Cabinet System’. This meant a change in the Council’s committees, the establishment of a Cabinet with individual Councillor decision-making authority, and the introduction of a Forward Plan and arrangements for Key Decisions (significant decisions in terms of spend and/or the impact), new report templates, training and guidance. The Service had an important role in helping elected Councillors to adjust to the new arrangements, and more widely with Officers to ensure a smooth transition to Executive Arrangements.

The Monitoring Officer has responsibility for maintenance of the Council’s Constitution; making the necessary amendments was a key part of change in governance arrangements.

The Service supports the Transformation Team in operating the scrutiny element of Cabinet Arrangements, via the Policy and Performance Improvement Committee and its working groups.

Director's Key Messages

A 6-month review of the success of the new arrangements was undertaken from November 2022, with the outcome being reported back to Audit & Governance Committee in February 2023.

Legal Services

In 2022-3 the Service successfully implemented a legal document management system and is now working on maximising its capabilities in terms for automating workflows and implementing accurate time recording. Professional staff will spend their time on technical legal work rather than losing time on inefficient systems and administrative tasks that could be more automated, and the Service can develop more effective and efficient performance reporting.

A Service Level Commitment for the internal clients has been written, as the Service further professionalises its service.

A significant new workstream has been take on by the team – littering prosecutions using the Single Justice Procedure – assisting the Council to achieve its Community Plan objectives.

Information Governance

Substantial Assurance was awarded in relation to an Information Governance and Data Protection audit.

The Service has reviewed arrangements for staff training and a new training package, with capability to produce corporate reports, will be launched in 2023-24, working in collaboration with colleagues in HR and ICT.

The Service is working on the design and implementation of an Information Security Management System (ISMS) in collaboration with the IT Business Unit. This is a toolkit for making sure the Council is meeting legal compliance in respect of information, via policies and procedures. ISMS is a structured framework that helps organisations to understand what their valuable information is, develop appreciation of risk in respect of what could happen to that information, and implement a sensible safety net of controls to reduce/eliminate the risk of problems happening; the recommended industry standard.

NEWARK & SHERWOOD DISTRICT COUNCIL

Report to: Audit & Governance Committee Meeting 6 April 2023

Director or Business Manager Lead: Nick Wilson – Business Manager – Financial Services

Report Summary	
Report Title	Annual Internal Audit Plan
Purpose of Report	To present the proposed Internal Audit Plan to the Committee for approval, in order for the Council to gain the relevant assurances throughout the 2023/24 financial year.
Recommendations	That the Committee approve the Internal Audit Plan.
Reason for Recommendation	To ensure Committee members are aware of the Internal Audit Plan for the 2023/24 financial year.

1.0 Background

1.1 The Internal Audit plan has been developed to demonstrate how assurance can be given on:

- Financial Governance
- Governance and Risk
- Critical Activities
- Project Assurance
- ICT
- Key Controls
- Combined Assurance
- Consultancy Assurance

2.0 Internal Audit Plan

2.1 Assurance Lincolnshire have developed a combined assurance model for the Council which is a record of assurances against critical activities and risks. It provides an overview of assurance provided across the whole Council – not just those from

Internal Audit – making it possible to identify where assurances are present, their source, and where there are potential assurance ‘gaps’.

2.2 The internal audit plan, which is appended at appendix A, has been developed with reference to the combined assurance model as well as previous audit work, audit risk assessment, discussions with senior management, strategic and emerging risks.

2.4 The Plan sets out in detail Assurance Lincolnshire’s approach and what is intended to be reviewed in 2023/24. The plan that is set out is a 'flexible plan' which is subject to change as the year progresses to reflect the current risk environment. Any changes to the plan during the year will be agreed with the Business Manager Financial Services and subsequently notified to the Audit and Governance Committee.

2.4 This plan has been reviewed by the Council’s SLT and reflects where Management seek further assurance.

Internal Audit

2.5 The contract the Council has had with Assurance Lincolnshire ended on the 31st March 2023. There are still small pieces of work for Assurance Lincolnshire to undertake surrounding the Mansfield Crematorium audit and the Head of Internal Audits Annual report, which will be presented to this Committee at its next meeting.

2.6 During January 2023 a tender process was undertaken in order to procure a new audit firm to undertake the role of Internal Audit for the Council. TIAA Ltd were successful through that process and will be the Council’s Internal Auditors for the next 5 years.

3.0 Implications

Financial Implications (FIN23-24/972)

3.1 The budget as approved at Council on 9th March 2023 included £0.105m in relation to the cost of Internal Audit. This budget will be adequate for the proposed plan as presented in appendix A. There may be a slight overspend during 2023/24 in relation to the final works from Assurance Lincolnshire for finalising the Head of Internal Audits opinion for the year 2022/23. The total value will depend on the actual number of days completed for this activity. Any overspend will be contained within existing budgets for 2023/24.

Background Papers and Published Documents
None for this report

Internal Audit

2023/24 Plan

Newark and Sherwood District Council

March 2023

Assurance LINCOLNSHIRE
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NEWARK & SHERWOOD DISTRICT COUNCIL

Contents

The contacts at Assurance Lincolnshire are:

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Head of Internal Audit
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The Planning Process

Introduction

This report sets out the draft Internal Audit Plan for 2023/24. The plan details the activities to be audited and the indicative scope for each audit. The draft plan gives you an opportunity to comment on the content of the plan and the priorities that we have established. The plan is amended throughout the year to reflect changing assurance needs and will be reviewed by your new Internal Auditors.

Our audit plan delivers assurance within agreed resources. The number of days included in the plan is currently **245 days** – a reduction of 40 days.

Developing the plan

The internal audit plan has been developed from the Council's Assurance Map – which was updated in March 2023 with input from Management. **Figure 1** shows other key sources of information that has helped inform the plan.

We have prioritised audit work taking account the impact an activity will have on the Council if it fails. The criteria for determining priority are:

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.
- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.
- **Level of Assurance –** we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.
- **Time**– when it will happen (this will determine when the best time is to do the Audit).

Updating the Plan

Through the year we will liaise with the Council and collect business intelligence that identifies emerging audits which could be included in the plan according to priority.

The primary source of business intelligence will be the regular liaison meetings between our team and the nominated liaison contact, liaisons at the directorate meetings and other sources of intelligence including:-

- Committee reports
- Performance and Risk Management assurances
- Key stakeholders
- Horizon scanning

Figure 1 – Key sources of information

Delivery and Focus

Delivering the Plan

The audit plan has been developed to enable auditors to respond to changes during the year. The plan is therefore a statement of intent – liaison meetings with senior management will enable audit activity to be firmed up during the year based on risk, priority and requirements for the Head of Internal Audit opinion.

An audit schedule will be drawn up following liaison with the various auditees and Directors. It is important that any changes required to audits or the schedule are notified to Internal Audit as soon as possible to avoid abortive time being spent on audits and for resources to be reallocated.

The Council's Internal Audit Plan is **245 Days** – a reduction of 40 days.

Audit Focus for 2022/23

In the following table we provide information on key audit areas and the rationale for their inclusion in the audit strategy and plan.

Area	Reason for inclusion
Financial Governance	Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs.
Governance & Risk	Providing assurance that key governance controls are in place and are operating effectively. These cross-cutting audits focus on the Council's second line of assurance - corporate rather than service level systems. Areas included: • Governance Review • Risk Management • Business Continuity
Critical Activities	The combined assurance work undertaken in 2022/23 identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes.
Project Assurance	There are critical projects identified by the Council. Projects will be selected to provide assurance around the successful delivery (on-time – within budget – deliverables achieved and benefits realised).
ICT	Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of ICT has a great impact on how well the Council works. To provide assurance that key controls comply with industry best practice and are operating effectively.
Follow Up	To carry out a follow up audits throughout the year to provide assurance that a sample of identified control improvements have been effectively implemented and the risks mitigated.

Area	Reason for inclusion
	Working with management audit also track the implementation of agreed management actions for all audit reports issued.
Assurance Framework / Mapping	Working with management Internal Audit will identify the Council's Assurance Framework – various means that management and the Audit Committee (or equivalent) can trust that the approved policies, processes and procedures operate as intended.
Consultancy Assurance	At the request of management, we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion.

Appendix A - outlines the various audits to be undertaken within each area.

Appendix B - provides information on audits undertaken in the last five years.

Annual Internal Audit Opinion

We are satisfied that the level and mix of resources - together with the areas covered in the plan – should enable the Head of Internal Audit to provide their annual internal audit opinion.

Appendix A – Draft Internal Audit Plan – 2023/24

Audit Area	Assurance Sought
Financial Governance	**65 days**
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment. Proposed areas: • Creditors • Income • Debtors • HR – Starters / Leavers / Changes (linked to Payroll)
Payroll	To provide assurance on the effectiveness of the security arrangements, and the operation for the new iTrent HR/Payroll system.
Treasury Management	Provide assurance on the Council's Treasury Management processes and controls around borrowing, investment and cash flow.
Financial Resilience	Confirm the realism and likely delivery success of identified saving within the current financial year and the Medium-Term Financial Plan.
Grant funding - spend and administration	To gain assurance that the grants are administered in compliance with grant terms and conditions eg Towns fund, Levelling up fund,
Governance & Risk	**23 days**
Complaints process	To provide assurance that the complaints handling process is effectively met and responses are completed consistently.
Contractual relationship with Active4Today	To gain assurance that the contractual relationships (in relation to the Management Agreement and individual SLA's) between the Council and Active4Today are being effectively managed.
Critical Activities	**47 days**
Workforce planning	To give assurance that the Council's workforce plans / strategies are effective in meeting the changing needs of the Council and the demographic and skills of staff.
Housing Regulatory Compliance and Building safety	To give assurance that the Council has appropriate governance and oversight to ensure its housing stock is safe and secure for tenants eg mould & damp, gas safety and legionnaires.
Housing Voids	Provide assurance that the Council effectively manages its void housing. Delivering a clean, safe and secure property to incoming tenants, within agreed targets for turnaround times, quality standards and cost.

Audit Area	Assurance Sought
General Fund Compliance	To gain assurance that the Council manages and monitors all aspects of compliance within its General Fund properties correctly and key stakeholders are reported to in a timely fashion
Projects Assurance	**20 days**
Delivery of Corporate Project (s)	To provide assurance that the project has appropriate governance arrangements in place to support successful delivery (on time and within budget) – securing the benefits of the project.
ICT Assurance	**15 days**
Cyber Security / incident management	Effective cyber security / defenses in place – including: • Identification. • Prevention. • Detection. • Response. • Recovery.
Other Assurance Work	**35 days**
Follow-up	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.
Assurance Framework	Working with management we identify the Council's Assurance Framework – various means that management and the Audit Committee can trust that the approved policies, processes and procedures operate as intended.
Mansfield Crematorium	Completion of the audit of the Mansfield Crematorium Accounts
Gilstrap	Independent Examination of the Gilstrap accounts in accordance with S145 of the Charities Act 2011. (undertaken by Assurance Lincolnshire)
Days	**205**

Other Audit Activities	
Advice and Liaison	
Audit Committee including training	
Action Tracker	
Review IA Strategy and Planning	
Directorate Meetings / on-boarding new arrangements / provider	
Days	**40**

Appendix B –Audits undertaken in the last 5 years

Audit	Rating	Type
2018/19		
Key Controls: General Ledger Cash Budgetary Control Property, Plant & Equipment HR - Starters/Leavers/Changes	Substantial Assurance	System Audit
Payroll	Substantial Assurance	Risk Based Audit
Review of IR35	Substantial Assurance	Risk Based Audit
Recruitment, Selection and Retention	Substantial Assurance	Risk Based Audit
Creditors	Substantial Assurance	Risk Based Audit
Insurance	Substantial Assurance	Risk Based Audit
Procurement Card	Limited Assurance	Risk Based Audit
Counter Fraud	Substantial Assurance	Risk Based Audit
Contractor and Supplier Management	Substantial Assurance	Risk Based Audit
Project / Programme Management	Substantial Assurance	Risk Based Audit
HRA – Self Financing	Substantial Assurance	Risk Based Audit
Economic Development	Substantial Assurance	Risk Based Audit
Domestic Refuse	Substantial Assurance	Risk Based Audit
Street Cleansing	Substantial Assurance	Risk Based Audit
Brexit Preparation	Substantial Assurance	Risk Based Audit
Environmental Protection	Substantial Assurance	Risk Based Audit
S106 Funding	Substantial Assurance	Risk Based Audit
Emergency Planning	Substantial Assurance	Risk Based Audit
Business Continuity	Limited Assurance	Consultancy Review
Development Company	Substantial Assurance	Risk Based Audit
IT Governance	Substantial Assurance	Risk Based Audit
Cyber Security	Limited Assurance	Risk Based Audit
Email Communication	Not Applicable	Special
Newark Cattle market	Not Applicable	Financial
Gilstrap Accounts	Not Applicable	Financial
Mansfield Crematorium Accounts	Not Applicable	Financial
Follow-up Work	Substantial Assurance	
Combined Assurance – Assurance Mapping	Not Applicable	

Audit	Rating	Type
2019/20		
Key Control Testing: Health & Safety Equality & Diversity Financial Regulations Bank Reconciliation HR – Absence Management	Substantial Assurance	System Audit
NNDR	Substantial Assurance	Risk Based Audit
Financial Strategy and Modelling	High Assurance	Risk Based Audit
Capital Programme	Substantial Assurance	Risk Based Audit
Procurement	Substantial Assurance	Risk Based Audit
Commercialisation	Substantial Assurance	Risk Based Audit
Pay and grading	High Assurance	Risk Based Audit
Performance	Substantial Assurance	Risk Based Audit
Risk Management	Substantial Assurance	Risk Based Audit
Community Centres	Limited Assurance	Risk Based Audit
Strategic Asset Management	Substantial Assurance	Risk Based Audit
Building Control	Limited Assurance	Risk Based Audit
Customer Comments	Substantial Assurance	Risk Based Audit
Land Charges	Substantial Assurance	Risk Based Audit
ICT Incident Management	Limited Assurance	Risk Based Audit
ICT Patch Management and Change control	Substantial Assurance	Risk Based Audit
Butter market	Substantial Assurance	Risk Based Audit
Lorry Wash	Not Applicable	Consultancy
Sherwood Forest Art & Craft Cafe	Not Applicable	Consultancy
Ranch Cafe debt	Not Applicable	Consultancy
Newark Cattle market	Not Applicable	Financial
Gilstrap Accounts	Not Applicable	Financial
Mansfield Crematorium Accounts	Not Applicable	Financial
Follow-ups	High Assurance	
Combined Assurance – Assurance Mapping	Not Applicable	

Audit	Rating	Type
2020/21		
Key Control Testing: Payroll Creditors Insurance HR – Recruitment		System Audit
Budgetary Control Management	High Assurance	Risk Based Audit
Robin Hood Hotel	Substantial Assurance	Risk Based Audit
Debt Management	Substantial Assurance	Risk Based Audit
General Ledger/Financial Reporting	Substantial Assurance	Risk Based Audit
Apprenticeships	Substantial Assurance	Risk Based Audit
Council Tax	Substantial Assurance	Risk Based Audit
Deliver an HRA affordable Housing Growth 5-year programme	High Assurance	Risk Based Audit
NNDR	Substantial Assurance	Risk Based Audit
Planning - Enforcement	Substantial Assurance	Risk Based Audit
Newark Castle	Limited Assurance	Risk Based Audit
Covid Grants	Substantial Assurance	Risk Based Audit
Covid Related Impacts	High Assurance	Risk Based Audit
Counter Fraud	Substantial Assurance	Risk Based Audit
Flood Grant	Not Applicable	Grant
Newark Cattle Market	Not Applicable	Financial
Gilstrap Accounts	Not Applicable	Financial
Mansfield Crematorium Accounts	Not Applicable	Financial
Follow-up Work	Substantial Assurance	
Combined Assurance – Assurance Mapping	Not Applicable	

Audit	Rating	Type
2021/22		
Key Controls: Creditors Banking Income Treasury Management		System Audit
Contract Management	Substantial	Risk Based Audit
Policies and Procedures	Substantial Assurance	Risk Based Audit
Workforce Planning	Not Applicable	Consultancy
Grounds Maintenance and Cleansing Services	Substantial Assurance	Risk Based Audit
Housing Benefits and Council Tax Reduction	High Assurance	Risk Based Audit
Health & Safety	Substantial Assurance	Risk Based Audit
Strategic Risk – Financial Resilience	High Assurance	Risk Based Audit
Community Lottery	Substantial Assurance	Risk Based Audit
Careline Service	Substantial Assurance	Risk Based Audit
Climate Change Emergency	Substantial Assurance	Risk Based Audit
Housing Options	Substantial Assurance	Risk Based Audit
Compliance Services - Landlord	Limited Assurance	Risk Based Audit
Project Management Strategy	Limited Assurance	Risk Based Audit
ICT - Physical and Environmental Security	Substantial Assurance	Risk Based Audit
Cloud Hosted Services	Substantial Assurance	Risk Based Audit
Capacity & Capability (ICT)	High Assurance	Risk Based Audit
London Road – Municipal Building	Not Applicable	Consultancy
Culture Recovery Fund (CRFG1)	Not Applicable	Grant Work
Culture Recovery Fund (CRF2 & 3)	Not Applicable	Grant Work
S106 Developer Contributions	Not Applicable	Consultancy
Test and Trace Support Payment (Round 1)	Not Applicable	Grant Work
Gilstrap Accounts	Not Applicable	Financial
Mansfield Crematorium Accounts	Not Applicable	Financial
Follow-up Work	Substantial Assurance	
Combined Assurance – Assurance Mapping	Not Applicable	

Audit	Rating	Type
2022/23		
Key Control Testing: Asset Register VAT Insurance Capital Budget Monitoring	Work in Progress	Risk Based Audit
Growth Infrastructure Risk	Work in Progress	Risk Based Audit
Company Governance (Arkwood and Active4Today)	Work in Progress	Risk Based Audit
Planning Applications (Decision Making)	Substantial Assurance	Risk Based Audit
Performance Management	High Assurance – Draft Report	Risk Based Audit
Responsive Repairs	Substantial Assurance	Risk Based Audit
Resettlement Co-ordination	Substantial Assurance	Risk Based Audit
Information Governance	Substantial	Risk Based Audit
SANS/Host Refresh	Work in Progress – Draft Report	Risk Based Audit
ICT Applications	Substantial Assurance	Risk Based Audit
Virus Protection Malware	Substantial Assurance	Risk Based Audit
Value for Money	Not assessed	Risk Based Audit
Strategic Asset Management	Substantial Assurance – Draft Report	Risk Based Audit
Social Housing Charter	Not Applicable	Consultancy
Contain Outbreak Management Fund	Not Applicable	Grant
Customer Service Review – Housing Repairs	Not Applicable	Consultancy
Levelling-up and Newark Towns Funds	Not Applicable	Consultancy
Newark Civil War Museum & Palace Theatre	High Assurance	Risk Based Audit
Gilstrap Accounts	Not Applicable	Financial
Mansfield Crematorium Accounts	Not Applicable	Financial
Follow-up Work	High Assurance	
Combined Assurance – Assurance Mapping	Not Applicable	

NEWARK & SHERWOOD DISTRICT COUNCIL

Report to: Audit & Governance Committee Meeting 6 April 2023

Director or Business Manager Lead: Nick Wilson – Business Manager – Financial Services

Report Summary	
Report Title	External Auditors' Annual Report
Purpose of Report	To present the External Auditors' Annual Report.
Recommendations	That the Committee receive and note the contents of the report.
Reason for Recommendation	To ensure Committee members are aware of the status of the 2021/22 external audit.

1.0 <u>Background</u>

1.1 The external auditor issues an Auditors' Annual Report (AAR) in compliance with the International Standards on Auditing. The significant findings from the audit are reported in the Annual Audit Report, together with the action taken in respect of these findings. The report also gives the auditor's opinion on the Statement of Accounts.

2.0 <u>Auditors' Annual Report</u>

2.1 The document at Appendix A is the Auditors' Annual Report which summarises the work the External Auditors (Mazars) have undertaken as the auditor for NSDC for the year ended 31 March 2022.

2.2 It includes how Mazars have discharged their responsibilities and the findings from their work. These are summarised as:

a) Their opinion on the Council's financial statements;
b) The work completed regarding the Council's Value for Money (VFM) arrangements;
c) An update on their work on the Whole of Government Accounts (WGA), and

d) Their wider reporting responsibilities.

2.3 Section 2 refers to the Audit of the Financial Statements, which was reported at the previous Committee, held on the 1st February 2023, and that their audit report, issued on the 5th January 2023, gave an unqualified opinion on the financial statements for the year ended 31st March 2022.

2.4 Section 3 relates to the requirement to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is set out into three reporting criteria:

a) Financial sustainability
b) Governance
c) Improving economy, efficiency and effectiveness

2.5 The report details that no significant weaknesses were identified as part of their work in any of the three categories.

2.6 As Mazars are yet to receive instructions from the National Audit Office they are currently unable to commence work in relation to the WGA.

3.0 Implications

3.1 In writing this report and in putting forward recommendation's officers have considered the following a range of implications. This report in itself does not have any implications. During the risk reviewing process any controls that are identified are considered in terms of the implications they may have before they are agreed as an appropriate control.

Financial Implications (FIN23-24/9822)

3.2 The proposed fees for the year are £47,813, which is inline with the previous financial year, subject to the cost in respect of the VFM work. This is still to be finalised and will be brought back to this Committee at the earliest opportunity once this is agreed.

Background Papers and Published Documents
None for this report

Auditor’s Annual Report

Newark and Sherwood District Council – year ended 31 March 2022

January 2023

mazars

Contents

01

Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Newark and Sherwood District Council ('the Council') for the year ended 31 March 2022. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements
We issued our audit report on 5 January 2023. Our opinion on the financial statements was unqualified.

Whole of Government Accounts (WGA)
We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.

Value for Money arrangements
In our audit report issued we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements.

Wider reporting responsibilities
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. No such correspondence from electors has been received.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on 05 January 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Level of audit adjustments prior to completion

We report any errors or misstatements above a trivial threshold (£64k) identified from our work to the Audit and Governance Committee in our Audit Completion Reports.

For 2021/22, we reported the following

Adjusted misstatement

The majority of the misstatements found during the audit were corrected by management and these were mainly around capital assets.

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Unadjusted misstatements

There were three misstatements that management opted not to adjust which included a misstatement on pension liabilities at £875k. The overall balance of misstatements was below materiality and therefore did not negatively affect the fair presentation of the financial statements.

Management co-operation during the audit

We had positive co-operation from management during the audit and in particular want to thank the Deputy Chief Executive / Director of resources Business, Manager – Financial Services and Assistant Business Manager - Financial Services for their support throughout.

Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

Our detailed findings and recommendations were included in the Audit Completion Report to the Council's Audit and Governance Committee, confirming there were no 'high' priority recommendations with potential for financial loss, damage to reputation or loss of information that may have implications for the achievement of business strategic objectives for immediate implementation.

2. Audit of the financial statements

Main financial statement audit risks and findings

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment. Following the risk assessment, we identified risks relevant to the audit of financial statements and the significant audit risks and conclusions reached are set out below:

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.	**Significant risk:** an area that, in our judgment, requires special audit consideration.	We addressed the risk through performing work over accounting estimates, journal entries and considering whether there were any significant transactions outside the normal course of business or otherwise unusual. In addition, we made enquiries of management and used our data analytics and interrogation software to extract accounting journals for detailed testing on specific risk characteristics.	There are no significant matters to report in respect of management override of controls.
Valuation of land & buildings and investment properties and council dwellings The valuation of these properties is complex and is subject to a number of management assumptions, judgements and a high degree of estimation uncertainty covering: • Council dwellings (£323.6m – Note 22) • Other Land & Buildings (£86.8- Note 22)	**Significant risk**	Our procedures to address this risk included, but was not limited to: • considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends; • critically assessing the approach that the Council adopts to ensure assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; • testing a sample of individual valuations, back to source records to ensure appropriateness and to gain assurance over whether the correct accounting treatment has been applied; and • to address the prior period errors we have reviewed the work performed by the values through inspecting supporting evidence and for further assurances we have tested the final values against relevant indices.	There are no significant matters to report in respect of valuation of land, building and dwelling assets.
Valuation of the net pension liability The defined benefit liability relating to the Local Government pension scheme represents significant balances on the Council's balance sheet. The Council relies on an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk of misstatement in this area.	**Significant risk**	Our procedures to address this risk included, but was not limited to: • liaising with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuations. This included comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office	There are no significant matters to report in respect of net pension liability.

03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** – How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance -** How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness -** How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

  We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

  We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	2020/21 Actual significant weaknesses identified?	2021/22 Commentary page reference	2021/22 Identified risks of significant weakness?	2021/22 Actual significant weaknesses identified?	2021/22 Other recommendations made?
Financial sustainability	No	13	No	No matters arising in 2021/22.	No
Governance	No	16	Yes – Page 17 and 19	No matters arising in 2021/22.	No
Improving economy, efficiency and effectiveness	No	19	No	No matters arising in 2021/22.	No

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3. VFM arrangements – Overall summary

Context of the Auditor's Annual Report

Our Auditor's Annual Report summarises the work we have undertaken as the auditor for Newark and Sherwood District Council for the year ended **31 March 2022**, where at the time of reporting in January 2023, we recognise that the social, political and economic environment has changed and local government is facing significant challenges including:

- **Cost of Living**: With most people experiencing financial pressure, spending habits are changing. High energy costs and increasing food prices have impacted on levels of disposable income. With wage (and potentially benefit) increases failing to keep pace with inflation, more people will be facing hardship.
- **Added budget pressures:** With inflation soaring, the cost of goods, services and resources are becoming more expensive. Local authorities are not immune to the increasing cost of energy supply, although the government announcements on energy caps help, many local authorities are still facing higher costs. Local authorities typically budget for modest salary increases year on year, but expectations and demands on salary increases have changed and consideration on how they are to be funded is required.
- **Cost of Borrowing:** The Bank of England base rate has risen to 4% in February 2023 meaning that the cost of borrowing for capital projects has increased significantly.
- **Contractors and Suppliers**: The cost-of-living crisis has resulted in business failures. Although government support has been announced, some businesses will continue to struggle, with a greater risk of supplier failure. Supply failures anywhere in the supply chain will have a knock-on effect.
- **Service Delivery**: Likely budget reductions and savings plans are going to impact the ability of local authority services to maintain levels of delivery, particularly at a time of increased demand.

We maintain a watching brief over the key issues facing Newark and Sherwood District Council and, should we identify a risk of significant weakness in arrangements, will follow the process as described in section 3 to promptly raise these with management and issue any reports to the Audit and Governance Committee as part of our audit for the year ending 31 March 2023.

3. VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Significant weakness in 2020/21	Nil.
Significant weaknesses identified in 2021/22	Nil.

Position brought forward from 2020/21

As set out in the table above, there are no indications of a significant weakness in the Council's arrangements for financial sustainability brought forward from 2020/21.

Overall responsibilities for financial governance

We have reviewed the Council's overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2021/22. These confirm the Council undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plans to best meet the needs of the Council's service users.

The Council's financial planning and monitoring arrangements

On the 9th of March 2021 the council held a meeting where a balanced budget was presented. The council had a planned saving of £459k for 2021/22. The Medium Term Financial Plan had financial projections for periods 2021/22 to 2024/25 where a budgeted shortfall was projected for the latter years of which the MTFP reserve would be used to for additional funding. The Council had intended to spend £59.639m in general fund capital expenditure from 2021/22 to 2024/25 of which £32.326m was committed for 2021/22.

We reviewed Revenue And Capital Outturn Positions for 2021/22. The report sets out the Council's year end outturn position for the revenue and capital budgets for the 2021/22 financial year, and the impact on both the General Fund and Housing Revenue Account (HRA) level of general Balances. The Council's General Fund Outturn saw a £2.044m surplus against budget, which was transferred to Earmarked Reserves to mitigate against expected future budget pressures. The Council also saw a surplus of £1.154m for the Housing Revenue Account in 2021/22.

The council continues to maintain balances of £1.5m and £2m in the General Fund and Housing Revenue Account, respectively.

Financial Statement performance 2021/22

We have carried out an analysis of the audited financial statements, including the Comprehensive Income and Expenditure Statement, the Balance Sheet and Movement in Reserves Statement. The Council's balance sheet position does not highlight any concerns. The Council's usable reserves have increased by £7.738m from £69.311m to £77.049m in 2021/22:

- General Fund & Earmarked Reserves of £36.343m, down from £37.339m in the prior year
- HRA Reserve of £24.744m, up from £19.150m in 2020/21
- Capital Reserves of £15.962m, up from £12.822m in 2020/21.

The Council's reserves position does not indicate a risk of significant weakness in VFM arrangements for financial sustainability and provide some mitigation against future financial challenges, and will assist in addressing future volatility and support savings and efficiencies plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Arrangements for the identification, management and monitoring of funding gaps and savings

The council has the Medium Term Financial Plan from 2021/22 to 2024/25 which sets out sets out the resources available to deliver the Council's overall commitment to provide services that meet the needs of people locally and that represent good value for money. The MTFP is reviewed on an annual basis where the council updates any budgeted values based on the change in circumstances and environment. The budget setting process includes consideration of assumptions which relate to budget sources or pressures for both revenue and capital spending.

Once the MTFP has been compiled it undergoes the approval process where the full council would review the assumptions and principles on which the budget is based. As part of the budget process, the Council explicitly identifies its savings gap for the following year. Once the gap has been identified, a savings programme is determined. Reports are provided to members through Cabinet to provide information and consult on the detailed savings proposals to meet the budget gap.

The savings gap identified in the MTFP, as approved in the meeting held on the March 2021 for 2022/23, 2023/24 and 2024/24 were £1.681m, £2.327m and £2.719m respectively. The Council has plans in place of how the shortfall with be covered leaving a shortfall of £1.075m in 2024/25 which will be reviewed and efficiencies were still to be identified. The Council has a strong track record of delivery against savings programmes to bridge budget gaps in recent years.

The Council's arrangements and approach to financial planning 2022/23

The arrangements for the 2022/23 budget setting process have largely followed the arrangements in place for 2021/22. The budget for 2022/23 was approved at the 8th March 2022 Council meeting.

We reviewed the Medium Term Financial Plan (MTFP) set from 2022/23 to 2025/26. For 2022/23 the council had a shortfall of £0.657m where funds from the reserve will be used to meets the councils expenditure. Some of the cost assumption used in the budgeting process, the council planned a 2% annual increase in basic pay has been assumed for 2022/23, and a 3% increase for each subsequent year of the council's MTFP.

The Capital Programme for 2022/23 to 2025/26 proposed an investment of £129.615m over the 4 year programme. Housing Services £54.326m (made up of Property Investment and the New Build Programme) and General Fund £75.289m (made up of various general fund projects).

We have reviewed budget papers and confirmed that the budget assumptions are sensible, realistic and properly applied.

Overall commentary on the Financial Sustainability reporting criteria

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability for the year ended 31 March 2022.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Significant weakness in 2020/21	Nil.
Significant weaknesses identified in 2021/22	Nil.

Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we identified as part of our continuous planning procedures.

	Risk of significant weakness in arrangements	Planned procedures	Results of our work
1	**Governance & decision making: London Road Municipal Buildings** Internal Audit conducted a review of the decision-making process surrounding the sale of the London Road Municipal Buildings (2013 – 2019) and London Road Car Park Extensions (2017 – 2021). This report was presented to the July 2022 meeting of the Audit & Governance Committee. In addition, we received correspondence from a local elector in December 2022 that we have taken into account as part of our audit obligations. We believe due to the above triggers the need to perform additional work to evaluate under the theme of Governance, which is defined under the Code of Practice as “how the body ensures that it makes informed decisions and properly manages its risks, including: • how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency • how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour”	Our work included, but was not be limited to: • Review internal correspondence and legal advice that we determine relevant to the VFM arrangements • Meet with Officers and Internal Audit • Review supporting committee reports, including findings of Internal Audit.	Based on the work performed, we have not identified any actual significant weaknesses in arrangements in relation to 2021/22. Areas of improvement have been identified, but are covered by existing recommendations raised by Internal Audit through their report in July 2022.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

The Authority’s governance structure

Based on our work, we are satisfied that the Council has an established governance framework which is consistent with previous years, in place. These are detailed in the Statement of Accounts and Annual Governance Statement. We have considered both documents against our understanding of the Council as part of our audit.

Our review of corporate governance arrangements confirms the Council has an agreed Constitution, setting out how it operates, how decisions are reached and what procedures are followed to ensure that these are transparent and accountable to local people. The Constitution is subject to periodic reviews. Any recommendations for amendments to the Constitution need to be approved by Full Council.

Our review of Council and Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, strategic context, governance issues, and recommendations are clear. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

Risk management and internal control

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an updated and approved Risk Management Strategy which includes the Council’s approach, guidance, the Council’s risk appetite and roles and responsibilities. There is a Strategic Leadership Team (SLT) in place, chaired by Chief Executive , which includes directors and the assistant director. The group oversees all the Council’s operational and strategic risk registers and provides challenge as part of the process. The Council’s safety and risk officers provides regular reports to the Audit and governance committee to provide assurance on the risk management arrangements in place and confirm that they are regularly reviewed and are working effectively. These arrangements are consistent with what we would expect at a local authority and are adequate for the Council’s purposes.

As mentioned above, there is a specific team within the Council that manages and monitors risk. The team categorises risk into three: strategic risk, operational risk and fraud risk. The Strategic risk register is reviewed and updated with agreement of the SLT. The strategic risk register provides the Council’s SLT with oversight of the key risks faced by the organisation. The strategic risks are reviewed twice a year by the SLT, with each strategic risk identified being assigned a ‘risk owner’ in order for there to be accountability. The ‘risk owners’ would then review their allocated strategic risks at quarterly intervals. Additionally, the strategic risks are also communicated to the Audit and Governance Committee for additional scrutiny. Similar actions are taken with operational and fraud risks.

The Council has a cross-service Risk Management Group that meets regularly to identify and evaluate all significant risks. Strategic, Corporate and Operational Risk Registers are in place and appropriate staff have been trained in the assessment, management and monitoring of risks. The council has included risks in the 2021/22 financial statements.

For assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, The Council has outsourced a team of internal auditors, led by the Head of Internal Audit. Internal Audit have a series of key control assignments throughout the year which look at the critical areas of business for the authority. The main reason for these audits are to ensure that internal controls surrounding these key tasks are working effectively. The planned test are compiled into an annual audit plan which is agreed with management at the start of the financial year and is reviewed by the Audit and Governance Committee prior to final approval.

Internal Audit progress reports are presented to each Audit and Governance Committee meeting including follow up reporting on recommendations from previous Internal Audit reports. We are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an opinion based on the work completed during the year.

The Head of Internal Audit issues an annual opinion on the overall adequacy and effectiveness of the Council’s governance, risk and control framework. For the 2021/22 financial year, the opinion of the Head of Internal Audit is that the Council is performing adequately across the areas of Governance and Internal Control which have not changed since the 2020/21 opinion which was that an adequate level of assurance can be given that the Council's overall framework of governance, risk management and control remains appropriate and has been complied with

We have attended Audit and Governance Committee meetings and reviewed supporting documents and are satisfied that the programme of work is appropriate for the Council’s requirements. Our attendance at Audit and Governance Committee has confirmed there continues to be an appropriate level of effective challenge.

Overall commentary on the Governance reporting criteria - continued

Governance & decision making: London Road Municipal Buildings & Car Park Extension

Background

Internal Audit conducted a review of the decision-making process surrounding the sale of the London Road Municipal Buildings (2013 – 2019) and London Road Car Park Extensions (2017 – 2021). This report was presented to the July 2022 meeting of the Audit & Governance Committee. In addition, we received correspondence from a local elector in December 2022 that we have taken into account as part of our audit obligations.

Taking the factors into account, we believed it was appropriate to carry out further work in order to evaluate the impact on the Council's governance arrangements in 2021/22.

Timeline

Internal Audit's report contains a full timeline of events, which we have summarised in the table opposite. From our work, including review of the timeline, the approval of planning permission in 2018 (London Road Municipal Buildings) and 2019 (Car Park Extension) and entering into a lease agreement for the car park extension had a clear impact on the lifting of the covenant in January 2021.

London Road Municipal Building	London Road Car Park Extension
In 2013/14, the Council agreed to purchase London Road Municipal Buildings for £615,000. An independent valuation of the property gave a figure of £725,000.	
In 2014/15, a decision to sell the property was made with reports taken to members to evaluate offers. The sale fell through in 2015/16, leading to delegated authority to re-test the market and ultimately the sale of the property for £450,000 (completed in November 2016).	
	2017/18 Policy and Finance Committee gave approval to create additional car parking at the rear of the former Municipal Buildings, subject to lease arrangements and planning approval
	Planning permission for this was granted in November 2018
In 2019, ownership of the property changed hands and planning permission to convert the property into residential flats was approved by officer delegation.	In January 2019, the Council entered into an agreement to build the car park and pay the annual lease.
In January 2021, the covenant on property use was released.	In September 2021, the Policy & Finance Committee received a report on the London Road Car Park Extension Scheme Options as requested by Council in March 2019. It was agreed that this should be escalated to Full Council.
	On 12 October 2021, Council agreed with the proposal to continue with building the car park.
	In November 2021 the Authority agreed to buy back the land for £450,000 and retain it as green space. Members accepted that the land had social and environmental value and there is public support to retain the four trees and green space.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Governance & decision making: London Road Municipal Buildings & Car Park Extension

Position prior to 2021/22

Internal Audit's report includes a timeline of key events and their findings, in our view, particularly in the period prior to 2019, identifies evidence that standards of governance, decision making, including of financial analysis and risk management fell below expected levels. In particular, Internal Audit reported that:

- there was no engagement plan in 2016/17 over the sale of the Municipal Building or consultation on the proposal or need for additional parking within the London Road car park extension;
- there was no asset management plan or disposal policy in place from 2013 to 2016 to guide the decision on the future of the Municipal Buildings; and
- the reports for both the sale of the Municipal Building (2013 to 2016) and London Road car park extension (2017 and 2019) did not have a comprehensive business case or options analysis to support the decision-making process nor explicit links to any corporate strategy or asset management policy/plan.

Internal Audit's recommendations have been accepted by Officers and progress against those recommendations are tracked and their status is due to be reported back to the Audit and Governance Committee via normal reporting mechanisms.

Position relevant to 2021/22

Our responsibilities relate to whether there is evidence of either new or ongoing issues that indicate a significant weakness in arrangements in 2021/22. Whilst the events took place in earlier years we have considered:

- Council and Committee Reports dating back to 2016
- Evidence supporting the decision to release the covenant on the Municipal Buildings in January 2021, including aspects of the Constitution
- The work of internal audit, including meetings with the team
- Meetings with Officers and supporting evidence obtained from those meetings

Based on the work performed, we have not identified any actual significant weaknesses in arrangements in relation to 2021/22.

We are satisfied in the independence of Internal Audit in carrying out their work and do not intend to repeat their findings, given these have been public since July 2022, but do make the following observations:

- The work of Internal Audit covered the risk of conflicts of interest, and whilst no direct concerns arose did suggest areas for improvement, particularly in awareness and in informal meetings.
- There have been financial consequences to the Council, but these fall below the materiality thresholds used for our work on the financial statements. We note however, that many of these costs arise as a consequence of decisions made from as far back as 2013.
- We also reviewed three key reports on the London Road Car Park Extension: Policy & Finance Committee September 2021; and reports to Council in October 2021 and November 2021. These reports contain sufficient information, including legal and financial implications, with the decisions by full Council approved by the majority of Members.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Governance & decision making: London Road Municipal Buildings & Car Park Extension

Weaknesses identified

Whilst performing our work, we have identified two areas where improvements are required

1. Corporate Asset Management Strategy

Although the Council already had a number of the processes in place regarding asset management, a formal strategy was not adopted until July 2022. The lack of formalised strategy during 2021/22 is a weakness, mitigated by the fact that processes and procedures have been informally in place and our work on capital expenditure and asset disposals in the financial statements did not identify any concerns.

Given the strategy has now been put in place, we do not believe a specific recommendation is required.

2. Creating a comprehensive database of covenants and overage agreements

The Council is reviewing arrangements to collate historic records regarding deeds, covenants and any overage agreements on its assets. This work is ongoing and a full list is not yet complete.

Given this is covered by an existing recommendation raised by Internal Audit in July 2022 and progress against implementation is being tracked, we do not believe it necessary to raise a further recommendation.

Arrangements for budget setting and budgetary control

Each year the council plans its spending and income to support its aims, priorities and resources. This includes the setting of the council tax and fees and charges for its services. The aim is to provide excellent value for money and excellent services. The Council budget is built based on the priorities from within the Community Plan. The council also prepares business plans alongside the budgeting process in order to budget accurately and reflect the councils plans within the service areas. The Business plans were prepared and approved by the Strategic Leadership Team (SLT) in January 2021 for a 14month period, taking into account the anomalies that COVID 19 has brought.

The business planning cycle was refreshed during 2020/21 to include a robust cycle of key council activities throughout a particular financial year. For example, business plan development, budget development, Community Plan refresh and customer insight activities.

A budget strategy is drafted and presented to the Cabinet during the June cycle of meetings to set the context and the high level assumptions to be used in the budget production. We have reviewed the budget assumptions which are deemed to be appropriate and are consistently applied.

Subsequently, financial services officers would then liaise with budget holders to review their anticipated resource requirements, based on their deliverable objectives within the Community Plan. Once the resource requirements have been built into the budget, a report to SLT on the overall budget (with projected Business Rates and Council Tax allocations) is presented at the end of November for senior management approval.

Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance

Overall commentary on the Governance reporting criteria

Based on all the above considerations we are satisfied there is not a significant weakness in the Authority's arrangements in relation to Governance for the year ended 31 March 2022.

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Significant weakness in 2020/21	Nil.
Significant weaknesses identified in 2021/22	Nil.

The Council has in place a community plan which sets out seven objectives guiding work that needs to be undertaken between 2020 and 2023. The Community Plan aims to enable local residents and business to flourish and fulfil their potential, as well as encourage visitors to enjoy all that the are has to offer.

The seven objectives are:

- creating vibrant and self-sufficient local communities where residents look out for each other and actively contribute to their local area
- delivering inclusive and sustainable economic growth
- creating more and better quality homes through our roles as landlord, developer and planning authority
- continuing to maintain the high standard of cleanliness and appearance of the local environment
- enhancing and protecting the district's natural environment
- reducing crime and anti-social behaviour and increasing feelings of safety in our communities
- improving the health and wellbeing of local residents

The Council has a clear performance monitoring process in place. Performance is assessed through Achievement of objectives and activities within the Community Plan, performance indicators of key activities customer insight (customer satisfaction, resident panel, engaged tenants, customer experience survey, customer feedback) and staff delivery (sickness levels, staff survey results etc.).

In aim of achieving these objectives, the Council prepares quarterly finance and performance reports which are submitted to the Senior Leadership Team (SLT) and to the Council's Policy and Finance Committee to monitor performance of these objectives. Through review of minutes we noted that the reports are easy to follow. These clearly indicate the performance indicator, prior year achievement for indicators that existed in 2020/21, quarterly and year to date achievement, target/ National average. The indicator achievements are clearly coloured where green indicates that the indicator is on target whilst red indicates that's it is off target. For red labelled targets, the council clearly indicate reasons for not reaching the target as well as plans to improve performance.

On an annual basis, the Council's overall performance is summarised in the Narrative Report as part of the Statement of Accounts. This outlines the Council's progress against its ambitions, highlighting key successes and risk areas. This provides the public with an overall assessment of the Council activities for the financial year.

We have reviewed a sample of targets as reported in the Q4 report for 2021/22 and confirmed that this report is in line with what has been reported in the financial statements. The quarterly reports demonstrate that performance has been managed throughout the 2021/22 year and any significant variances have been justified. Overall, we believe there is sufficient evidence to demonstrate adequate arrangements for performance monitoring and management at the Council.

We identified no significant changes in arrangements regarding partnerships. Significant partnerships are with the council's subsidiaries i.e. Arkwood Development Company, Active4Today and RHH Newark Limited have their own performance framework and progress against objectives and targets are reported to the relevant Council Committee. Designated officers are responsible for taking action or referring it on where appropriate. There are relevant governance frameworks in place for these arrangements and the Council continues to keep its role in these activities under review.

Overall commentary on the reporting criteria

Overall, we have not identified any indicators of a significant weakness in the Council's arrangements relating to the Improving Economy, Efficiency and Effectiveness criteria for the year ended 31 March 2022.

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04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the National Audit Office (NAO) in respect of Whole of Government Accounts (WGA) consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We have not received the instructions from the NAO and therefore this work remains incomplete.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum. Having substantially completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 fees	2021/22 fees	2022/23 Scale Fee
Scale fee in respect of our work under the Code of Audit Practice	£37,213	£37,213	**TBC**
Additional cost in respect of:			
• Additional testing on IAS19 Pension Liabilities*	£2,998	£3,200	N/A – included in the scale fee
• Additional testing on valuation of land, buildings, council dwellings and investment properties*	£4,069	£4.500	N/A – included in the scale fee
Comparable fee	**£44,280**	**£44,913**	**TBC**
Additional costs arising from:			
• Additional work from the introduction of new auditing standards (ISA 540 Estimates)	£4,000	£2,900	TBC
• Additional testing arising the prior period adjustment for investment properties	-		
Additional cost in respect of the new VFM approach	£6000	**TBC**	TBC
Total fees	**£54,280**	**£47,813**	**TBC**

**The scale fee for 2022/23 has been uplifted to take into account a permanent increase for pension testing and testing of land & buildings*

Fee variations subject to PSAA approval process.

Fees for other work

We confirm that we have undertaken one assurance related service for the Council in the year: Assurance return on the pooling of housing capital receipts for £4k. We are satisfied there are adequate safeguards in place regarding our independence and objectivity.

David Hoose

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NEWARK & SHERWOOD DISTRICT COUNCIL

Report to: Audit & Governance Committee Meeting – 6 April 2023

Director Lead: Sanjiv Kohli, Deputy Chief Executive/Director of Resources (S151 Officer)

Lead Officer: Nick Wilson, Business Manager – Financial Services
Ext 5317

Report Summary	
Report Title	Annual External Audit Planning Update 2022/23
Purpose of Report	To present the External Audit Strategy Memorandum for the 2022/23 Statement of Accounts work.
Recommendations	Members note the External Audit Planning Update 2022/23
Reason for Recommendation	To provide Members with details of External Audits work in relation to the Council's Statement of Accounts for 2022/23.

1.0 Introduction

1.1 The External Audit Planning Update (Appendix A) sets out the proposed work of the Council's external auditors for 2022/23, relating to the audit of the financial statements and the commentary on the Council's Value for Money arrangements.

1.2 The document describes the audit approach, the key financial statement audit risks and the Value for Money audit approach. It details the audit team, the deliverables from the work and the proposed timeline.

1.3 This document, together with the work that they anticipate completing during April will inform the Annual Audit Strategy Memorandum, which they anticipate presenting at the next Audit and Governance committee.

2.0 Implications

None.

Background Papers and Published Documents

None.

Audit Planning Update 2022/23

Newark and Sherwood District Council

Audit & Governance Committee April 2023

mazars

Purpose of this report

Our planning work for the 2022/23 audit year is in progress. We are liaising with the finance team and completing our normal procedures plus the enhanced procedures required this year by ISA315 (revised). This work will continue through April and we expect to present our full Audit Strategy Memorandum (ASM) to the next Audit & Governance Committee meeting.

This report provides the Audit & Governance Committee's April 2023 meeting with an update on the conclusions and any significant matters from the 2022/23 audit planning.

Scope of the Audit and our responsibilities

The scope of our audit is unchanged engagement and is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/.

Our responsibilities continue to be are principally derived from the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

- Audit Opinion – giving an opinion on the 2022/23 Financial Statements
- Value for Money - forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources
- Electors' rights - The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom
- Reporting to the NAO - We report to the NAO on the consistency of the Council's financial statements and the matters arising from our audit which are relevant to the Council's Whole of Government Accounts (WGA) submission

Audit Engagement Team

Your audit engagement team will be lead by Mark Surridge (Director and Key Audit Partner) and Nomfundo Magwaza (Manager).

Sameer Amin is taking over from Bethan Frudd as Lead Auditor on the audit and they are liaising with the finance team regarding any continuing audit issues.

Audit Approach and timeline

Our audit approach is risk based; primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. The diagram below outlines the procedures we perform at the different stages of the audit and the indicative timeline at this stage based on the current national timetable. We will agree the specific timetable with the finance team and provide more details in our ASM.

There are no significant matters arising from the Planning and Interim visits to date to bring to the Committee's attention. We will present the agreed Audit Strategy Memorandum to a future meeting of the Committee.

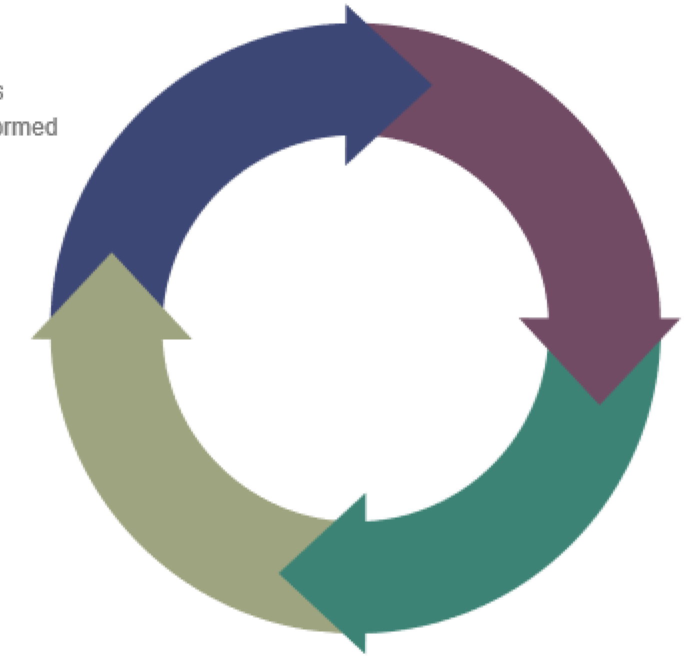
The completion of the 2021/22 audit was significantly delayed due to the late clarification by CIPFA and DLUHC of the national Infrastructure accounting issue which was reported in our 2021/22 Audit Completion Report. No change to these requirements is expected for 2022/23 so one of the objectives for this year is to complete the audit in line with the national timetable. We will keep the Committee informed as the audit progresses.

Planning February/March 2023

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review
- Liaison with the Derbyshire Pension Fund audit team

Interim March/April 2023

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary
- Completion of our VFM risk assessment



Completion November/December 2023

- Final review and disclosure checklist of financial statements
- Final Engagement Lead review
- Agreeing content of letter of representation
- Reporting to the Audit Committee.
- Reviewing subsequent events
- Updating our VFM risk assessment
- Signing the auditor's report

Fieldwork July – October 2023

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Reviewing the assurances provided by the Derbyshire Pension Fund audit team
- Communicating progress and issues
- Clearance meeting
- Further work on any identified VFM risks

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Audit Reporting

Our main reporting outputs will continue to be:

- Audit Strategy Memorandum – summarising the outcomes from our audit planning and proposed response. We will also report the indicative audit fees for the year.
- Audit Completion Report – summarising the outcome of our main accounts audit and expected audit opinion.
- Audit Report – encompassing our Audit Opinion on the financial statements and other required information.
- Annual Auditor's Report – including our Value for Money Commentary. We will also report the final audit fees for the year.
- Audit Certificate – formally closing the audit

Significant Audit Risks

From the planning work so far we expect the significant audit risks to be similar to those identified for 2021/22. We will keep our risk assessment up to date and inform the Committee if there are any changes to these risks, and report our findings in relation to the risks in our Audit Completion Report.

Significant Audit Risk	Description	Identified previous year?
Management override of controls	This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.	Yes
Property Valuation	Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements.	Yes
Valuation of net defined benefit liability	The Council's accounts contain material liabilities relating to the local government pension scheme. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	Yes

Materiality

We expect to again set materiality based on a benchmark of the Comprehensive Income and Expenditure Statement (CIES) total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit & Governance Committee. We do not expect to alter these thresholds compared to the previous year and plan to base them on the following levels:

Threshold	Expected level	Likely value based on latest audited benchmark (2021/22 CIES total Gross Expenditure) Council	Likely value based on latest audited benchmark (2021/22 CIES total Gross Expenditure) Group
Overall materiality	2% of benchmark	£2.177m	£2.200m
Performance materiality	75% of overall materiality	£1.633m	£1.700m
Specific materiality:			
• Officers' remuneration	£5k	£5k	£5k
Trivial threshold for errors to be reported to the audit committee	3% of overall materiality	£65k	£70k

Value for Money Work

We have not identified any specific significant concerns from the value for money risk assessment to date and there are no risks of significant weaknesses in arrangements to bring to the Committee's attention at this stage. We will keep our assessment up to date and report any changes through our progress reports to the Committee.

The scope of the assessment is unchanged through the latest NAO guidance and the work carried out in 2021/22, helped by the updated supporting evidence from management, provides a good platform for the 2022/23 assessment. We are continuing to carry out desk top procedures to update our assessment and will report any matters arising if required. The Financial Stability theme is as expected an area where we expect at all Councils to have to continue to keep our assessment up to date, given amongst other things the continuing uncertainty over future funding and cost pressures.

Non-Audit Work

We expect to again agree a separate engagement for the Reporting Accountant's Report on the Teachers Pensions return (2022/23). We are satisfied there are appropriate safeguards in place regarding any threats to our independence in relation to this and our core audit work.

Contact

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Report to: Audit & Governance Committee Meeting 6 April 2023

Director or Business Manager Lead: Nick Wilson, Business Manager Financial Services

Lead Officer: Andrew Snape, Assistant Business Manager Financial Services, ext 5523

Report Summary	
Report Title	STATEMENT OF ACCOUNTING POLICIES 2022/2023
Purpose of Report	*To provide Members with updates made to the Council's accounting policies in relation to the closedown of the 2022/2023 financial year.*
Recommendations	*Members approve the amended Statement of Accounting Policies for 2022/2023.*

1.0 Background

1.1 Prior to the completion of the Statement of Accounts for 2022/2023 it is important that Members are given the opportunity to discuss and comment on the accounting policies to be used in the production of the financial statements. These policies will be applied to the treatment of all transactions that make up the figures in the Statement of Accounts to ensure the accounts present a true and fair view of the financial position of the Council as at 31 March 2023.

1.2 The 2022/2023 Statement of Accounts will be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/2023 (the Code) which is based on International Financial Reporting Standards (IFRS).

2.0 Updates to the Statement of Accounting Policies

2.1 The relevant key accounting changes in the 2022/2023 Code include:

- *Confirmation in Module 1 Appendix B of the New or Amended Standards introduced in the 2022/23 Code.*
- *Updates to the methodology in Module 2, Section G for calculating year-end apportionment of NDR and council tax surpluses and deficits where an authority declared an exceptional deficit in accordance with SI 2020/1202, the Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020.*

- *Augmentations to the Appendix to Module 3, ie the example financial statements and notes to the accounts; these include changes to the accounting policies, critical judgements in accounting policies disclosure and other clarifications to the reserves disclosures.*
- *Explanation of the interaction of the example disclosures and accounting policies in the Appendix to Module 3 with the illustrations in CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution.*
- *Description in Module 4 of the interaction of capital accounting transactions with CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution.*
- *Confirmation in Module 4, Section F of the Code's provisions to allow authorities to voluntarily adopt the provisions of IFRS 16 Leases in advance of mandatory implementation, in line with requirements set out in Appendix F.*
- *Amendments to Module 8, Section B to clarify the treatment of social benefits under IAS 37/ IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets.*

2.2 The relevant key changes listed at 3.1 do not impact on the Councils accounting policies. However, an additional policy has been included this financial year to cover Intangible Assets. A complete set of the Accounting Policies for 2022/2023 are attached at **Appendix A.**

Background Papers and Published Documents
Code of practice on local authority accounting in the United Kingdom – Guidance notes for practitioners 2022/23 accounts

NOTES TO THE CORE FINANCIAL STATEMENTS

The values held within the proceeding Notes to the Accounts may vary slightly when compared to the main Statements or other Notes. This is due to amounts being rounded. It is not expected that a difference would be in excess of £2,000 in any single case.

1 ACCOUNTING POLICIES

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2022/2023 financial year and its position at the year-end of 31 March 2023. It has been prepared in accordance with the Code of Practice on Local Council Accounting in the United Kingdom 2022/2023 (the Code) supported by International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. Accounting policies and estimation techniques have been selected and exercised, having regard to the accounting principles and concepts set out in IAS 8, specifically the qualitative characteristics of financial information:

- Relevance
- Reliability
- Comparability
- Understandibility
- Materiality

and pervasive accounting concepts:

- Accruals
- Going Concern
- Primacy of legislative requirements

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue in financing and investment income and expenditure for the income that might not be collected.

Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. The Council classifies the following as cash equivalents:

- Overdrawn balances on the Council's bank accounts. Bank overdrafts are an integral part of the Council's cash management and bank balances fluctuate on a regular basis from being positive to overdrawn.
- Short term investments with immediate call back or instant access. Any short term investment which is for a fixed term, regardless of the remaining length of that term, is accounted for as a financial instrument. Interest follows the related investment.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

The preparation of IFRS accounts requires the use and calculation of estimates. It also requires management to exercise its judgement in applying the use of the Council's accounting policies. The areas involved in a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results may differ from these estimates.

1.5 Charges to Revenue for Non-Current Assets

General Fund service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance in the form of the Minimum Revenue Provision (MRP). This charge is based on the Asset Life method of calculation as per the Councils approved MRP Policy, and will commence in the financial year after the asset becomes operational.

1.6 Council Tax and Non-Domestic Rates

The Council is a billing Council and acts as an agent collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors, including government for NDR, and as principals collecting Council Tax and NDR for itself. Billing authorities are required by statute to maintain a separate fund i.e. the Collection Fund for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted. The council is part of a pool arrangement for NDR with its neighbouring Nottinghamshire councils.

Accounting for Council Tax and NDR
The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item through the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the year-end balance in respect of Council Tax and NDR relating to the arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1.7 Employee Benefits

Benefits Payable During Employment
Short term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and time in lieu earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the salary rate applicable at the year end. The accrual is charged to the Surplus/Deficit on Provision of Services but is then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Policy and Finance line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in year, not the amount calculated according to the relevant accounting standards. Through the Movement in Reserve Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-employment Benefits

The Council fully complies with the requirements of IAS 19 Employee Benefits and recognises the cost of retirement benefits in the revenue account when employees earn them rather than when the benefits are eventually paid as pensions.

Employees of the Council are members of the Local Government Pensions Scheme, administered by Nottinghamshire County Council (the pension fund). The scheme provides defined benefits to members (retirement lump sums and pensions), which have been earned by members in the time they worked as employees of the Council.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price.
  - unquoted securities - professional estimate.
  - unitised securities - current bid price.
  - property - market value.

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

Service Cost comprising

- current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the (Surplus)/Deficit on Continuing Operations in the Comprehensive Income and Expenditure Statement as part of Policy and Finance.
- net interest on the net defined benefit liability or asset i.e. net interest expense for the Council – the change during the period in the net defined benefit liability or asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset at the beginning of the period – taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments

Re-measurements comprising

- the return on plan assets – excluding amounts included in net interest on the defined benefit liability or asset – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- contributions paid to the pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Through the Movement in Reserves Statement on the General Fund Balance, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

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

1.8 Events After the Reporting Period

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

- Those that provide evidence of conditions that existed at the end of the reporting period. The Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period. The Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.9 Financial Instruments

Financial Liabilities
A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council. The Council's financial liabilities comprise:

- long term loans from the Public Works Loan Board
- long term LOBO loans from the money market (Lender Option Borrower Option)
- short term loans from the Council's subsidiary companies and other related companies

Financial liabilities are recognised on the Balance Sheet where the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. The effective annual interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings held by the Council this means the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to (Surplus)/Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, if the Council decides to make a loan to a voluntary organisation at less than market rate (soft loan). When the soft loan is made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial assets measured at fair value through profit or loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the surplus or deficit on the provision of services.

Fair value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council's financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance through the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Community Infrastructure Levy
The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue administrative expenditure.

1.11 Heritage Assets

The Council's heritage assets are held in the Councils museum. The museum has an extensive collection comprising of art, Civil war, artefacts, clock, coins and tokens of heritage assets which are held in support of the primary objective of the Councils museum, i.e. increasing the knowledge, understanding and appreciation of the Councils history and local area. Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Councils accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Councils collections of heritage assets are accounted for as follows.

- *Ceramics, Jewellery, Regalia, Statues, Art Collection and Samplers together with Machinery, Equipment and Furniture* – these are measured at insurance valuation, based on market value, which is increased annually for inflation. As they are deemed to have indeterminate lives and a high residual value, the Council does not consider it appropriate to charge depreciation.

Heritage Assets – General
The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Councils general policies on impairment – see note 1.17 in this summary of significant accounting policies. The

trustees of the Councils museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Councils general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see note 1.17 in this summary of significant accounting policies).

1.12 Intangible assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at cost less accumulated depreciation and any accumulated impairment loss. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

1.13 Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as investments i.e. at cost less any provision for losses.

Active4Today Ltd is a wholly owned subsidiary of the Council which manages the provision of leisure services from the Council's leisure premises and its accounts are consolidated with the Council's in accordance with IAS 27.

Mansfield Crematorium has been recognised as a joint arrangement between Mansfield District Council, Ashfield District Council and Newark and Sherwood District Council. The Council accounts directly for its part of the assets, liabilities, income, expenditure and cash flows held arising from the operations of the crematorium.

Arkwood Developments Ltd is a wholly owned subsidiary of the Council and is a housing development company and its accounts are consolidated with the Council's in accordance with IAS 27.

1.14 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

1.15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account through the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve through the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve through the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.16 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred. Expenditure under the value of £15,000 is treated as de-minimis. All capital expenditure will be depreciated in the following financial year of acquisition.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred while assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV–SH)
- Community Assets, Infrastructure and Assets Under Construction – measured at historical cost
- Other Land and Buildings, Vehicles, Plant and Equipment – fair value or, where there is no market based evidence of fair value, depreciated historical cost

Valuation

Assets are included in the Balance Sheet at current value on the basis recommended by CIPFA and in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors (RICS). Non-current assets are classified into the groupings required by the CIPFA Code of Practice on Local Council Accounting.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Community Assets, Infrastructure Assets and Assets Under Construction are held at historical cost and are not revalued. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

Asset	Depreciation Method	Useful Life in Years
Council Dwellings	Straight line allocation over the life of the property as estimated by the Valuer	35-50
Other Buildings	Straight line allocation over the life of the property as estimated by the Valuer	20-100
Vehicle, Plant and Equipment	Straight line allocation, taking into account any residual value, over their useful life as advised by a suitably qualified officer	5-10
Infrastructure	Straight line	10-50
Community Assets	Straight line	100
Surplus Assets	Straight line	10-100
Land	No depreciation charged	
Assets Under Construction	No depreciation charged	
Assets Held for Sale	No depreciation charged	
Investment Properties	No depreciation charged	

Where an asset has major components with different estimated useful lives these are depreciated separately. Land and buildings are separate assets and are accounted for separately, even when they are acquired together.

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on assets held for sale.

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

1.17 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets
A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.18 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

1.19 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer through the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

1.20 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

1.21 Fair Value Measurement of non-financial assets

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [other financial instruments as applicable] at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

NEWARK & SHERWOOD DISTRICT COUNCIL

Report to:	Audit & Governance Committee Meeting 6 April 2023
Director or Business Manager Lead:	Nick Wilson, Business Manager Financial Services
Lead Officer:	Andrew Snape, Assistant Business Manager Financial Services, ext 5523

Report Summary	
Report Title	*UNDERLYING PENSION ASSUMPTIONS FOR 2022/2023 STATEMENT OF ACCOUNTS*
Purpose of Report	*To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2022/2023 Statement of Accounts.*
Recommendations	*Members note and approve the assumptions used in the calculation of pension figures for 2022/2023.*

1.0 <u>Background</u>

1.1 IAS 19 - Employee Benefits is one of the financial reporting standards with which the Council must comply when producing its annual Statement of Accounts.

1.2 The basic requirement of IAS 19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

1.3 To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use certain assumptions to reflect expected future events which may affect the cost. The assumptions used should lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.

1.4 The Council will use the calculated costs and the underlying assumptions, based upon the advice of the actuary of the Nottinghamshire County Council Pension Fund, Barnett Waddingham, and the administering authority (Nottinghamshire County Council), in preparing the annual Statement of Accounts.

1.5 A formal actuarial valuation is carried out every three years, the last being as at 31 March 2019. The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023 as required under Regulation 62 of the Regulations.

1.6 All of the figures relating to IAS 19 are simply accounting adjustments made to comply with accounting standards and have no direct impact on resources. The amount charged to the General Fund Balance is the actual amount paid out in employers' contributions and not the charge calculated in accordance with IAS 19. The liability shown in the balance sheet is an estimate based on assumptions and would only ever become payable if the Council ceased as a going concern.

2.0 Financial Assumptions

	2022/2023	2021/2022
Discount Rate This allows for the effect of inflation on the liabilities in the scheme.	4.50%	2.60%
Pension Increase Rate (20 years) Public sector pension increases are linked to the Consumer Prices Index (CPI).	2.80%	3.20%

Based on market conditions at 31 January 2023, most employers will see the value of their defined benefit obligation decrease. However, the extent of this will depend on employer's membership profile, cashflows over the year and any bespoke assumptions or approaches.

3.0 Demographic Assumptions

The standard approach taken by the actuary for the key demographic assumption of mortality assumption is to use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population.

Other Demographic Assumptions;

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

4.0 Impact in Financial Statements

Assumption	Movement	Impact
Price Inflation	Decrease Increase	Decrease in charge for cost of future pensions Increase in charge for cost of future pensions
Pension Increase Rate	Decrease Increase	Decrease in liabilities Increase in liabilities
Salary Increase Rate	Decrease Increase	Decrease in charge for cost of future pensions Increase in charge for cost of future pensions
Discount Rate	Decrease Increase	Reduction in liabilities Increase in liabilities

Attached at **Appendix A** is the full employer briefing note pre-accounting date as received from the pension fund. Also attached at **Appendix B** is a useful accounting Glossary and FAQs.

Background Papers and Published Documents
Nil

Accounting reporting as at

31 March 2023

Employer briefing note pre-accounting date

Barnett Waddingham LLP

13 February 2023

Contents

Introduction and executive summary

This briefing note is addressed to employers participating in the LGPS and details our standard approach to the 31 March 2023 accounting exercise. This document is based on market conditions as at 31 January 2023. It sets out our recommended assumptions along with key changes since the previous accounting date. Unless noted otherwise in this briefing note, or in the employer's results report, the approaches adopted as at 31 March 2023 are in line with the approaches set out in this briefing note and are consistent with that at the employer's last accounting date.

A summary of our standard assumptions at durations 5 to 30 years is set out in Appendix 1.

This briefing note assumes a previous accounting date of 31 March 2022. For employers whose previous accounting date was not 31 March 2022, this briefing note provides a summary of our recommended assumptions for 31 March 2023 only; should a summary of the key changes since an employer-specific previous accounting date be required then please let us know. Additional fees will apply.

This note complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

BARNETT WADDINGHAM
beyond the expected

How has the balance sheet changed over the year?

The change in the balance sheet position over the year is dependent on the following key variables. In the table below we detail the approximate impact and each of these variables is discussed in more detail in this briefing note:

Variable/assumption	Impact on balance sheet?	Comments
Asset returns	↓	Asset returns have been lower than the discount rate assumed at the previous accounting date which will worsen the balance sheet position.
Discount rate	↑	Discount rates have increased which will improve the balance sheet position.
Inflation	↑	Future inflation assumptions have decreased which will improve an employer's balance sheet position.
Allowance for actual pension increases	↓	The 2023 pension increase is higher than previously assumed which will worsen the balance sheet position.
Mortality	↑	Allowing for the results of the recent 2022 actuarial valuation for employers participating in English or Welsh LGPS funds is likely to see a reduction in the average life expectancy and an improvement to the balance sheet position.
Overall	↑	**Overall, due to the significant increase in the discount rate and decrease in the future inflation assumption, we expect the balance sheet position to improve compared with last year.**

Please note that these general principles are based on an average employer in an average fund with a duration of 20 years. The actual effect of the change in these variables and assumptions will depend on each employer's individual circumstances.

As a participating employer, what do I need to do?

The assumptions set out in this report are the standards that we intend to use unless instructed otherwise. We therefore recommend employers discuss this note with their auditors and agree whether the standard approach is appropriate. The salary increase assumption, for example, is often tailored by the employer to reflect their anticipated pay increase awards.

ACTION: The employer must let the fund know if they want to adopt a different approach or set of assumptions. To assist in this decision, we can provide employers with a deficit modeller which provides an indication of the impact of any changes to their accounting position.

How much will my IAS19/FRS102 report cost?

The fund will communicate fees to employers. There may be additional fees if there are particular features or events for an employer which need to be taken into account including:

- where an employer chooses their own assumptions;
- if there are additional calculations to be carried out if a surplus is revealed;
- when there are any staff transfers/movements to allow for;
- allowance for actual inflation experience;
- if additional disclosures are required;
- an employer asks to receive their report by a particular deadline; or
- if auditors ask queries following receipt of the report.

Where can I get further information?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here.

ACTION: Please get in touch with the fund or your usual Barnett Waddingham contact if you have any queries.

We also publish regular briefings and webinars on our website. You can keep up to date on the latest information by joining our mailing list here.

BARNETT WADDINGHAM
beyond the expected

Valuation of the employer's assets

Asset performance

Asset returns can be very volatile from year to year and will vary by LGPS fund.

A typical LGPS fund might have achieved a return of around -6% for the period from 31 March 2022 to 31 January 2023. This is based on a fund investing 75% in equities, 5% in gilts and 20% in corporate bonds. This could vary considerably depending on each fund's investment strategy and depending on asset performance for the remaining two months to 31 March 2023.

If the actual asset return for the Fund over the year is lower than the previous discount rate, this will lead to an actuarial loss on the assets; worsening the overall position.

How are my assets valued?

To calculate the asset share for an individual employer, we roll forward the assets allocated to each employer at the latest valuation date allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the fund by and in respect of the employer and its employees.

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Valuation of the employer's liabilities

To value the employer's liabilities at 31 March 2023, we roll forward the value of the liabilities calculated for the latest full funding valuation using financial assumptions compliant with IAS19 and FRS102. Please note that for employers participating in English or Welsh funds, this will involve an update this year to be based on the fund's 2022 funding valuation.

The full actuarial valuation involved projecting future cashflows to be paid from the fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2023 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2023 should not introduce any material distortions in the results provided that the actual experience of the employer and the fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

As required under the IAS19 and FRS102 accounting standards, we have used the projected unit credit method of valuation.

Financial assumptions

The key financial assumptions required for determining the defined benefit obligation for accounting are the discount rate, linked to high quality corporate bond yields, and the rate of future inflation.

We set out our standard approach to the derivation of these assumptions and sample assumptions using market conditions at 31 January 2023.

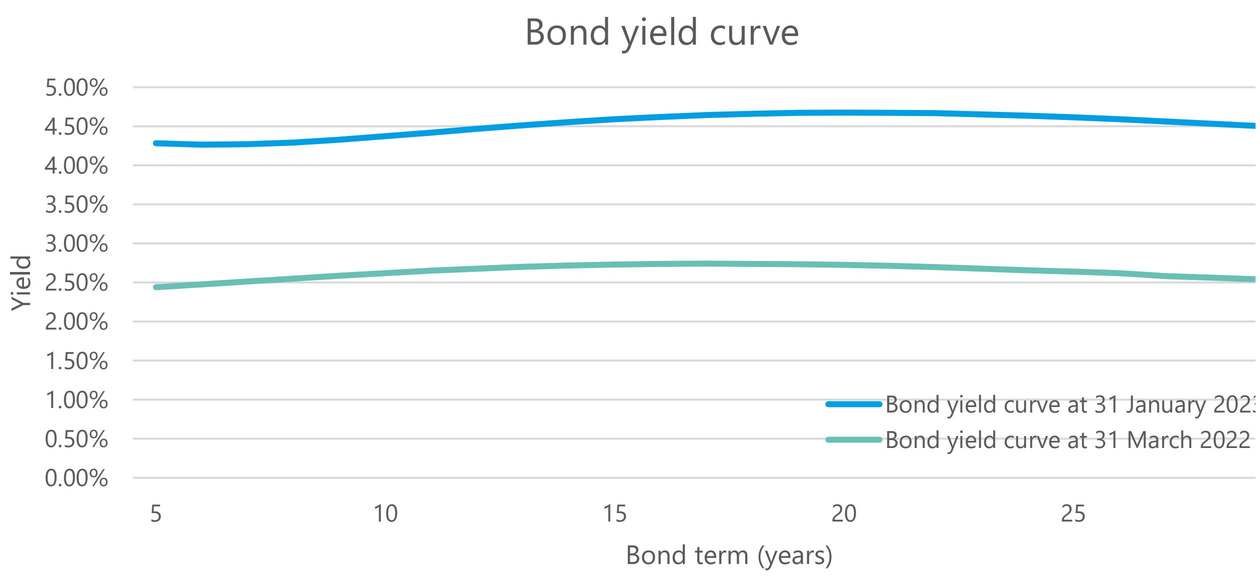
Discount rate

Under both the IAS19 and FRS102 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Our standard approach to derive the appropriate discount rate is known as the Single Equivalent Discount Rate (SEDR) methodology.

We use sample cashflows for employers at each duration year (from 1 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30 year point.

The sample cashflows are updated on a three-yearly basis using a full valuation of membership data. These are currently based on cashflows derived as at 31 March 2022. As at 31 March 2022, each employer's duration is calculated and corresponds to the set of sample cashflows with the same duration. As an employer's duration changes, the duration of the corresponding sample cashflows is expected to change in a similar way, so over time the assumptions derived using those same sample cashflows will remain appropriate for the employer. Therefore, the standard assumptions for an employer will be set using the 31 March 2022 sample cashflows which the employer was allocated to.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 January 2023:



These curves reflect the yields that underlie the SEDR calculations and are not the estimates of the standard discount rate assumption. Sample SEDR assumptions are set out in the table overleaf.

You will see that the bond yield at 31 January 2023 is higher at all terms than at 31 March 2022. As a result, the discount rate assumed for employers will be higher than that assumed at the previous accounting date.

Source: Merrill Lynch

All else being equal, a higher discount rate will result in a lower value being placed on the defined benefit obligation and an improvement in the overall position.

Sample SEDRs are set out in the table below based on market conditions at 31 January 2023 with the equivalent 31 March 2022 SEDRs also shown for comparison. It also sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

Duration at 31 March 2022 (years)	Discount rate		Estimated impact of change on liabilities
	31 January 2023	31 March 2022	
10	4.50%	2.60%	Decrease of 17%
15	4.50%	2.60%	Decrease of 24%
20	4.50%	2.60%	Decrease of 30%
25	4.50%	2.60%	Decrease of 36%

Assumptions are rounded to the nearest 0.05%.

Please note this is illustrative only. The actual effect of the change in the discount rate assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Sample SEDRs for durations of 5 years up to 30 years are provided in Appendix 1.

Comparison to previous accounting date

Unless specified otherwise in the employer's results report, this approach is the same as at the previous accounting date.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which the benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. The BoE implied inflation curve is assumed to be flat beyond the 40 year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH (Consumer Prices Index with Housing) from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% at medium and longer terms (from 10 years). This results in an overall IRP of between 0.0% p.a. and 0.3% p.a. depending on the term of the liabilities (for terms ranging from 1 year up to 30 years).

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 1 to 30 years) in deriving the assumptions for employers.

Sample RPI assumptions are set out in the table below based on market conditions at 31 January 2023, with the equivalent 31 March 2022 SEIRs (based on our standard derivation at that time) also shown for comparison:

Duration at 31 March 2022 (years)	RPI	
	31 January 2023	31 March 2022
10	3.15%	4.00%
15	3.15%	3.75%
20	3.15%	3.55%
25	3.10%	3.45%

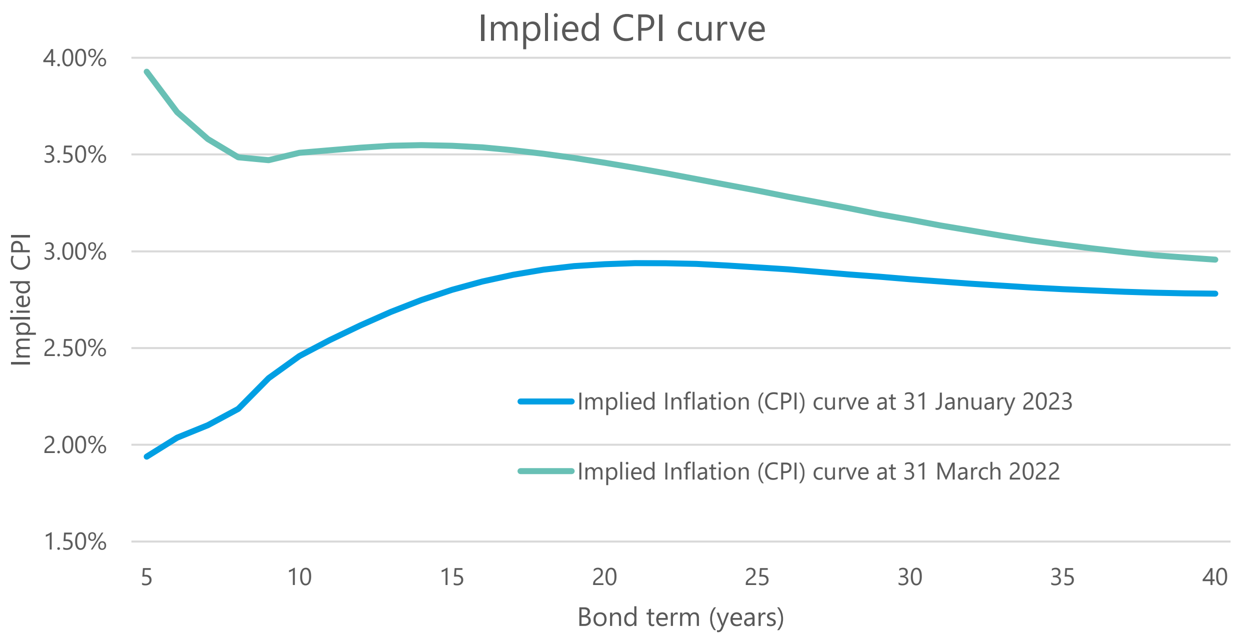
Difference between RPI and CPI

It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result of the proposed alignment of RPI to CPIH (and CPI) from that date. We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of between 0.25% p.a. and 0.80% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

Consumer Prices Index (CPI) assumption

Using a similar approach described above to calculate the SEIR for our RPI assumption, we have calculated a single equivalent rate of CPI increase that results in the same liability value as would be calculated by applying the implied CPI curve.

The resulting implied CPI curve at 31 January 2023 is shown below along with the implied CPI curve at the last accounting date for comparison:



These curves reflect the yields that underlie the SEIR calculations and are not the estimates of the standard CPI inflation assumption. Sample SEIR assumptions are set out in the table overleaf.

As shown in the graph, the implied CPI curve at 31 January 2023 is lower at all durations. As a result, the assumed level of future pension increases will be lower than that assumed at the previous accounting date.

Source: Barnett Waddingham based on Bank of England data

All else being equal, a lower pension increase assumption will result in a lower value being placed on the defined benefit obligation and an improvement in the overall position.

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The tables below set out the assumed pension increase (CPI) assumptions at sample durations, as well as the estimated effects due to the change in the inflation assumption from last year's standard assumption to this year's:

Duration at 31 March 2022 (years)	CPI		Estimated impact of change on liabilities
	31 January 2023	31 March 2022	
10	2.55%	3.45%	Decrease of 8%
15	2.70%	3.30%	Decrease of 8%
20	2.80%	3.20%	Decrease of 7%
25	2.80%	3.15%	Decrease of 7%

Assumptions are rounded to the nearest 0.05%.

Please note this is illustrative only. The actual effect of the change in the pension increase assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Details of the RPI and CPI assumptions for durations of 5 years up to 30 years are shown in Appendix 1.

Comparison to previous accounting date

Unless specified otherwise in the employer's results report, this approach is the same as at the previous accounting date.

Salary increases

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption adopted at the last accounting date. For all other employers, we will adopt the standard approach which is in line with the latest actuarial valuation. For more information please see the latest valuation report.

ACTION: The employer must let the fund know if they want to adopt a different salary increase assumption. Please note that bespoke financial assumptions will incur additional fees.

Comparison to previous accounting date

Unless specified otherwise in the employer's results report, this approach is the same as at the previous accounting date.

Overall impact of changes to financial assumptions

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers with liability durations of exactly 10, 15, 20 and 25 years: based on assumptions derived as at 31 January 2023:

Duration at 31 March 2022 (years)	Estimated effect of change in financial assumptions on employer's liabilities
10	Decrease of 24%
15	Decrease of 30%
20	Decrease of 35%
25	Decrease of 41%

Based on market conditions at 31 January 2023, most employers will see the value of their defined benefit obligation decrease. However, the extent of this will depend on employer's membership profile, cashflows over the year and any bespoke assumptions or approaches.

ACTION: We are also happy to use bespoke financial assumptions. The employer must let the fund know if they want to adopt any different financial assumptions and we would suggest that these are agreed in advance with the employer's auditors.

Please note that any bespoke financial assumptions will incur additional fees.

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Demographic assumptions

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

- Making a current assumption of members' mortality (the base mortality); and
- Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgment involved and we naturally have to refine our view on this over time.

Base table mortality

The base table mortality assumptions adopted for the funds' latest triennial funding valuations were best estimate assumptions and we will therefore be using the same assumptions as standard for accounting.

For employers participating in an English or Welsh LGPS fund, our standard approach is to update the mortality assumption to be based on those adopted for the fund's 2022 actuarial valuation.

For employers participating in a Scottish LGPS Fund, the next actuarial valuation of the Fund is as at 31 March 2023, with results and reports due to be finalised by 31 March 2024, and therefore our standard approach for the 31 March 2023 disclosures is to continue using the fund's base table mortality assumption from the 2020 actuarial valuation.

Future improvements to mortality

To project future improvements in mortality, we use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population.

For employers participating in an English or Welsh LGPS fund, similar to the base table assumption our standard approach is to update the improvements model to be based on that adopted for the fund's 2022 actuarial valuation.

For employers participating in a Scottish LGPS Fund, the majority of employers have updated their disclosure to use the CMI_2020 model. For these employers, our standard approach is to continue with this assumption this year. For any employers who did not update to use the CMI_2020 Model, our standard approach will be to update the mortality assumption to use CMI_2020 with a 2020 weight parameter of 25%.

ACTION: We are also happy to use bespoke assumptions. The employer must let the fund know if they want to adopt a different mortality assumption. We would suggest that these are agreed in advance with the employer's auditors.

Please note that any changes to demographic assumptions, including changes to be in line with the fund's latest actuarial valuation, will incur additional fees.

Other demographic assumptions

Unless stated otherwise in the employer's accounting report, the other key demographic assumptions are:

Assumption	Detail
Commutation	Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations
Normal retirement	Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
50:50 take up	The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same

This is in line with the assumption adopted for the fund's latest actuarial valuation.

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Additional requirements

Experience items allowed for since the previous accounting date

2022 valuation update

For employers in English of Welsh LGPS funds, the liability roll forward will be updated to be based on the fund's 2022 valuation. This update ensures the accounting results are based on the latest information available. The impact of this update will result in experience items on the liabilities and the assets, and could be a positive or negative effect. The experience item reflects how experience over the intervaluation period has differed from that assumed as part of the roll forward approach.

Further detail on the experience item can be provided on request and will incur additional fees.

Allowance for actual pension increases

Our default approach is to allow for actual pension increases up to the accounting date. Any difference between this and the pension increase previously assumed will give rise to an experience item.

ACTION: Please note that additional fees will be incurred to incorporate the actual pension increase experience and therefore the employer should opt out of this standard approach if they do not want these additional calculations to be carried out.

The 2023 pension increase is higher than previously assumed which will result in a higher value being placed on the defined benefit obligation and a worsening in the overall position.

Accounting modeller

Employers have an option to purchase our accounting modeller to help inform their decision on the financial and demographic assumptions used to produce their IAS19 or FRS102 pensions accounting report. For example, the modeller allows employers to change the 31 March 2023 assumptions to bespoke assumptions and see the impact this would have on the closing position as at 31 March 2023 and also on the Profit and Loss projections for the year to 31 March 2024. We would be happy to provide further information on the modeller features and the associated fees if required.

Valuation of unfunded benefits

Employers may need to include the value of unfunded benefits for their accounts.

For employers in English or Welsh funds, where the unfunded benefits are included as part of the latest actuarial valuation data, the unfunded liability roll forward will be updated to be based on the fund's 2022 valuation. Where separate unfunded benefits are included in an employer's accounts, we will be in touch separately about the approach required.

For employers in Scottish funds, the unfunded liability will continue to be based on a roll forward of the results at the previous accounting date.

ACTION: Our default approach is to carry out a roll forward from the latest fund valuation. We would be happy to provide further information and the associated fees around the full valuation of unfunded benefits at the accounting date if required.

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Other considerations

McCloud/Sargeant judgments

There are currently uncertainties in relation to LGPS benefits due to the McCloud and Sargeant judgments. Remedial regulations are expected in 2023 and uncertainty over the benefit changes proposed for the LGPS will remain until these have been finalised.

Impact on liabilities

The McCloud remedy may impact the value of the liabilities in respect of accrued benefits and therefore an allowance may need to be included in an employer's report.

If an allowance was already made for McCloud at a previous accounting date in an employer’s IAS19/FRS102 report then no explicit adjustment will be made in our results this year. For employers in English and Welsh funds, the estimated cost of McCloud will be updated as part of the 2022 valuation update and this will reflect the approach adopted at the valuation in estimating the cost of the McCloud remedy. The difference between this cost and the cost previously incorporated into the employer’s accounting liabilities will be reflected in the liability experience item and we do not expect this to be material. It should be noted that the cost of the McCloud remedy varies with member experience (for example due to salary increases), and therefore the cost calculated at each actuarial valuation will vary, however, generally we do not expect this to be material. For employers in Scottish funds the McCloud costs were estimated as part of the 2020 valuation and no update is required this year.

Please see FAQs for further details.

If no previous allowance has been made and allowance is now required then we will be in touch via the fund to discuss the requirements.

Settlements and curtailments

Employers accounting under the IAS19 standard

When determining any past service cost or gain or loss on settlement IAS19 requires that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. Common events for LGPS employers that this may apply to include outsourcings and unreduced early retirements.

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Additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not.

Employers accounting under the FRS102 standard

We note that the FRS102 standard is silent on the treatment of settlements and curtailments, and in particular there is no explicit requirement to adopt a similar approach to that set out above for the IAS19 standard.

ACTION: Our default approach for IAS19 reports is to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We provide each administering authority with a summary of the events we are aware of and these will be communicated to each employer. If the employer does not want to treat all the events in this way then we would strongly recommend that they engage with their auditor in advance of the preparation of their report to understand their materiality limit and establish which events fall outside of this.

Unless instructed otherwise we will proceed with our default approach and please note that additional fees will apply, details of which can be provided by the administering authority.

Our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date. We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the employer, but please note that this will incur additional charges.

Details of whether the remeasurement approach has been adopted at an event date or not will be set out in the employer's report.

Please see FAQs for further details.

Goodwin case

We do not intend to make any adjustments to accounting valuations as a result of the Goodwin case. Please see FAQs for further details.

Guaranteed Minimum Pension (GMP) equalisation and indexation

Impact of Lloyds judgment on past transfer values

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and DLUHC on this. Whilst no guidance nor data is available, our standard approach currently is to make no allowance to reflect this judgment. Please see FAQs for further details.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

Our standard assumption for GMP is that the fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome. Please see FAQs for further details.

Associated risks of participating in a defined benefit scheme

In general, participating in a defined benefit pension scheme means that an employer is exposed to a number of risks:

Risk	Comment
Investment risk	The fund may hold investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, the short-term volatility can cause additional funding to be required if a deficit emerges.
Interest rate risk	The fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
Inflation risk	All of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
Longevity risk	In the event that the members live longer than assumed a deficit will emerge in the fund. This may be mitigated by a longevity insurance contract if held by the fund. There are also other demographic risks.
Climate risk	Climate risk can be grouped into two categories; Physical and Transitional risks. Physical risks are direct risks associated with an increased global temperature such as heatwaves and rising sea levels. Transitional risks are the costs of transitioning to a low carbon economy. These risks will manifest themselves in many of the other risks detailed above which the fund is exposed to, for example investment returns may be affected.
Regulatory risk	Regulatory uncertainties could result in benefit changes to past of future benefits which could result in additional costs.
Orphan risk	As many unrelated employers participate in each fund, there is an orphan liability risk where employers leave the fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers in that fund.

All of the risks above may also benefit an employer e.g. higher than expected investment returns or employers leaving the fund with excess assets which eventually get inherited by the remaining employers.

For further details on the funding strategy please see the relevant LGPS fund's latest Funding Strategy Statement.

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Appendix 1 Financial assumptions

Duration (years)	Discount rate	RPI	RPI/CPI Gap	CPI
5	4.40%	3.05%	0.80%	2.25%
6	4.45%	3.10%	0.75%	2.35%
7	4.45%	3.15%	0.70%	2.45%
8	4.50%	3.15%	0.65%	2.50%
9	4.50%	3.20%	0.60%	2.60%
10	4.50%	3.15%	0.60%	2.55%
11	4.50%	3.15%	0.55%	2.60%
12	4.50%	3.20%	0.55%	2.65%
13	4.50%	3.20%	0.50%	2.70%
14	4.50%	3.15%	0.50%	2.65%
15	4.50%	3.15%	0.45%	2.70%
16	4.50%	3.15%	0.45%	2.70%
17	4.50%	3.15%	0.40%	2.75%
18	4.50%	3.15%	0.40%	2.75%
19	4.50%	3.15%	0.40%	2.75%
20	4.50%	3.15%	0.35%	2.80%
21	4.50%	3.10%	0.35%	2.75%
22	4.50%	3.10%	0.35%	2.75%
23	4.50%	3.10%	0.35%	2.75%
24	4.50%	3.10%	0.30%	2.80%
25	4.50%	3.10%	0.30%	2.80%
26	4.50%	3.10%	0.30%	2.80%
27	4.50%	3.10%	0.30%	2.80%
28	4.50%	3.10%	0.30%	2.80%
29	4.50%	3.10%	0.25%	2.85%
30	4.50%	3.05%	0.25%	2.80%

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FRS102/IAS19/IAS26 Glossary and FAQs

Barnett Waddingham LLP
9 February 2023

FRS102/IAS19/IAS26 Glossary and FAQs

The purpose of this note is to provide LGPS funds, fund employers and their advisers with some further explanatory details about the reports we produce in accordance with Financial Reporting Standard 102 (FRS102), International Accounting Standard 19 (IAS19) and International Accounting Standard 26 (IAS26).

It is divided into a Glossary of terms followed by some Frequently asked questions (FAQs). Where certain terms are explained in more detail in the glossary these are highlighted in **bold**.

If you have any questions please get in touch with the relevant LGPS fund in the first instance.

Background

This document complements a briefing note discussing assumptions and an indication of the likely trend in results issued as part of each accounting exercise. In contrast, this document describes the fundamentals of the accounting standards and is only expected to be updated occasionally (e.g. when the standards change).

Sponsors of defined benefit pension schemes are required to account for the cost of providing retirement benefits and reserve for any outstanding liabilities associated with the schemes they sponsor. They are also required to make certain disclosures about these schemes in the notes to their accounts.

FRS102, IAS19 and IAS26 are accounting standards that set out the accounting treatment for retirement benefits. For UK listed companies and local authorities IAS19 applies; for other UK entities FRS102 applies. Companies with overseas parents may need to make disclosures under other standards. IAS26 applies for pension fund accounting.

A key feature of the standards is the requirement for liabilities to be valued using a discount rate assumption set with reference to yields on "high quality" corporate bonds.

It should be noted that the actual contribution rates required by employers for each fund are calculated every three years following a triennial actuarial valuation and these are calculated using assumptions set by the Fund Actuary. The discount rate assumption in particular is generally set with reference to expected future investment returns of the fund unlike the accounting standards which value the liabilities using solely the yields on corporate bonds. Therefore, the contribution rates paid by employers are not affected by the accounting results.

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Glossary of terms

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Glossary of terms

Included in this section:

Actuarial gains & losses

The components of the actuarial gain or loss on assets are:

- the difference between the actual investment return on the assets over the year, and the interest on assets, plus
- an experience item, if applicable.

The components of the actuarial gain or loss on liabilities are:

- the effect on the value of liabilities of any change in financial assumptions (e.g. discount rate, assumed future inflation growth) from those used in the previous year, plus
- the effect on the value of liabilities of any change in demographic assumptions (e.g. mortality) from those used in the previous year, plus
- an experience item, if applicable.

For more details on experience items, please see the "Gains and Losses" section of the FAQs.

Administration expenses

Both accounting standards require the administration expenses to be recognised when the administration services are provided and to be reported as a separate item in the Profit and Loss (P&L) statement.

Note that this does not include expenses in relation to investment management as this is incorporated in the **Return on Fund** assets.

Change in demographic assumptions

This shows the impact on the value of the liabilities of any changes in the demographic assumptions since the previous accounting date. More detail is detailed in the **Demographic assumptions** section.

The same demographic assumptions may be adopted between triennial funding valuations and so there may not be a change in demographic assumptions item each year.

The demographic assumption which is likely to have the most significant effect on the value of liabilities is the mortality assumption i.e. how long members will live. For example, when changes in mortality assumptions results in a decrease in the life expectancy of members this will result in a decrease in the value of liabilities. This is because the term that members are expected to live in retirement would be shorter so fewer benefits will be paid out.

Change in financial assumptions

This shows the impact on the value of the liabilities of any changes in the financial assumptions since the previous accounting date.

Financial assumptions reflect market conditions at the accounting date and so are likely to change each year.

The financial assumptions which have the most significant impact on the value of liabilities are the **discount rate** and the assumed rate of pension increases.

If the assumed discount rate is higher than at the previous accounting date this will result in a decrease in the value of liabilities and vice versa. Conversely, if the assumed rate of pension increases is higher than at the previous accounting date this will result in an increase in the value of liabilities and vice versa.

Contributions by employer including unfunded

This is the total value of the contributions paid by the employer to the fund including the normal contributions in respect of benefit accrual by active members, contributions towards any deficit and any early retirement strain contributions.

If **unfunded benefits** (usually pensions in payment) are paid through the fund and are to be included in the accounting report, then payments in respect of unfunded benefits are included here as well.

For more information on the inclusion of unfunded benefits, please see the "Do I need to include unfunded benefits on my balance sheet?" section of the FAQs.

Current service cost

The **current service cost** represents the cost to the employer of the benefits earned by active members during the accounting period calculated on an FRS102/IAS19 basis. This is added to the liabilities and is not the same as the employer contributions paid to meet these 'new' benefits. It is calculated using assumptions at the start of the accounting period which means that it is not a fixed percentage of payroll and it is expected to vary from one accounting period to the next as assumptions change.

Under both standards this is a component of the **Service cost** in the P&L.

Curtailment

These will typically be the FRS102/IAS19 equivalent of early retirement costs. The actual strain payments to be paid by the employer to the fund are calculated by the administering authority using a different set of assumptions and so the curtailment cost under FRS102/IAS19 is unlikely to be the same as the strain contributions the employer pays.

In our calculations we calculate the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement only. The employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we only calculate the cost of curtailments which affect the employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately. Under both standards the curtailment cost is a component of the **Service cost** in the P&L.

Defined benefit obligation

This is also referred to as the past service liabilities. This is the value of the benefits accrued by all members to date, based on actuarial assumptions such as future increases to salaries, future mortality rates, future inflation rates etc.

Demographic assumptions

These are the assumptions used to generally provide estimates of the likelihood and timing of benefits and contributions being paid. This consists of all the non-financial assumptions used to value the liabilities including the mortality assumptions, (i.e. how long members are likely to live for), the rates of members retiring and the rate at which members exchange pension for cash at retirement.

Discount rate

Pensions and lump sums will be paid at some point in the future and so a rate known as the **discount rate** is used in order to express these expected future payments as a value at a present date.

It is analogous to a rate of interest; to illustrate this, if we put £100 into a savings account today, it is expected to grow with interest every year to become a higher amount in the future. Similarly, if we are aiming to have £100 at a future date then we only need to deposit a smaller amount now which will accumulate with interest to give £100 later.

A higher discount rate means that the future payments have a smaller value now i.e. a lower pension liability.

The accounting standards prescribe that the discount rate should be based on market yields at the reporting date of a 'high-quality corporate bond' of equivalent currency and **term** to the scheme liabilities. The discount rate can be derived using a number of different approaches. The current Barnett Waddingham approach is to use the Single Equivalent Discount Rate (SEDR) method.

Duration

When we talk about the duration of the liabilities we mean the average time to payment of benefits. This is used interchangeably with the **term** of the liabilities.

Further details of the approach used to estimate the duration please see the "How is the employer duration calculated?" section of the FAQs.

Interest cost

At the end of the accounting period the existing pension benefits are closer to payment than they were at the start of the accounting period, and so the value of the liabilities increases over the period with interest in line with the discount rate. This is the interest cost.

The interest cost forms part of the **net interest on defined liability** (in the P&L).

Interest on assets

The interest on assets item is calculated with reference to the **discount rate**. This forms part of the **net interest on defined liability** (in the P&L).

One of the most common questions we are asked by employers is how their asset amount has been calculated.

Go to the FAQ on how are my assets calculated to find out more.

Liabilities

These are also referred to as the **defined benefit obligation**.

Net interest on defined liability

This is the **interest cost** on liabilities less the **interest on assets**. The net interest on defined liability figure is a component of the P&L.

Past service cost

Additional benefits granted during the accounting year give rise to a **past service cost**, for example, an employer decision to award additional service to a retiring employee.

Under both standards this is a component of the **service cost** in the P&L.

Remeasurements

Remeasurements are recognised in Other Comprehensive Income which is effectively the total of the **actuarial gains and losses** from the changes in the assets and liabilities over the accounting period. This will include the investment return on the assets in excess of interest, change in assumptions (financial and demographic) as well as any experience adjustments.

More detail about this is in the "Gains and Losses" section of the FAQs.

Return on assets less interest/ Return on Fund assets in excess of interest

This item is the investment return on fund assets above (or below) that which was assumed at the previous accounting date. The investment return is net of investment management expenses and is provided in the 'Assets' section of your report. Under IAS19 and FRS102 the interest/assumed return on assets is the discount rate assumed at the previous accounting date.

If the return on fund assets is lower than the discount rate this will result in an actuarial loss.

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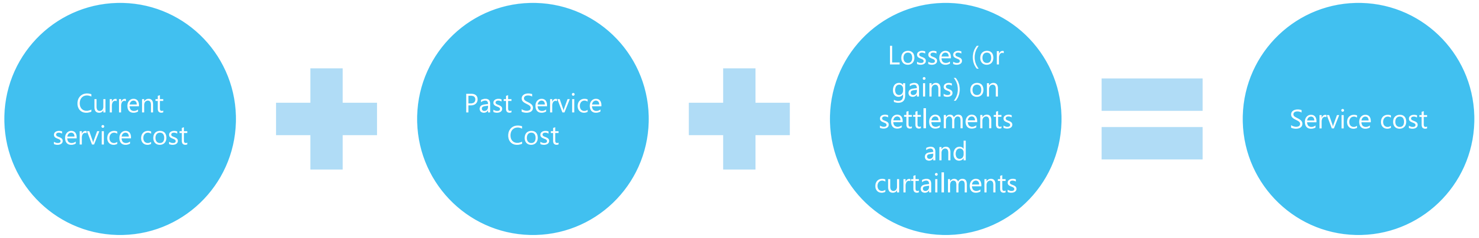
The magnitude of this item will be dependent on how much the actual return on Fund assets differs from the discount rate at the previous accounting date.

Service cost

The service cost is made of three key components:

- Current service cost; plus
- Past service cost; plus
- Losses (or gains) on settlements and curtailments.



Settlement

A settlement will generally occur where there is a bulk transfer of members in to or out of the Fund or an employer's share of the Fund. The settlement loss or gain reflects the difference between the transferred asset share, and the value of the transferred liabilities when calculated on an FRS102/IAS19 basis. This value may be different when compared to figures calculated for non-accounting purposes due to different assumptions being used. Under both standards this is a component of the **Service cost** in the P&L.

Special event

Under the IAS19 standard, when determining any past service cost or gain or loss on **settlement** or **curtailment**, the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. However, IAS19 notes that the extra **remeasurement** at the event date does not need to be applied where the application of that remeasurement is immaterial.

Where a remeasurement approach is required, we refer to this as a special event. Where an event is included but does not require the remeasurement approach, it is not a special event.

Term

Please see definition of **duration** above.

Unfunded benefits

Unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years (CAY) pensions. Such benefits are usually charged to the employer as they are paid. Other unfunded benefits include gratuities and enhanced teacher's pensions which are recharged to the employer, and pensions in respect of some other public sector pension schemes. This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the employer has responsibility for funding by paying contributions to the Fund.

BARNETT WADDINGHAM
beyond the expected

Frequently Asked Questions (FAQs)

Frequently asked questions (FAQs)

Included in this section:

Balance sheet

Assumptions

Pension costs

Gains and losses

Regulatory

- What is the impact of the Lloyds judgment on past transfer values?
- What is the impact of the recent GMP indexation consultation response?
- Does the McCloud judgment have any impact on LGPS liabilities?
- Does the outcome of the Goodwin case have any impact on LGPS liabilities?

Miscellaneous

- Is the projected unit method being used?
- How are investment expenses allowed for?
- What checks are carried out on the data underlying the calculations?
- How is the employer duration calculated?
- What commutation factor is used in the calculations?

If there are any questions that do not appear on this list, please get in touch with the Fund in the first instance.

BARNETT WADDINGHAM
beyond the expected

Balance sheet

How are my assets calculated?

Notional assets

Assets are not separately held for each employer; each fund holds assets in respect of all the employers in the fund and each employer has a notional share of these assets. For example, the contributions an employer makes into the fund are not paid into a separate employer account and invested independently, but are paid into the whole fund along with all other employers' contributions and invested as a whole. However, they are taken into account when calculating a notional asset figure for actuarial valuations and employer work.

Asset calculation – actuarial valuations

Assets are fully re-apportioned at each triennial funding valuation. To do this for an employer, we accumulate the employer's notional market value of assets from the previous funding valuation, allowing for the Fund's actual returns and cashflows in respect of the employer which include employer and employee contributions, pensions and retirement lump sums paid, and transfers in and out etc. In general, cashflows are assumed to occur halfway through the year. We also allow for any notional asset transfers which may occur between employers when members transfer between employers in the Fund.

We also adjust the assets by a smoothing factor to be consistent with our measurement of the liabilities. We essentially look at the asset value over each day for the six month period around the valuation date (based on published market indices) and take the average.

Asset calculation – accounting valuations

In order to calculate asset values for accounting valuations, the starting point is the most recent funding valuation and the process is then similar to the above but may involve approximations. For example, if the fund's actual returns have not yet been calculated for any period, we will calculate the notional return based on suitable market indices.

The assets will change from year to year: increasing with contributions paid into the fund and investment returns earned; and decreasing as benefits (such as lump sums and pensions) are paid out of the fund.

Thus, the employer's asset share is not a fixed percentage of the fund and is expected to vary over time.

We use market value of assets for FRS102 and IAS19 calculations therefore no smoothing factor is applied.

Auditor views

Auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date.

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we may use details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

What is the Defined Benefit Obligation and how is this calculated?

The Defined Benefit Obligation is the accounting label for what is usually known as the value of the pension liabilities of the employer. The pension liabilities for an employer are the promised benefit payments (e.g. pensions, lump sums) due in the future from the fund to its members. The Defined Benefit Obligation is the value of these liabilities calculated using a set of assumptions on an FRS102/IAS19 basis, which includes how these payments will increase over time, how long they will be paid out for (i.e. how long each member is likely to live for) and the **discount rate** to apply to them to give a current value.

The Defined Benefit Obligation depends on the amount of the benefits so will increase as benefits are accrued and reduce as benefits are paid out. The value will also increase or decrease as the assumptions used to calculate their value change.

Do I need to include unfunded benefits on my balance sheet?

Unfunded benefits may be paid through the fund and recharged to the employer.

FRS102 and IAS19 both state that all retirement benefits should be accounted for when the member earns the benefit and not when it is paid by an employer. Therefore when a member retired and was awarded unfunded benefits the value of all future payments should have been taken into account at the point of retirement. This value would generally be expected to reduce over time as the benefits are paid out.

If you have unfunded benefits which are to be included in the accounting figures that we prepare, then you should make us aware of these.

Why have my numbers changed since the last accounting date?

The figures in the accounting disclosures are expected to change from one accounting period to the next. Some figures may be expected to be broadly consistent, however, many figures are unrelated year on year. Guidance on differences that can be expected are set out in the tables below. These tables replicate the reconciliation tables that are disclosed in our reports.

Liability reconciliation items	Factors causing difference in value compared to equivalent item at previous accounting date
Opening defined benefit obligation	
Current service cost	• varies with active member payroll • changes in financial assumptions (at start of accounting period)
Interest cost	• change in discount rate assumption (at start of accounting period) • varies with size of defined benefit obligation
Change in financial assumptions	• not comparable with value at previous accounting date • depends on extent of change in financial assumptions at last accounting date vs current accounting date
Change in demographic assumptions	• not comparable with value at previous accounting date • depends on extent of change in demographic assumptions at last accounting date vs current accounting date
Experience loss/(gain) on defined benefit obligation	• not comparable with value at previous accounting date • depends on how actual experience incorporated compares with previous assumptions
Liabilities assumed / (extinguished) on settlements	• not comparable with value at previous accounting date • depends on settlement events
Estimated benefits paid net of transfers in	• not necessarily comparable with previous accounting date as includes one off cashflows (such as retirement lump sums)
Past service costs, including curtailments	• not comparable with value at previous accounting date • depends on past service costs and curtailment events
Contributions by Scheme participants and other employers	• varies with active member payroll
Unfunded pension payments	• changes in unfunded benefit paid
Closing defined benefit obligation	

Asset reconciliation items	Factors causing difference in value compared to equivalent item at previous accounting date
Opening fair value of Fund assets	
Interest on assets	• change in discount rate assumption (at start of accounting period) • varies with size of fair value of Fund assets
Return on assets less interest	• not comparable with value at previous accounting date • depends on Fund return over accounting period and interest on assets
Other actuarial gains/(losses)	• not comparable with value at previous accounting date • depends on how actual experience incorporated compares with previous assumptions
Administration expenses	• varies with size of fair value of Fund assets • depends on fund's level of administration expenses
Contributions by employer including unfunded	• varies with active member payroll and unfunded benefits paid • depends on additional one off contributions
Contributions by Scheme participants and other employers	• varies with active member payroll
Estimated benefits paid plus unfunded net of transfers in	• not necessarily comparable with previous accounting date as includes one off cashflows (such as retirement lump sums)
Settlement prices received / (paid)	• not comparable with value at previous accounting date • depends on settlement events
Closing Fair value of Fund assets	

Assumptions

What is the difference between assumptions for a funding valuation and an accounting valuation?

The purpose of a funding valuation is to set the contributions payable by employers, and these are typically based on a set of ongoing assumptions. An accounting valuation on the other hand is prepared to meet statutory disclosure requirements and is included in the employer's annual accounts. Therefore, the purposes are different. The results from the two valuation types can be significantly different due to the different assumptions used.

The assumptions adopted for a funding valuation are set by the Fund Actuary following discussion with the administering authority. Broadly, they are set with reference to the long-term expected cost of providing LGPS benefits and take into account the investment strategy of the fund and the expected return on each asset class that the fund invests in. In contrast, FRS102 and IAS19 are fairly prescriptive accounting standards which aim to allow employers' pension obligations to be compared with each other.

Generally, the demographic assumptions used for both valuations are the same and determined every three years as part of the triennial funding valuation. However, updates may be made between funding valuations to reflect the latest industry views on future mortality rates.

The main area where funding valuations for our funds and accounting valuations differ is in the derivation of the **discount rate**. For funding valuations, the discount rate adopted is based on the expected investment return of the assets actually held by the fund. For FRS102/IAS19, the discount rate is required to be determined with reference to the market yield on 'high quality' corporate bonds and with consideration of the **duration** of the employer's liabilities.

Generally, corporate bond yields will be lower than the return assumed for a funding valuation as the fund is likely to invest in a mixture of assets include higher return seeking assets such as equities and property. Therefore we would expect that employers' costs and liabilities under FRS102/IAS19 will be higher than those calculated in a funding valuation as the discount rate used is lower.

It is important to note that the accounting position has no bearing on the contributions that the employers actually pay into the fund. Contribution rates are set every three years as part of the triennial valuation.

Why is the inflation assumption different to current inflation levels?

The current level of inflation that is widely reported each month is a measure of how prices have increased in the recent past, usually over the last year. However, in order to project cashflows to and from the fund over the future lifetime of the fund, we are interested in what inflation will do in the future and therefore we have to make an assumption about expected future levels of inflation over the long term. We do this by using information published by the Bank of England.

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How much scope is there for 'tweaking' the assumptions?

One of the objectives of FRS102 and IAS19 is to ensure that organisations all account for pension costs on a consistent market-related basis so there is not intended to be a huge amount of scope to deviate away from typical market assumptions. We do provide a recommended set of assumptions but the employer is ultimately responsible for the assumptions that are adopted.

One key area in which the employer can exercise more control is the assumption about future levels of pay increases as they will have more knowledge of likely future pay awards for their staff.

If you would like more information on the options available to employers regarding bespoke assumptions please get in touch with your LGPS fund.

Pension costs

How are settlements/curtailments/past service costs treated under IAS19?

The IAS19 standard requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019.

Common events for LGPS employers that this amendment may apply to include outsourcings, academy conversions and unreduced early retirements.

The **remeasurement** requirement complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not. If relevant, the employer should also consider any guidance in relation to this set out by The Chartered Institute of Public Finance & Accountancy (CIPFA) in its most recent *Code of Practice on Local Authority Accounting in the United Kingdom*.

Why is the current service cost different from the contributions paid?

Contributions are required from the employer to meet the cost of the benefits being earned by current employees, and to pay off any past service deficit. Minimum contributions are certified when a new employer joins the Fund and then again at each triennial funding valuation. These certified contributions are calculated using assumptions made at each funding valuation and reflect, amongst other things, the return assumed to be earned by the assets actually held by the Fund.

The **current service cost** in FRS102/IAS19 only includes the employer cost of benefits being earned by current employees and does not include the cost of paying off any past service deficit. The assumptions used for FRS102/IAS19 are usually different to those used for the funding valuation. In particular, the **discount rate** is prescribed by FRS102/IAS19 and is unlikely to reflect the Fund's actual asset allocation. This means the current service cost calculated for FRS102/IAS19 is likely to be different to the cost covered by the certified minimum contributions.

Why is the current service cost different from the previous year?

The current service cost is the cost of benefits accrued over the period based on the assumptions at the start of the period i.e. the assumptions at the previous accounting date or the most recent **remeasurement** date.

Therefore this will be affected by:

- the difference in the assumptions adopted at the previous accounting date (and any remeasurement dates) compared to the assumptions adopted for calculating the previous accounting date's current service cost; and
- the change in payroll over the accounting period compared to that over the previous accounting period.

What if the reported contributions paid are different to the actual contributions paid?

The discrepancy may be because full cashflows for the accounting period were not available for the report, and therefore they were estimated based on part-year cashflows. We can revise the disclosure to take account of the actual contributions paid but we recommend that you agree with your auditor that this is necessary on the grounds of materiality.

Gains and losses

What is an experience gain or loss?

Accounting reports are prepared each year using a number of estimates and approximations in the roll-forward process on both the assets and the liabilities. This experience adjustment is essentially a correction of the estimates made in previous accounting reports.

Employers are likely to see an experience item in an accounting report prepared following a full membership valuation, such as a triennial funding valuation, to allow for actual experience such as pension increases, member movements and mortality.

What does actual less expected return on Fund assets mean?

The "expected" return on the Fund assets for a year is simply based on the **discount rate** assumption at the start of the period (or the last remeasurement date). If actual Fund returns, net of investment management expenses, have been higher than the discount rate assumption this figure will be positive but if they were lower this will be negative.

Why is there an experience gain or loss on the assets?

To determine the employer asset share for an accounting report we may need to estimate various pieces of financial information, including cashflow information such as contributions received, benefits paid and fund returns. However, at a triennial funding valuation we get full cashflow data for each year and actual audited Fund returns. We then determine each employer's asset share accurately at the triennial valuation date and the experience item emerges as the difference between the three years' worth of estimated rolled-forward assets and the accurate figure. There may also be differences between the accounting and funding valuation asset figures due to allowance for any transfers or outsourcings that may not have been resolved in time to be included in the relevant accounting years.

Why is there an experience gain or loss on the liabilities?

To determine the value of the employer liabilities for an accounting report we roll forward the results from the most recent funding valuation, using the financial and demographic assumptions set for accounting purposes.

After each triennial valuation we recalculate the accounting liabilities using up to date membership data and results. An experience item emerges which reflects the difference between the actual experience of the members of the Fund and what was assumed for them in the previous accounting reports. For example, if members died earlier than assumed this will result in an **actuarial gain** as the liabilities will be lower than estimated in the roll forward, or if members received higher than assumed salary increases then there will be an **actuarial loss** as the liabilities will be higher than estimated.

Experience gains or losses may also arise each year due to other experience updates. For example, employers may choose to allow for inflation experience each year. This would result in an experience gain or loss depending on how pension increase experience compared to what was assumed at previous accounting dates.

What is the change in assumptions?

This is a combination of the impact on the value of the liabilities due to any changes in the financial and demographic assumptions since the previous accounting date.

See the change in demographic assumptions and change in financial assumptions sections above for more detail.

Regulatory

What is the impact of the Lloyds judgment on past transfer values?

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and DLUHC on this.

What is the impact of the recent GMP indexation consultation response?

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

For details on our standard assumption for GMP, please see the latest briefing note.

Does the McCloud/Sargeant judgment have any impact on LGPS liabilities?

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

On 13 May 2021 the Government issued a ministerial statement on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases relating to age discrimination. The statement confirms that changes will be made to the LGPS Regulations to compensate members directly affected by the change to career average benefits from 1 April 2014. Draft regulations are expected in 2023 and are expected to come into force on 1 October 2023.

The potential cost of the judgment on employers' liabilities is very much dependent on the membership profile of the employer and assumed future salary increases. For example, an employer with a high proportion of active members with service in the remedy period and a high salary increase assumption is likely to be more affected than an employer with a low proportion of active members with service in the remedy period and a low salary increase assumption.

We have taken the view to include an allowance for the McCloud judgment in employers' accounting liabilities as a default unless the employer chooses to opt out. To estimate the cost of the remedy, we have estimated the equivalent final salary benefit that would have been earned instead of post 2014 CARE benefits by the active members since the 1 April 2014 Scheme reform (2015 for Scottish funds) up to 31 March 2022 (the date up to which the protections will apply). This approach essentially assumes that the draft remedy regulations will come into force.

Does the outcome of the Goodwin case have any impact on LGPS liabilities?

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

As this has just recently been announced, we do not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. Any indication of cost at this stage will only be a rough estimate as in most cases, funds will not have this information or data to hand. It is our understanding that the Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds.

At the time of producing this document, we do not yet have the results of GAD's review. However, it is our expectation that the impact on the value of LGPS liabilities as a whole, and for the majority of employers participating in the LGPS, will not be material. It is possible that the impact on individual employers will vary depending on their specific membership profile; although any cases resulting in a significant impact are likely to be few and far between.

Miscellaneous

Is the projected unit method being used?

Yes

How are investment expenses allowed for?

Investment expenses are included in the estimated Return on Fund assets. Therefore, the 'Return on assets less interest' element of the asset reconciliation includes allowance for investment expenses.

Investment expenses not included in 'Administration expenses' and are therefore not contained within in the Profit and Loss statement, however, as they are included in the 'Return on assets less interest', investment expenses are included in the Remeasurements in other comprehensive income.

What checks are carried out on the data underlying the liability calculations?

One of the key items of data underlying our calculations is the member data used for the starting point of the liability roll forward. The member data is generally that from the most recent funding valuation and therefore has been passed through a vigorous data checking process as part of the valuation. As the member data has been sufficiently cleansed for the purpose of the funding valuation, we believe it is also reasonable for the purpose of the accounting roll forward. The key checks carried out on the data include:

- Consistency of static member data items (such as sex and date of birth) to previous valuation
- Consistency of changeable member data items to previous valuation. For example:
    - Reasonable change in salary for active members
    - Reasonable level of accrual for active members
    - Deferred and pensioner member pensions have increased as expected based on LGPS pension increases
- Reconciliation of employer membership to ensure that all previous members accounted for (or no longer in data as expected) and new members look reasonable

How is the employer's duration calculated?

The employer's duration is estimated using the Macaulay duration and this is calculated using membership data from the latest triennial valuation.

The employer duration is recalculated at the accounting date to reflect the financial assumptions at the accounting date, using the data from the latest triennial valuation.

What commutation factor is used in the calculations?

A commutation factor of 12 is adopted for our calculations in line with the benefit structure set out in the LGPS Regulations.

NEWARK & SHERWOOD DISTRICT COUNCIL

Report to:	Audit & Governance Committee Meeting 6 April 2023
Director or Business Manager Lead:	Nick Wilson, Business Manager Financial Service
Lead Officer:	Andrew Snape, Assistant Business Manager Financial Services, ext 5523

Report Summary	
Report Title	*UNDERLYING VALUATION ASSUMPTIONS FOR 2022/2023 STATEMENT OF ACCOUNTS*
Purpose of Report	*To provide Members with information regarding the assumptions made by the Valuers in calculating the figures to be reported in the 2022/23 Statement of Accounts, as per the revaluation model approach taken by the Council under IAS 16 (International Accounting Standard 16 – Property, Plant and Equipment).*
Recommendations	*Members note and approve the assumptions used in the calculation of asset valuation figures for 2022/2023.*

1.0 Background

1.1 IAS 16 – Property, Plant and Equipment is one of the financial reporting standards with which the Council must comply with when producing its annual Statement of Accounts.

1.2 IAS 16 outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost and is then subsequently measured using a revaluation model. Under the revaluation model, the assets are included in the Balance Sheet at current value on the basis recommended by CIPFA and in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors (RICS).

1.3 Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum once every five years.

1.4 The Council appointed an external valuation consultant, Wilks Head and Eve, who performed the independent valuation of the list of assets. Attached at **Appendix A** is their valuation report, on assets excluding the Council Dwellings, which includes all their assumptions used to ascertain a valuation figure.

1.5 The list of assets, excluding the Council Dwellings, which have been identified for revaluation during 2022/23 is attached at **Appendix B.**

1.6 The Council's dwelling assets are revalued every year due to the volatility and the group value of the assets nature. Each financial year a desktop review will be undertaken to account for the changes in the valuations, however once every five years a full revaluation will take place on a beacon basis. Financial year 2022/23 is the fifth year since a full revaluation so therefore the requirement is for a full revaluation on a beacon basis for the Council Dwellings. Attached at **Appendix C** is their valuation report which includes all their assumptions used to ascertain a valuation figure.

Background Papers and Published Documents

Nil

Valuation Report

IN RESPECT OF VALUATION OF LAND AND PROPERTY ASSETS FOR

NEWARK & SHERWOOD DISTRICT COUNCIL

2022/23 FINANCIAL PERIOD

Issued On: 28/03/2023

Valuation Date: 31/03/2023

Wilks Head & Eve LLP, Third Floor, 55 New Oxford Street, London, WC1A 1BS

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WILKS HEAD & EVE
CHARTERED SURVEYORS AND TOWN PLANNERS

TABLE OF CONTENTS

SECTION ONE - INTRODUCTION

EXECUTIVE SUMMARY

This report refers to the valuation of the properties identified by the Authority under the revaluation programme for the 2022/23 financial period.

The purpose of this Valuation Report is to provide valuations for financial reporting purposes.

We confirm that this work has been undertaken in an impartial and independent manner and the results have not been influenced by the Authority.

The Valuer has arrived at their opinion of Current Value and Fair Value from referring to recent comparable market transactions.

For Specialised properties, the Current Value has been derived using Depreciated Replacement Cost methodology.

We have advocated a clear and transparent valuation process to provide valuations as part of the adoption of IFRS compliant accounting process.

We have set out the detailed methodology adopted within this report to allow the client Authority, its lead officers, and the external auditors to follow the way in which we undertook the process.

This signed valuation report is the ultimate result of this instruction.

Valuation data has also been provided in a digital and summarised format. This data forms an integral part of this valuation process and separately identifies each asset valued.

All extract or summary data provided for management information should be read in conjunction with the assumptions contained in the CIPFA Code, the RICS Valuation Standards and our Valuation Report.

PROCESS

The Valuer and the Authority agreed a process timetable:

- Determination of valuation assumptions
- Data collection
- Inspection protocol
- Valuation and initial reporting date
- Consideration of process and final reporting process
- Contingency timetable for process slippage
- Audit Support methodology and timescales

In this case, it was possible to work with lead officers within the Authority to achieve these process outputs.

SECTION ONE - INTRODUCTION

Our draft valuation results were forwarded to the Authority in advance of the final report, and this allowed a review process between the Authority and the Valuer to take place.

VALUATION STATEMENT

We are of the opinion that as at 31st March 2023, the Gross Valuations of the Councils interest in the properties identified for re-valuation (as per instructions), are as follows:

- £XXX,XXX,XXX.
- (Words, Words and More Words pounds).

It is important to note that the above values reflect the total gross values of the properties selected for revaluation by the Authority and may not represent the full values of the overall portfolio(s).

All prices or values are stated in pounds sterling.

As mentioned above the individual Gross, Residual and Depreciable values are included and provided electronically in excel format and should be read in conjunction with this report.

These excel documents are appendices to the report.

These individual sheets and summary also include our opinion of Weighted Average Remaining Useful Life.

We certify that this valuation report fulfils the requirements of the RICS and in terms of the application of IFRS Code for your revenue accounting purposes.

G S C Harbord MA MRICS IRRV (Hons), (Partner), an RICS Registered Valuer

AMWilliams reviewed by A M Williams Dip BSc (Hons) MRICS FIRRV REV RICS Registered Valuer

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

IDENTIFICATION AND STATUS OF THE VALUER

The valuations have been carried out by:

- G S C Harbord MA MRICS IRRV (Hons), RICS Registered Valuer, Partner

The report was subject to the internal audit by our in house RICS qualified Partners:

- A M Williams Dip BSc (Hons) MRICS FIRRV REV
- M S Aldis Bsc (Hons) MRICS, IRRV (Hons)
- S O'Neill Bsc (Hons) MRICS IRRV.

We confirm that all surveyors involved in the instruction are RICS Registered Valuers have complied with the requirements of PS1 and PS2.

We also confirm that all surveyors are suitably qualified and experienced for the purposes of the instruction and have sufficient current local and national knowledge of the markets applicable to the assets valued within this report in addition to the necessary skills and understanding to undertake the valuations competently.

Wilks Head & Eve LLP have been carrying out Asset Valuations for financial reporting purposes since 2018 for Newark & Sherwood District Council and we can confirm that we are independent from the Authority and 'external Valuers' in this instance.

Wilks Head & Eve LLP work within the RICS Rules of Conduct as a regulated firm and members and have procedures in place for identifying conflicts of interest and can confirm there is no such conflict in this instance with either the properties valued, the client, or because of any wider relationship.

Wilks Head & Eve LLP operates a Valuer Rotation Policy in accordance with the RICS Valuation Global Standards. To confirm, we understand that the use of a consistent Valuer over a long period of time may lead to over familiarity which may lead to potential objectivity issues. We both rotate Valuers within in line with the Standards and have implemented internal valuation policies and practices to minimise and mitigate this point.

We can also confirm that in relation to Wilks Head & Eve LLP previous financial year the proportion of total fees paid by Newark & Sherwood District Council to the total fee income of Wilks Head & Eve LLP would be considered minimal (i.e. less than 5%).

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

IDENTIFICATION OF THE CLIENT AND OTHER INTENDED USERS

WH&E have been instructed by

- Client: Newark & Sherwood District Council.
- Client Address: Council Offices, Castle House, Great N Road, Newark on Trent, Newark, NG24 1BY.
- Contact: Andrew Snape.

No other parties other than the client may rely upon the valuation information provided.

PURPOSE OF THE VALUATION

Wilks Head & Eve LLP have completed valuations of assets selected for valuation by the Authority as per their relevant program.

These assets are located within the Authorities general fund portfolio and are listed in full within the separately appended 'reporting summary' document.

The valuations supplied have been prepared specifically to meet financial reporting requirements and should not be used in any other context.

Unless otherwise stated, the assumption has been made that the properties valued will continue to be in the occupation of the Authority for the foreseeable future having regard to the prospect and viability of the continuance of that occupation.

Where Existing Use Value may differ from Market Value a comment has been provided within the individual valuation.

IDENTIFICATION OF ASSETS TO BE VALUED

The Authority determined that certain assets required revaluation.

These included both freehold and leasehold assets under the following groupings:

- Assets which were due for revaluation under a determined revaluation cycle

If any value significant changes occur to assets held within the portfolio after this report is prepared, and a valuation is required, it may be that a separate valuation and report will need to be completed – usually in the form of a Material Change Report.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

DATE OF VALUATION

Further to instructions from the client we have agreed to report the valuations at the following valuation date:

- 31st March 2023

EXTENT OF INVESTIGATION

Further to the instructions from the Authority we have inspected selected assets as part of this exercise.

The inspections were completed between DATE and DATE.

Assets which require a valuation are inspected at intervals of no more than five years as outlined within section '4.1.2 Accounting requirements' of the CIPFA Code.

SOURCES OF INFORMATION

For the purposes of this report the Valuer has had to rely upon information regarding the properties provided to us by the Authority and the valuations are dependent on the accuracy of the information supplied and / or the assumptions made.

Information supplied by the Authority includes:

- List of assets requiring a valuation
- Site and Floor Plans
- Floor and Site areas
- Tenure Details
- Rental Schedule

In addition, the Valuer has completed additional research in relation to the portfolio from our own records in addition to other third-party resources including, Egi, Focus, Rightmove, regional market reports, local agents, and BCIS cost data.

If this information proves to be incorrect or inadequate, then they could affect the accuracy of the valuations. It is assumed that these floor areas meet the requirements of the RICS professional statement – RICS property measurement which incorporates IPMS.

The Valuer has not inspected all Title Deeds or any Planning Consents, Statutory Notices, licenses, or other documents relating to the properties (except where indicated). We cannot therefore comment upon the possible effect of any outstanding Statutory Notices, or any contravention of any statutory requirements, or the effects of the Defective Premises Act (1972).

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

IFRS 13 FAIR VALUE – INVESTMENT AND SURPLUS ASSETS

Authorities shall account for investment property in accordance with IAS 40 Investment Property and should be valued to 'Fair Value'.

The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

In addition to arriving at the 'Fair Values' for the assets, IFRS 13 seeks to increase consistency and comparability within the valuation process which has been achieved through a 'Fair Value hierarchy'.

The hierarchy categorises the inputs used in to three levels and the Fair Value category is applied based on whether the Valuer has used more observable or unobservable inputs within the valuation.

In the case of the Authority there are no assets which have been categorised as either Investment Properties or Surplus assets. Therefore, no assets have been valued at Fair Value.

VALUATION BASIS

The Valuer has completed the valuation report in accordance with the following guidance relating to asset valuation for capital accounting purposes:

- Chartered Institute of Public Finance and Accounting Code of Practice on Local Authority Accounting in the United Kingdom ('The CIPFA Code') – 2022/23.
- International Financial Reporting Standards (IFRS).
- Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards (issued November 2021 and effective 31 January 2022) and the RICS Valuation – Global Standards 2017: UK National Supplement (issued November 2018 and effective from 14 January 2019)

In addition, the Valuer has prepared the valuations in accordance with the RICS Global Standards 2017: UK National Supplement – UK VPGA 4 Valuation of local authority assets for accounting purposes.

This UK Valuation Practice Guidance Application sets out the basis of value for all property assets in line with the CIPFA Code.

Apart from infrastructure, community assets and assets under construction, the Code sets out that the basis of value for all property, plant and equipment assets is to be current value.

There are four measurement approaches to calculating current value in the Code:

- **For operational property, plant, and equipment:**
    - Existing Use Value (EUV) in accordance with the definitions in UK VPGA 6 and guidance in the Code

  - Existing Use Value – Social Housing (EUV-SH); in accordance with the definition in UK VPGA 7 and guidance in the Code
- **For specialised assets**
  - Depreciated Replacement Cost (DRC) in accordance with UK VPGA 1.5 (see also RICS UK guidance note Depreciated Replacement Cost method of valuation for financial reporting, 1st edition)
- **For surplus assets**
  - Fair Value as defined under IFRS 13 and as adopted by the Code.

Investment Property is to be valued at Fair Value.

Assets Held for Sale are to be valued at the lower of their carrying value and Fair Value as appropriate to the measurement requirements of the Code.

We have provided (where appropriate) Fair Value valuations for these assets and we understand that these will be cross referenced with carrying values held by the client.

Heritage assets are to be measured at valuation (or cost). These valuations may be made by any method that is appropriate and relevant.

Infrastructure, community, and assets under construction are to be measured at historical cost.

For depreciation purposes assets are to be recognised on a component basis, where components have a significant cost in relation to the total cost of the asset.

In practice this can be achieved by separately accounting only for significant components that have materially different asset lives, or where different depreciation methods are used.

The Valuer's role is to aid on the identification and classification of assets and, essentially, to provide the Current Value or Fair Value of those assets.

No allowance is made for any costs of sale or any liability for taxation, including VAT, which may arise on disposal.

VALUATION APPROACH AND REASONING

A) Property, Plant & Equipment (PPE) Assets

- Current Value – EUV
  - In respect of Operational, Non-Specialised Properties, classified as PPE assets, the Current Value has been interpreted as the amount that would be paid for the asset in its existing use. The Valuer has met this requirement by providing a valuation based on EUV in accordance with UK VPGA 6.
  - EUV is defined in the Red Book under UK VPGA 6 as:

   - 'The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.'
   - For these purposes EUV ignores any element of hope value for an alternative use or any value attributable to good will.
   - EUV assets have been valued, with reference to market-based evidence, via the comparative method of valuation via the Market (comparative method) or Income (profits method) approaches.
   - Further to our instructions for assets valued under a EUV approach; the gross value has been apportioned between land and building elements (residual and depreciable). Remaining useful life elements have also been provided for each asset. It is important to note that the apportionments are provided solely for accounting purposes and do not represent formal valuations of the separate elements. They should not be relied upon for any other purpose.
   - Where EUV may be materially different to MV a comment has been provided within the individual valuation sheet.

- Current Value – DRC
   - In respect of specialised properties, the Valuer has adopted the DRC method of valuation to assess Current Value in existing use.
   - The Valuer has provided these valuations in accordance with the Red Book under; UK VPGA 1. 5 in addition to Depreciated replacement cost method of valuation for financial reporting, 1st Edition (November 2018).
   - DRC is defined as:
   - 'The current cost of replacing an asset with its modern equivalent less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.'
   - For each asset valued under the DRC approach the Gross Replacement Cost (GRC) of providing a new modern equivalent asset has been assessed.
   - This GRC has then been adjusted to reflect obsolescence to arrive at the Net Replacement Cost.
   - Unless specifically noted within the valuation it has been agreed with the client that the current floor areas of the assets valued are representative of the modern equivalent asset for these purposes.
   - Replacement costs have been arrived at with reference to the RICS BCIS Cost guides which are published by the RICS and have been adopted relevant to the valuation date.
   - An additional allowance has been reflected within the valuation for the Externals element which has been applied on a per property basis based on an analysis of construction projects within the RICS BCIS database.
   - Depreciation & Obsolescence

- The Valuer has determined an appropriate scaling for depreciation which relates to the physical deterioration, function, and other economic factors for each asset valued.
- The Valuer, with reference to the 'Red Book', IFRS and the CIPFA Code, has adopted a reducing balance approach in applying obsolescence to assets valued on a DRC basis assuming an initial asset life of 60 years.
- Under this methodology, a form of straight-line depreciation occurs over the first 25 years of the asset life from construction date (with no deferral period).
- This shift in application of obsolescence once the 25-year period is reached represents our professional judgement as to where physical deprecation rates of certain components are at their limit and an assumption is that routing repair and maintenance would be carried out. This expected future repairs and maintenance through capital expenditure prolongs the physical depreciation of the assets within the portfolio.
- However, these assets continue to become physically, functionally, and economically obsolete, so the calculation applied based on 'age' and 'life' ensures obsolescence still increases but at a slower rate past the soft threshold.
- Therefore, after 25 years depreciation continues to be applied at a reducing rate.
- The 25-year timeframe has been determined via a professional judgement informed by our componentisation research as is considered appropriate and reflective in this instance.
- In addition, each asset valued is subject to review. For example, where there has been reported material capital spend this will be reflected in the obsolescence applied or, alternatively if we are aware an asset has fallen into considerable disrepair then adjustments will also be made either through known costs or our judgement.
- This approach represents our professional judgement as an appropriate measure of application for assets operated within a Public Sector portfolio wherein initial expected asset lives are often extended via capital expenditure.
- This approach is also in line with the reducing balance guidance outlined within the Depreciated replacement cost method of valuation for financial reporting, 1st Edition (November 2018).
- Discussions are held with the clients on quality and condition of assets which are cross referenced with our inspection findings (where appropriate).
- In conjunction with the above it is important to note that each asset valued is assessed separately and a 'stand back and look' approach adopted.
- In some cases, because of this review it has been agreed that a higher or lower percentage should be applied based on individual circumstances.
- Examples of these variations would include assets where there are known structural defects or assets which have been subject to comprehensive refurbishment or assets which are technologically obsolete or have timeframes for demolition.

- Land Values
  - The Valuer arrived at the land values with reference to Depreciated replacement cost method of valuation for financial reporting, 1st Edition (November 2018).
  - Specific reference has been made to: 'Section 7 – The site value of a specialised property' and this has been taken into consideration.
  - The land calculation has therefore been arrived at via two separate calculations, one for the developed land area and one for the un-developed land area (where appropriate).
  - In line with this guidance the Valuer has arrived at its estimate of the developed land area based on what it may cost to acquire each site in the market at the relevant valuation date.
  - This may be based on EUV, estimating the cost of purchasing a notional replacement site in the same locality on the basis that the site is suitable.
  - Where the site is determined to be too specialised in market terms the Valuer has referred to the potential range of uses which are appropriate for the locality of that site.
  - For these purposes it was agreed with the client that the modern equivalent assets would remain on the current site in relation to the developed areas.
  - This estimate varies dependent on the location of each asset and as outlined within the guidance there are practical difficulties in determining from what planning use it is appropriate to draw the sales comparison and it may mean that a potential service purchaser would need to compete with other potential alternative uses for the land.
  - The resulting conclusion is that the Valuer has established, in their professional view, what is the most appropriate amount that a prudent purchaser would pay to acquire a site for an equivalent development in a relevant location at the valuation date.
  - For un-developed land areas, predominately comprising Playing Fields or areas of amenity land, the Valuer has provided the value (where appropriate) based on their professional opinion of prevailing amenity land values for the location at the valuation date as outlined within the Depreciated replacement cost method of valuation for financial reporting, 1st Edition (November 2018).
- DRC Valuations are subject to the prospect and viability of the continued occupation and use.
- Due to the specialised nature of these properties the value estimated using the DRC method is not based on the evidence of sales of similar assets in the market.
- See paragraph below in the Departures section in relation to "Instant Build".

B) Investment, surplus and assets held for sale.

- Fair Value
  - In respect of Investment, surplus and assets held for sale the valuations have been reported using the IFRS 13 definition which is set out in the Red Book under VPS 4 Paragraph 7, Fair Value as:

        - 'The Price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.'
    - But while fair value for financial reporting, whether under IFRS or under UK GAAP, is defined using slightly different language from that in the IVS market value definition (see VPS 4 section 4), the underlying concept is essentially the same.
    - In most cases the figure to be reported as the fair value of an asset is also that which would be reported as its market value.
    - VPS 4 section 4 which defines Market Value as:
    - 'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'
    - Where appropriate for assets valued to Fair Value (surplus assets) the gross value has been apportioned between land and building elements (residual and depreciable). Remaining useful life elements have also been provided for each asset. It is important to note that the apportionments are provided solely for accounting purposes and do not represent formal valuations of the separate elements. They should not be relied upon for any other purpose.

C) Social Housing

- Where housing held for social housing purposes are held within the general fund portfolio these have been valued to Current Value via the Existing Use Value for Social Housing (EUV-SH) basis as defined within UK VPGA 7.

Full valuation definitions are included within Section 3 of this report.

DEPARTURES

In addition to the above commentary in relation to the DRC method of valuation it should be noted that that paragraph 4.1.2.7 of the Code sets out that Valuers should adopt the 'instant build' approach when producing DRC valuations and states that:

- 'Where DRC is used as the valuation methodology, authorities should use the "instant build" approach at the valuation date.'

The 'instant build' approach means that finance costs are excluded from the valuation.

The Red Book does provide guidance on this issue within section 1.5 of DRC method of valuation for financial reporting, 1st Edition:

- 'where DRC is used for valuations in the public sector, there may be specific requirements within the rules governing those valuations that amend specific parts of this guidance. Such specific requirements take precedence over this guidance note'.

This departure note would allow the Valuer to amend the defined DRC valuation method.

Further to the above and general auditor's comments we have received we have provided these valuations on the instant build approach.

IMPAIRMENT

As a consequence of the valuation process, we are aware that our valuation opinion provides a revaluation of existing properties already contained and included within your asset portfolio for capital accountancy purposes.

The valuation procedures place a requirement upon the independent external Valuer to comment upon any value significant effects which may have influenced values in the area since the last valuation process over and above the general movements in the marketplace.

In particular, an emphasis is placed to note any "Trigger" events which may have affected value in a drastic or unexpected way. These events may lead to a general "impairment" or indeed "betterment" in values for your portfolio, or specific elements therein.

The review process for the Valuer in these terms places a duty to review whether the proportion of the portfolio, not valued directly, has been affected by impairment and not addressed otherwise since our, or others, last valuation, or market review.

We carry out Market Reviews on 31st March in each year (closing book date), if required by the Authority, which covers this aspect and therefore these elements are not specifically covered within the report unless noted within the individual valuation.

However, for this report it is worth noting that following the EU referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit.

At the time of preparing this commentary, the UK has now officially left the EU and the transition period has come to an end as of 31st December 2020.

Whilst the deal provides a more certain position in relation to the UK's future relationship with the EU the full implications of the deal will take some time to realise.

We therefore remain in a period of uncertainty in relation to many factors that impact the construction markets and costs associated with this market.

In any event we are now in a period of uncertainty in relation to many factors that impact the property investment, construction and letting markets.

In addition to the general uncertainty because of the changes to the UK and EU relationship the outbreak of Novel Coronavirus (COVID-19) is also relevant.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

As at the time of preparing this report the outbreak of COVID-19, declared by the World Health Organisation as a “Global Pandemic” on the 11th of March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity.

Nevertheless, as at the report date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.

Finally, the recent Russian invasion of Ukraine has added to the levels of global uncertainty.

As a response the international community has been united in applying sanctions against the Russian state which is now reported to be having an impact on the Russian economy. The reliance on energy resources may lead to wider implications across Europe although this may be more relevant over the coming months.

As at the valuation date we are not aware of any specific impact on the value of the assets within the portfolio because of the invasion although we will continue to monitor as the crisis develops.

Given the unknown future impact of the areas covered within this section we would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should you wish to affect a disposal.

Accordingly, and for the avoidance of doubt, our report is not reported as being subject to ‘material valuation uncertainty’ as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

COMPONENTISATION

The Valuer has provided componentised valuations within the report.

The CIPFA Code provides a useful description to the concept of component accounting:

IAS16 says “each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately”.

The application of accounting for components applied from 1st April 2010.

The Valuer has analysed as much comparable build cost data applicable to the portfolio as possible.

The approach assumed that the costs for a particular build type when analysed would allow the Valuer to identify suitable major components present in assets represented within the Local Authority portfolio.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

At the outset, the Valuer has sought to determine the components, the percentage attributable to that component of overall building cost, and the relative lifespan of that component over which to depreciate for each class of property type valued in the portfolio.

The resulting information, presented as a representative "Beacon", has then been applied to all similar properties within the portfolio and a suitable analysis carried out to determine a policy for what constitutes a "major component" and to inform the level of materiality at a component level.

As a result of the investigations, it was not always possible to use actual build cost data from the specific Local Authority portfolio. The Valuer has been able to gather relevant data from WHE's existing client portfolio, which includes other Local Authorities, but took the view that it was more reliable to use information from the Building Cost Information Service of RICS (BCIS) which has provided specific build cost data already analysed on a common approach for comparable property types within England and Wales.

As a result of the analysis the Valuer has been able to apply several componentisation property descriptions to the portfolio. For each of these property descriptions, a beacon property summary has been produced.

The analysis of data has resulted in new build property evidence to represent components by percentage of the overall assets and full life estimates for those components where appropriate.

The full life estimates for these key components have been determined from the information provided by market manufacturers, client data supplied for this purpose and from our research in the BCIS costing indices.

This approach is in line with the outline approaches within the IFRS, CIPFA and RICS guidance.

ADDITIONAL COMMENTS

It may be that further report(s) and valuations are necessary to reflect any in year changes to assets within the portfolio not valued and covered by this report to ensure that carrying figures are appropriate for the final day of the accounting period, 31st March 2023.

These circumstances may include material changes and new acquisitions and if required would be reported separately to this report.

AUDIT SUPPORT

We expect that as part of the valuation process, we will be required to provide certain additional explanation and assistance to the Authority where the process will be subject to audit.

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

SPECIAL ASSUMPTIONS

We are not aware of any special assumptions.

ASSUMPTIONS

- **Planning Proposals**
  We have not made formal written enquiries of the Local Authority Planning Departments to ascertain if there are any adverse proposals likely to affect specific properties. We are instructed, however, that for the purposes of this Valuation Certificate, we should assume that there are no planning proposals that are likely to have an effect on the value of the properties unless these were specifically notified to us.

- **Construction and State of Repair**
  Structural / Condition surveys have not been undertaken of the properties nor have the service installations been tested.

  We have not carried out a structural survey nor have we inspected those parts of the properties that are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts.

  No allowances have been made for rights, obligations or liabilities arising from the Defective Premises Act 1972.

  Unless we are aware that a specific property has a limited economic life, we have assumed that the assets are at a suitable level of condition for service provision, and that all internal and external repairs and maintenance have been carried out. We have assumed that these repairs do not constitute improvement to the properties and do not have a material effect on asset value.

- **Hazardous or Deleterious Materials**
  We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this report, we have assumed that such investigation would not disclose the presence of any such material in any adverse condition.

- **Contaminated Land**
  We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially

contaminative uses have ever been carried out on the property. We have not carried out any investigation into past or present uses either of the properties or of any neighbouring land to establish whether there is any potential for contamination from these sites to the subject property and have therefore assumed that none exists.

Should it however be established subsequently that contamination exists at any of the properties or any neighbouring land or that the properties have been or are being put to a contaminative use this might reduce the values now reported.

- **Plant and Machinery**
  Any plant and machinery that has been considered to form part of the property or service installations is included in the valuation. Where there is doubt as to the correct classification, assets installed primarily to provide services to the properties have been valued with the land and buildings and assets primarily serving the commercial or industrial process have been excluded. Any departure from this is stated on the relevant Valuation Statement.

- **Lotting**
  Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if several properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.

- **Taxation**
  No allowance has been made for liability for taxation which may arise on disposal, whether actual or notional. Where possible VAT and Capital Gains Tax are specifically excluded, and our valuation does not reflect costs of realisation unless specifically requested by the client. No additions have been made for Stamp Duty Land Tax (SDLT).

- **Acquisition and Disposal Costs**
  No notional directly attributable acquisition costs or selling costs have been applied to or deducted from the Current Value and Fair Value figures provided within this report.

  For indicative purposes only, the Valuer would expect purchaser's cost to be in the region of 0.5% and 5.0% (plus or minus) dependent on the overall value of the asset and property type on an acquisition or disposal, respectively.

  The Valuer has made no allowance for any vendor's costs or taxation (actual or notional) nor has any allowances been made for any capital or annual grants or incentives to which a purchaser may be entitled.

  The Valuer has not been asked by the client to specifically reflect these costs separately. Guidance on this matter is provided within UKVS 1 Paragraph 1.7 - Costs to be excluded of the Red Book:

- The valuer must not include directly attributable acquisition or disposal costs in the valuation. When asked by the client to reflect costs, these must be stated separately.
- In determining the figure to enter into the balance sheet (the 'carrying amount'), FRS 15 requires the addition of notional, directly attributable acquisition costs, where material, to the EUV. Likewise, where property is surplus to the entity's requirements and valued on the basis of market value, there should be a deduction for expected, directly attributable selling costs, where material. If requested to advise on these costs, the Valuer should report them separately and not amalgamate them with either the EUV or market value. The valuation should reflect the Valuer's opinion of the consideration that would appear in the hypothetical sale and purchase contract.
- FRS 15 states that directly attributable costs can include stamp duty, import duties and non-refundable purchase taxes, as well as professional fees, the Valuer is alerted to a potential problem with a property that would, or would potentially, be subject to VAT in any transaction but the entity may not be able to reclaim the VAT. The decision whether or not to treat this as a directly attributable acquisition cost should be determined by the entity, together with its auditors. Even if this is the case the Valuer should state clearly in the report what assumptions have been made and the likely impact of VAT in any transaction.
- In the case of surplus properties, directly attributable selling costs that are material may need to be itemised separately. If this is the case, they will include not only the transaction costs but also any marketing costs that can be reasonable anticipated.

- **Energy Performance Certificates**
  In England and Wales, the Energy Performance of Buildings Directive requiring Energy Performance Certificates (EPC) is relevant.

  This directive requires all properties to have an Energy Performance Certificate (EPC) covering the residential and commercial sectors. The Certificate is valid for ten years and includes an Energy Efficient Rating of between A and G.

  Since 26th March 2015, the minimum energy efficiency standard (MEES) has been introduced.

  This minimum standard applies to both domestic and non-domestic property and from 1st April 2018 Landlords have been unable to let an F or G rated commercial property on a new or renewed tenancy / lease.

  From 1st April 2020, the regulations apply to all property leases, initially for domestic properties, and then in 2023 non-domestic properties too.

  Exceptions include leases of less than six months and leases of longer than 99 years as well as listed buildings.

  For these purposes we have assumed that all properties valued within the portfolio meet the E or higher required rating for letting purposes. Exceptions will be clearly identified within the valuation as a result of current client data being provided.

- **Sustainability**
  We consider sustainability and environmental issues as part of the valuation process. This includes the guidance outlined within the RICS guidance note 'Sustainability and ESG in commercial property valuation and strategic advice 3rd Edition - December 2021' which is effective from 31st January 2022.
  The role of the Valuer is to assess and report value in light of the evidence obtained. The Red Book Global Standards VPGA 8 section 2.6 (c) states:
  > *'While Valuers should reflect markets, not lead them, they should be aware of sustainability features and the implications these could have on property values in the short, medium and longer term'.*

  From a valuation perspective we therefore recognise that Sustainability has an impact on the value of an asset implicitly and/or explicitly and where relevant/possible these have been reflected in the valuations completed.

- **Deminimis Levels of Value**
  Only those properties the value of which is considered likely to exceed the "deminimis" level of value determined by The Authority are included separately in this valuation. In all cases, we have included the valuation within the main body of the report as well as summarising them in letter format even if the Authority chooses not to include these within their financial statements.

AUDIT COMMENTARY

Our valuation methodology and assumptions evolved from ongoing instructions since 1992 when the current accounting requirements were introduced.

Our working processes are audited through our External Certification Body, DNV Business Assurance UK Limited on an annual basis to achieve our ISO 9001:2015 accreditation.

The valuation report and results are reviewed by the client accountant and estates teams before we issue the final version of the report.

NON-PUBLICATION CLAUSE

Neither the whole nor any part of this report nor any reference thereto may be included in any published document, circular or statement nor published in any way without the previous written approval of Wilks Head and Eve as to the form and context in which it may appear.

Our letter of consent will be given when a final proof of the document is available, and the consent will refer to a specimen annexed and signed as identification of what has been approved.

As such publication of, or reference to, this report will not be permitted unless it contains a sufficient contemporaneous reference to any departure from the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards.

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

This report is provided for the stated purpose and for the sole use of the named client and their professional advisors and the Valuer accept no responsibility whatsoever to any other person.

VALUATION DEFINITIONS

Full definitions are outlined below:

Definition of Existing Use Value (EUV) – UK VPGA6 Local authority and central government accounting: existing use value (EUV) basis of value

Valuations based on EUV should adopt the following definition:

'The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.'

1. Existing use value (EUV) is to be used only for valuing property that is owner-occupied by an entity for inclusion in financial statements. The definition of EUV is taken from the wording of the market value definition with one additional assumption and a further requirement to disregard certain matters. In practical terms, the definition of existing use value can be seen generally to accord with the conceptual framework of VPS 4, but with the following supplementary commentary:

2. **'…the buyer is granted vacant possession …'**
   The assumption that vacant possession would be provided on acquisition of all parts of the property occupied by the business or 'reporting entity' does not imply that the property would be empty, but simply that physical and legal possession would pass on completion. Any parts of the property occupied by third parties should be valued subject to those occupations. Properties occupied by employees, ex-employees, or their dependants should be valued with regard to the circumstances of their occupation, including any statutory protection. This assumption also means that it is not appropriate to reflect any possible increase in value due to special investment or financial transactions (such as sale and leaseback), which would leave the owner with a different interest from the one that is to be valued. In particular the covenant of the owner-occupier must be ignored.

3. **'…of all parts of the property required by the business …'**
   If parts of the property are unused and are surplus to the operational requirements of the business, their treatment will depend on whether they can be sold or leased separately at the valuation date. If they can be occupied separately, they should be allocated to a separate category as surplus property and valued on the basis of market value. If separate occupation is not possible, any surplus parts would have no more than a nominal EUV, as they would contribute nothing to the service potential of the property and would not feature in a replacement at least cost.

4. **'…disregarding potential alternative uses …'**
'Existing use', in the context of EUV, means that the valuer should disregard uses that would drive the value above that needed to replace the service potential of the property. An entity seeking to replace this potential at least cost will not buy a property if its value has been inflated by bids from other potential occupiers for whom the property has greater value because of alternative uses or development potential that are irrelevant to its own requirements.
The valuer should therefore ignore any element of 'hope value' for alternative uses that could prove more valuable. However, it would be appropriate to take into account any value attributable to the possibility of extensions or further buildings on undeveloped land, or redevelopment or refurbishment of existing buildings, providing that these would be required and occupied by the entity, and that such construction could be undertaken legally and without major interruption to the current operation.

5. **'…disregarding … any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.'**
There are circumstances where it may be appropriate for the valuer to ignore factors that would adversely affect the market value, but would not be characteristic of a replacement. Examples include:

   - where an occupier is operating with a personal planning consent that could restrict the market in the event of the owner vacating
   - where the occupier holds the property under a lease and there are lease covenants that impose constraints on assignment or alternative uses
   - where a property is known to be contaminated, but the continued occupation for the existing use is not inhibited or adversely affected, provided there is no current duty to remedy such contamination during the continued occupation
   - where an industrial complex is overdeveloped, and the extra buildings have either limited the market value or detracted from it, but would need to be replaced to fulfil the service potential to the business
   - where the existing buildings are old and so have a limited market value, but would have a higher replacement cost to the business
   - where the property is in an unusual location, or is oversized for its location, with the result that it would have a low market value, but where the cost of replacing the service potential would be significantly greater and
   - where the market is composed solely of buy-to-let investors, but the valuer believes that the replacement cost (the price agreed between a willing vendor and willing owner-occupier purchaser) would be higher.

6. Any value attributable to goodwill should normally be ignored.

7. The fact that a large property may be in single occupation does not necessarily mean that it has to be valued on the assumption that only bids from other potential occupiers for the whole can be

taken into account. If the property is one where a higher value would be generated by the potential to divide it into smaller units for the existing use, this should be reflected in the valuation.

8. Many market valuations are based on the existing planning use of the property, which often, but not invariably, generates the highest value. Such valuations have sometimes been described as 'existing use valuations'. However, this is incorrect and they should properly be expressed as market values.
   It is emphasised that EUV is only to be used when valuing property that is occupied by the owners of the interest being valued for the purpose of their business, for inclusion in financial statements.

Definition of Fair Value (VPS 4 Section 7)

7.1 Fair value (the definition adopted by the International Accounting Standards Board (IASB) in IFRS 13) is:

- 'The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.'

7.2 The guidance in IFRS 13 includes an overview of the fair value measurement approach.

7.3 The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. It is thus sometimes described as a 'mark to market' approach. Indeed the references in IFRS 13 to market participants and a sale make it clear that for most practical purposes the concept of fair value is consistent with that of market value, and so there would ordinarily be no difference between them in terms of the valuation figure reported.

7.4 A fair value measurement requires an entity to determine all of the following:

- the particular asset or liability that is the subject of the measurement (consistently with its unit of account)
- for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use)
- the principal (or most advantageous) market for the asset or liability
- the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

7.5 Valuers undertaking valuations for inclusion in financial statements should familiarise themselves with the relevant requirements – see also VPGA 1.

Definition of Market Value (VPS 4 Section 4)

Market value is defined in IVS 104 paragraph 30.1 as:

- 'the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'

4.1 Market value is a basis of value that is internationally recognised and has a long-established definition. It describes an exchange between parties that are unconnected and are operating freely in the marketplace and represents the figure that would appear in a hypothetical contract of sale, or equivalent legal document, at the valuation date, reflecting all those factors that would be taken into account in framing their bids by market participants at large and reflecting the highest and best use of the asset. The highest and best use of an asset is the use of an asset that maximises its productivity and that is possible, legally permissible and financially feasible – fuller treatment of this particular premise of value can be found at section 140 of IVS 104.

4.2 It ignores any price distortions caused by special value (an amount that reflects particular attributes of an asset that are only of value to a special purchaser) or marriage value. It represents the price that would most likely be achievable for an asset across a wide range of circumstances. Market rent (see below) applies similar criteria for estimating a recurring payment rather than a capital sum.

4.3 In applying market value, regard must also be had to the requirement that the valuation amount reflects the actual market state and circumstances as of the effective valuation date. The full conceptual framework for market value can be found at paragraph 30.2 of IVS 104.

4.4 Notwithstanding the disregard of special value, where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the asset in the future, the impact of that expectation is reflected in market value. Examples of where the expectation of additional value being created or obtained in the future may have an impact on the market value include:

- the prospect of development where there is no current permission for that development and
- the prospect of marriage value arising from merger with another property or asset, or interests within the same property or asset, at a future date

4.5 The impact on value arising by use of an assumption or special assumption should not be confused with the additional value that might be attributed to an asset by a special purchaser.

4.6 In some jurisdictions a basis of value described as 'highest and best use' is adopted and this may either be defined by statute or established by common practice in individual countries or states.

Definition of Depreciated Replacement Cost – DRC method of valuation for financial reporting, 1st Edition.

2.3 The DRC method is a form of cost approach that is defined in the RICS Valuation – Global Standards 2017 (RB Global) Glossary as:

'The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.'

2.4 The DRC method is based on the economic theory of substitution. Like the other forms of valuation (market approach, income approach) this cost approach involves comparing the asset being valued with another.

However, DRC is normally used in situations where there is no directly comparable alternative. The comparison therefore has to be made with a hypothetical substitute, also described as the modern equivalent asset (MEA). The underlying theory is that the potential buyer in the exchange would not pay any more to acquire the asset being valued than the cost of acquiring an equivalent new one. The technique involves assessing all the costs of providing a modern equivalent asset using pricing at the valuation date.

2.5 In order to assess the price that the potential buyer would bid for the actual asset, valuation depreciation adjustments have to be made to the gross replacement cost of the MEA to reflect the differences between it and the modern equivalent. These differences can reflect obsolescence factors such as the physical condition, the remaining economic life, the comparative running costs and the comparative efficiency and functionality of the actual asset. Land required for the MEA will be separately assessed as described in section 7.

2.6 DRC method of valuation for financial reporting, 1st Edition discusses factors that may need to be taken into account in assessing both the cost of a modern equivalent asset and the valuation depreciation adjustments applied to the actual asset.

Company Information

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Newark & Sherwood District Council
Asset Valuation 31st March 2023

WHE Ref Number	N&SDC Asset Reference	Address	Description	IFRS Categorisation	Valuation Method
8844/22001	B01104B/L	Newark Beacon	Business Centres	Property Plant & Equipment	EUV
8844/22002	B00306	Pelham Street Car Park	Car Parks	Property Plant & Equipment	EUV
8844/22003	B00320	Francklin Road/St. Mary	Car Parks	Property Plant & Equipment	EUV
8844/22004	B00322	Appletongate Private CP	Car Parks	Property Plant & Equipment	EUV
8844/22005	D00363	Land R/O Hawtonville Office	Car Parks	Property Plant & Equipment	EUV
8844/22006	B01002B/L	Rainworth Village Hall	Community Centres	Property Plant & Equipment	EUV
8844/22007	B01005B/L	Bridge Com Centre Lincoln Rd	Community Centres	Property Plant & Equipment	EUV
8844/22008	B01007B	Hawtonville Community Centre	Community Centres	Property Plant & Equipment	EUV
8844/22009	B00901L	Newark Livestock Market	Markets	Property Plant & Equipment	EUV
8844/22010	D00392B/L	33 Victoria Street	Other	Property Plant & Equipment	EUV
8844/22011	D00393	Land - Deans Close	other	Property Plant & Equipment	EUV
8844/22012	B00452B/L	Bilsthorpe Toilets Mickledale	Public Conveniences	Property Plant & Equipment	DRC
8844/22013	B00454	Toilets off Mansfield Road (rename Land at Mansfield Road - Toilet Covernant - Clipstone holding)	Public Conveniences	Property Plant & Equipment	DRC
8844/22014	D00387	Misc Land Church Lane	Other	Property Plant & Equipment	EUV
8844/22015	D00389	Misc Land Crew Lane	Other	Property Plant & Equipment	EUV
8844/22016	D00399L	Land at Dale Lane Blidworth	Other	Property Plant & Equipment	EUV
8844/22017		Clipstone Holding Centre - Purchased in 22/23		Property Plant & Equipment	EUV
8844/22018		London Road Library Gardens - Purchased in 22/23		Property Plant & Equipment	EUV
8844/22019	B01108B/L	Braemer Road Collingham	Garages	Property Plant & Equipment	EUV
8844/22020	B00801B/L	Alvey Road Garages	Garages	Property Plant & Equipment	EUV
8844/22021	B00806B/L	Hawton Lane Garages	Garages	Property Plant & Equipment	EUV
8844/22022	B00811B/L	Wolfit Avenue Garages	Garages	Property Plant & Equipment	EUV
8844/22023	B00812B/L	Front Street Garages	Garages	Property Plant & Equipment	EUV
8844/22024	B00813B/L	Lansbury Road Garages	Garages	Property Plant & Equipment	EUV
8844/22025	B00814B/L	North Drive Garages	Garages	Property Plant & Equipment	EUV
8844/22026	B00815B/L	The Green Garages	Garages	Property Plant & Equipment	EUV
8844/22027	B00816B/L	Valley Approach Garages	Garages	Property Plant & Equipment	EUV
8844/22028	B00818B/L	Ferndale Close Garages	Garages	Property Plant & Equipment	EUV
8844/22029	B00820B/L	Maid Marion Way Garages	Garages	Property Plant & Equipment	EUV
8844/22030	B00821B/L	First Avenue Garages	Garages	Property Plant & Equipment	EUV
8844/22031	B00824B/L	North Crescent Garages	Garages	Property Plant & Equipment	EUV
8844/22032	B00825B/L	South Crescent Garages	Garages	Property Plant & Equipment	EUV
8844/22033	B00826B/L	The Circle Garages	Garages	Property Plant & Equipment	EUV
8844/22034	B00829B/L	The Green Garages	Garages	Property Plant & Equipment	EUV
8844/22035	B00830L	Thorpe Close Garages	Garages	Property Plant & Equipment	EUV
8844/22036	B00832L	Valley View Garages	Garages	Property Plant & Equipment	EUV
8844/22037	B00833B/L	Bailey House Garages	Garages	Property Plant & Equipment	EUV
8844/22038	B00837B/L	Triumph Road Garages	Garages	Property Plant & Equipment	EUV
8844/22039	B00838B/L	Humber Lane Garages	Garages	Property Plant & Equipment	EUV
8844/22040	B00840B/L	Toad Lane Garages	Garages	Property Plant & Equipment	EUV
8844/22041	B00843B/L	The Meadows Garages	Garages	Property Plant & Equipment	EUV
8844/22042	B00845B/L	Pasture View Garages	Garages	Property Plant & Equipment	EUV
8844/22043	B00846B/L	Millfield Close Garages	Garages	Property Plant & Equipment	EUV
8844/22044	B00848B/L	Fir View Garages	Garages	Property Plant & Equipment	EUV
8844/22045	B00849B/L	Yew Tree Close Garages	Garages	Property Plant & Equipment	EUV
8844/22046	B00850B/L	De Lacy Court Garages	Garages	Property Plant & Equipment	EUV
8844/22047	B00851B/L	Alliance Street Garages	Garages	Property Plant & Equipment	EUV
8844/22048	B00852B/L	Bellmond Close Garages	Garages	Property Plant & Equipment	EUV
8844/22049	B00853B/L	Chatham Court Garages	Garages	Property Plant & Equipment	EUV
8844/22050	B00858B/L	Howes Court Garages	Garages	Property Plant & Equipment	EUV
8844/22051	B00860L	Lindsay Avenue Garages	Garages	Property Plant & Equipment	EUV
8844/22052	B00862L	Queens Court Garages	Garages	Property Plant & Equipment	EUV
8844/22053	B00867B/L	Tithe Barn Court Garages	Garages	Property Plant & Equipment	EUV
8844/22054	B00868B/L	Winthorpe Road Garages	Garages	Property Plant & Equipment	EUV
8844/22055	B00869B/L	Yorke Drive Garages	Garages	Property Plant & Equipment	EUV
8844/22056	B00870B/L	Seven Hills Garages	Garages	Property Plant & Equipment	EUV
8844/22057	B00871B/L	Cambridge Close Garages	Garages	Property Plant & Equipment	EUV
8844/22058	B00872B/L	Preston Road Garages	Garages	Property Plant & Equipment	EUV
8844/22059	B00873B/L	Whittaker Road Garages	Garages	Property Plant & Equipment	EUV
8844/22060	B00874B/L	Forge Close Garages	Garages	Property Plant & Equipment	EUV
8844/22061	B00875B/L	Allenby Road Garages	Garages	Property Plant & Equipment	EUV
8844/22062	B00876B/L	Burgage Close Garages	Garages	Property Plant & Equipment	EUV
8844/22063	B00877B/L	Coghill Court Garages	Garages	Property Plant & Equipment	EUV
8844/22064	B00878B/L	Kings Court Garages	Garages	Property Plant & Equipment	EUV
8844/22065	B00880B/L	Crow Park Ave Garages	Garages	Property Plant & Equipment	EUV
8844/22066	B00881B/L	The Meerings Garages	Garages	Property Plant & Equipment	EUV
8844/22067	B00882B/L	Manor Close Garages	Garages	Property Plant & Equipment	EUV
8844/22068	B00883B/L	Wellow Green Garages	Garages	Property Plant & Equipment	EUV
8844/22069	B00887	Francklin Road Garage Plots	Garages	Property Plant & Equipment	EUV
8844/22070	B00889	Abbey Road Garage Plots	Garages	Property Plant & Equipment	EUV
8844/22071	B00890	Deans Close Garage Plots	Garages	Property Plant & Equipment	EUV
8844/22072	B00891	Hawthorne Close Garage Plots	Garages	Property Plant & Equipment	EUV
8844/22073	B00892	Kirton Court Garage Plots	Garages	Property Plant & Equipment	EUV
8844/22074	B00893	Manor Close Garage Plots	Garages	Property Plant & Equipment	EUV
8844/22075	B00894	School Lane, Garage Plots	Garages	Property Plant & Equipment	EUV
8844/22076	B00895	Bellmond Close - part of Garage Site	Garages	Property Plant & Equipment	EUV
8844/22077	D00390	Allenby Road Garage Court	Other	Property Plant & Equipment	EUV
8844/22078	B00854	Eton Avenue Former Garages	Other Land	Property Plant & Equipment	EUV
8844/22079		Bowbridge Road Land - Purchased in 22/23	Other Land	Property Plant & Equipment	EUV

Valuation Report

IN RESPECT OF VALUATION OF PROPERTY ASSETS WITHIN THE HOUSING REVENUE ACCCOUNT

NEWARK AND SHERWOOD DISTRICT COUNCIL

2022/23 FINANCIAL PERIOD

Issued On: 28/03/2023

Valuation Date: 31/03/2023

Wilks Head & Eve LLP, Third Floor, 55 New Oxford Street, London, WC1A 1BS

Gharbord@wilks-head.co.uk

WH&E WILKS HEAD & EVE
CHARTERED SURVEYORS AND TOWN PLANNERS

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SECTION ONE - INTRODUCTION

EXECUTIVE SUMMARY

This report refers to Housing Revenue Account (HRA) portfolio valuations carried out for the Authority for accounting purposes for the 2022/23 financial period.

The purpose of this Valuation Report is to provide valuations for financial reporting purposes.

We confirm that this work has been undertaken in an impartial and independent manner and the results have not been influenced by the Authority.

The valuation of property assets held in the HRA is required by the Local Government and Housing Act 1989 Section 74.

Relevant guidance for valuation of Local Authority Housing Stock is confirmed in a publication issued by the DCLG entitled **'Stock Valuation for Resource Accounting Guidance for 2016'**.

Therefore, we have re-valued the stock portfolio by adopting this methodology, notably to include the current Vacant Possession Adjustment Factor.

We have set out the detailed methodology adopted within this report to allow the client Authority, its lead officers, and the external auditors to follow the way in which we undertook the process.

This signed valuation report is the ultimate result of this instruction.

Valuation data has also been provided in a digital and summarised format. This data forms an integral part of this valuation process and separately identifies each asset valued.

All extract or summary data provided for management information should be read in conjunction with the assumptions contained in the DCLG guidance, CIPFA Code, the RICS Valuation Standards and our Valuation Report.

PROCESS

The Valuer and the Authority agreed a process timetable:

- Determination of valuation assumptions
- Data collection
- Inspection protocol
- Valuation and initial reporting date
- Consideration of process and final reporting process
- Contingency timetable for process slippage
- Audit Support methodology and timescales

SECTION ONE - INTRODUCTION

In this case, it was possible to work with lead officers within the Authority to achieve these process outputs.

Our draft valuation results were forwarded to the Authority in advance of the final report, and this allowed a review process between the Authority and the Valuer to take place.

VALUATION STATEMENT

We are of the opinion that as at 31st March 2023, the Gross Valuations of the Councils interest in the properties identified for re-valuation (as per instructions), are as follows:

Vacant Possession
- £XXX,XXX,XXX.
- (Words, Words and More Words pounds).

EUV-SH
- £XXX,XXX,XXX.
- (Words, Words and More Words pounds).

It is important to note that the above values reflect the total gross value of the properties selected for revaluation by the Authority and may not represent the full values of the overall portfolio(s).

All prices or values are stated in pounds sterling.

As mentioned above the individual Gross, Residual and Depreciable values are included and provided electronically in excel format and should be read in conjunction with this report.

These excel documents are appendices to the report.

These individual sheets and summary also include our opinion of Weighted Average Remaining Useful Life.

We certify that this valuation report fulfils the requirements of the RICS and in terms of the application of IFRS Code for your revenue accounting purposes.

G S C Harbord MA MRICS IRRV (Hons), (Partner), an RICS Registered Valuer

A M Williams

reviewed by A M Williams Dip BSc (Hons) MRICS FIRRV REV RICS Registered Valuer

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

IDENTIFICATION AND STATUS OF THE VALUER

The valuations have been carried out by:

- G S C Harbord MA MRICS IRRV (Hons), RICS Registered Valuer, Partner

The report was subject to the internal audit by our in house RICS qualified Partners:

- A M Williams Dip BSc (Hons) MRICS FIRRV REV
- M S Aldis Bsc (Hons) MRICS, IRRV (Hons)
- S O'Neill Bsc (Hons) MRICS IRRV.

We confirm that all surveyors involved in the instruction are RICS Registered Valuers have complied with the requirements of PS1.

We also confirm that all surveyors are suitably qualified and experienced for the purposes of the instruction and have sufficient current local and national knowledge of the markets applicable to the assets valued within this report in addition to the necessary skills and understanding to undertake the valuations competently.

Wilks Head & Eve LLP have been carrying out Asset Valuations for financial reporting purposes since 2018 for Newark & Sherwood District Council and we can confirm that we are independent from the Authority and 'external Valuers' in this instance.

Wilks Head & Eve LLP work within the RICS Rules of Conduct as a regulated firm and members and have procedures in place for identifying conflicts of interest and can confirm there is no such conflict in this instance with either the properties valued, the client, or because of any wider relationship.

Wilks Head & Eve LLP operates a Valuer Rotation Policy in accordance with the RICS Valuation Global Standards. To confirm, we understand that the use of a consistent Valuer over a long period of time may lead to over familiarity which may lead to potential objectivity issues. We both rotate Valuers within in line with the Standards and have implemented internal valuation policies and practices to minimise and mitigate this point.

We can also confirm that in relation to Wilks Head & Eve LLP previous financial year the proportion of total fees paid by Newark & Sherwood District Council to the total fee income of Wilks Head & Eve LLP would be considered minimal (i.e. less than 5%).

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

IDENTIFICATION OF THE CLIENT AND OTHER INTENDED USERS

WH&E have been instructed by

- Client: Newark & Sherwood District Council.
- Client Address: Council Offices, Castle House, Great N Road, Newark on Trent, Newark, NG24 1BY.
- Contact: Andrew Snape.

No other parties other than the client may rely upon the valuation information provided.

PURPOSE OF THE VALUATION

Wilks Head & Eve LLP have completed valuations of assets selected for valuation by the Authority as per their relevant program.

These assets are located within the Authorities housing revenue account portfolio and are listed in full within the separately appended excel document(s).

The valuations supplied have been prepared specifically to meet financial reporting requirements and should not be used in any other context.

Unless otherwise stated, the assumption has been made that the properties valued will continue to be in the occupation of the Authority for the foreseeable future having regard to the prospect and viability of the continuance of that occupation.

Where Existing Use Value may differ from Market Value a comment has been provided within the individual valuation.

DATE OF VALUATION

Further to instructions from the client we have agreed to report the valuations at the following valuation date:

- 31st March 2023

EXTENT OF INVESTIGATION

Further to the instructions from the Authority we have inspected XX assets as part of this exercise. The inspections were completed between DATE and DATE.

The Council's Housing Department agreed the nominated beacon properties.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

Letters were sent out to the nominated beacon tenants asking that our Valuer be allowed to inspect the beacon property on a date and time of day during our inspection period.

If a beacon tenant was unavailable or did not want to offer access to our Valuer, contact would have been made in a similar way, to a nominated "secondary" beacon.

In the event it was not necessary to rely on the secondary beacons as our inspections were successful.

Assets which require a valuation are inspected at intervals of no more than five years as outlined within section '4.1.2 Accounting requirements' of the CIPFA Code.

SOURCES OF INFORMATION

For the purposes of this report the Valuer has had to rely upon information regarding the properties provided to us by the Authority and the valuations are dependent on the accuracy of the information supplied and / or the assumptions made.

In addition, the Valuer has completed additional research in relation to the portfolio from our own records in addition to other third-party resources including, Egi, Focus, Rightmove, regional market reports, local agents, and BCIS cost data.

If this information proves to be incorrect or inadequate, then they could affect the accuracy of the valuations. It is assumed that these floor areas meet the requirements of the RICS professional statement – RICS property measurement which incorporates IPMS.

The Valuer has not inspected all Title Deeds or any Planning Consents, Statutory Notices, licenses, or other documents relating to the properties (except where indicated). We cannot therefore comment upon the possible effect of any outstanding Statutory Notices, or any contravention of any statutory requirements, or the effects of the Defective Premises Act (1972).

VALUATION BACKGROUND

Local Authorities are under a statutory duty to account separately for their housing stock and this information is of value not only to Local Authorities but also to a wide range of potential readers of the accounts, both inside and outside central government. The fact that stock valuations appear in the housing revenue accounts ensures that authorities decisions on resource allocation make resource cost apparent. It is essential that all valuations carried out for the purpose of resource accounting are on a consistent basis.

Following the adoption of IFRS 13 by the UK public sector, from 1st April 2015, the basis of valuation for accounting purposes will be Current Value (CV) measured by the adoption of the special assumption of EUV-SH.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

The valuations will be subject to annual reviews and full revaluations. Revaluations may be carried out on a rolling programme, covering different parts of the stock each year, or every five years for the whole stock.

The aim of resource accounts in the housing revenue account is to put local authority housing on a business-like footing and to ensure that accounts give a "true and fair view of" the financial position and transactions of the authority. To this end the Valuer has had regard to:

- IFRS (incorporating IFRS 13)
- The CIPFA Code
- The Red Book.

Departures from these standards have been adopted to ensure the objectives are met and details of these variations as they affect the valuation of the property are referred to where appropriate.

Valuations have been carried out in accordance with the Red Book except where they are varied by this guidance to reflect the current policy requirements DCLG.

The beacon method is relatively easily implemented being based upon the market valuation of residential dwellings.

The beacon method is used for no other purpose except the special circumstances of the housing revenue account valuation but is an efficient method of arriving at a representative valuation which enables values to be attributed to large numbers of dwellings comprising a local authority's housing.

PROPERTY CLASSIFICATION

Asset valuations are required for all properties held in the HRA. Section 74 of the Local Government and Housing Act 1989 requires that expenditure and income relating to property specified in that section should be accounted for in the HRA. Guidance on the types of property specified is given in DoE circular 8/95. If we considered that a property is being wrongly held in the housing revenue account, the matter has been raised with the chief finance officer.

VALUATION BASIS

The Valuer has completed the valuation report in accordance with the following guidance relating to asset valuation for capital accounting purposes:

- Chartered Institute of Public Finance and Accounting Code of Practice on Local Authority Accounting in the United Kingdom ('The CIPFA Code') – 2022/23.
- International Financial Reporting Standards (IFRS).
- Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards (issued November 2021 and effective 31 January 2022) and the RICS Valuation – Global Standards 2017: UK National Supplement (issued November 2018 and effective from 14 January 2019).

- Department for Communities and Local Government (DCLG) - Stock Valuation for Resource Accounting – Guidance for Valuers – 2016. This sets out the terms of reference and basis of valuation for valuations of this type.

In addition, the Valuer has prepared the valuations in accordance with the RICS Global Standards 2017 UK National Supplement – UK VPGA 4 Valuation of local authority assets for accounting purposes.

This UK Valuation Practice Guidance Application sets out the basis of value for all property assets in line with the CIPFA Code.

Property, plant, and equipment, which would be expected to include most residential housing stock assets, is measured at Current Value using the EUV-SH assumption, as defined in UK VPGA 7 and guidance in the Code and DCLG guidance.

The valuation basis for non-housing property which is used or consumed for the delivery of the housing function, e.g., estate shops, is Current Value for the asset in Existing Use – this requirement is met by providing a valuation on the basis of Existing Use Value (EUV) in accordance with UK VPGA 6 and guidance in the Code and DCLG guidance.

These valuation bases represent the service potential of the assets to an Authority and in the case of EUV-SH the delivery of the social housing provider's objectives.

Full definitions of EUV, EUV-SH, DRC, FV and CV are defined by the RICS in 'The Standards'.

Except in the case of properties held for sale, no allowance is made for any costs of sale or any liability for taxation, including VAT, which may arise on disposal.

VACANT POSSESSION ADJUSTMENT FACTOR

EUV-SH reflects a valuation for a property if it were sold; with sitting tenants enjoying occupation at less than open market rentals and Retail Price Index linked increases; where the tenants have additional rights including the Right to Buy, and where the landlord has additional liabilities including insurance, repair, maintenance, and statutory obligations. Therefore, it is necessary to adjust the Beacon Value to reach EUV-SH.

The Adjustment Factor measures the difference between private open market rented and socially rented property at a regional level. It is this discount which, when applied to the cumulative total of all beacon values, gives rise to the EUV-SH.

Although a preferred adjustment factor could be derived from a ratio of local authority rents to private sector rents, we have referred to those suggested in the DCLG guidance.

Adjustment Factors for England

Region	Adjustments Factors 2010	Adjustment Factors 2016
North East	37%	44%
North Wales and Merseyside	35%	40%
Yorkshire and the Humber	31%	41%
East Midlands	34%	42%
West Midlands	34%	40%
Eastern	39%	38%
London	25%	25%
South East	32%	33%
South West	31%	35%

Illustration

The adjustment factor is applied to the total vacant possession valuation based on the beacon valuation. For example, if the vacant possession value of an estate in the West Midlands based on the beacon valuations is £500,000,000, the Existing Use Value – Social Housing is £200,000,000 (i.e., £500,000,000 x 40% = £200,000,000).

SHARED OWNERSHIP

Where the Authority owns a share of the interest in the property, the value of the equity share must be accounted for in the portfolio valuation. The approach is to value the property based on the beacon value assumptions and calculate the appropriate equity share.

This share should then be adjusted to reflect the occupation at less than market rents by adopting the regional adjustment factor.

SECTION THREE – PROCESS AND METHODOLOGY

VALUATION CRITERIA

There is no prescriptive approach that authorities must adopt to ensure current values are used in the balance sheet. In this case the following approach has been adopted:

- A full revaluation every five years with desktop reviews in the other four years.

This report covers year one of the five-year programme.

The review part of this process has:

a) Updated the stock numbers to allow for disposals, acquisitions, and newly constructed dwellings.
b) Accounted for material movements in value at the asset group level, including impairment.
c) Captured major changes in value of significant asset groups resulting from major refurbishment schemes.
d) Included properties which were originally classed as in the course of development, but which were completed by the valuation date.

ANNUAL BEACON METHODOLOGY

To value the portfolio, it has been necessary to research several information sources. These include:

- Sales of directly comparable property which have taken place during the financial year leading up to the valuation date.
- Any changes of income flow for non-residential HRA property, valued by way of investment appraisal methods.
- Information available at a local level showing house price movement, such as Lands Registry, Leading Mortgage Lenders, and other records of sales in the locality.
- Regional and National Indices which show general trends that could be used as a basis for the change in value of the portfolio.

Our valuation has taken place at the asset group and archetype level. Each beacon has been re-inspected and reviewed in the light of the valuation evidence that has become available, together with the investment and refurbishment information where this has been made available.

We have considered impairment at this level and in particular "Trigger Events" which may have happened during the year. Wherever possible we have included these factors, if appropriate, in our explanatory notes on impairment.

VALUATION APPROACH

WH&E have adopted the Beacon approach when valuing the housing stock.

SECTION THREE – PROCESS AND METHODOLOGY

The Authority has considered the selection of distinct Asset Groups within the housing area. These Asset Groups are chosen to reflect the areas in which individual value markets operate. The Authority considers that it is appropriate to consider a series of distinct Asset Groups for valuation purposes. We have verified that this approach is realistic, and no further changes have been necessary.

The beacon adopted for each of the property types has assumed vacant possession. In addition, we have been able to rely on information provided as to the property assets in each group and the variations in terms of accommodation, improvements, and modernisation in each case.

ASSET GROUP AND ARCHETYPE DETERMINATION

Even though this document only comprises a revaluation of the portfolio, a simple reference to the valuation methodology required by the DCLG guidelines may be helpful here. It is important that the results of this report are set in the context of these valuation principles.

The approach considers whether the whole portfolio of residential housing stock within the Council's ownership, should be dealt with as a single or multiple Asset Groupings.

In this case, the Housing Department have been very thorough and methodical and have concluded that multiple "Asset Groups" are necessary. This is logical and reflects the local characteristics, on both a geographical and valuation level.

We have also considered if the existing asset groups and archetypes still apply. Wherever appropriate we will have raised this fundamental change with your Authority at officer level prior to reporting and will have revalued on the agreed and revised basis.

The valuation methodology then requires the Valuer to consider each different type of property within this "Asset Group". Similar properties are subdivided from the "Asset Group" to form "Archetypes". In some cases, the subdivision may be to a very specific level. In this case the divisions are based on the way the Authority defines its portfolio for operational and allocation purposes.

For each of the archetype groups, we have valued a "beacon" property as a representative example of that property type and used this as the sample with which to value the Archetype group, with additions or subtractions for each individual property, depending on the information available to us.

VALUATION COMMENTARY

Our valuation has complied with the relevant guidance notes in all respects; however, we believe that a few specific value sensitive issues ought to be brought to your attention as notes within this report.

We briefly summarise these areas below:

- It has been made aware to us that in other Housing Revenue Accounts, certain stock, particularly in multi-story accommodation or where common access ways or facilities bound or form part of the structure of assets held by the HRA that where inadvertent, or indeed notified, breaches of covenants, or variation in use or changes to originally specified finishes, fittings or other equipment broke particular fire, health and safety or other statutory regulations, that this may well have an extremely significant effect on value and indeed on a practical level continued habitation of residential accommodation in the short and longer terms.

- In this case, as independent external Valuers, we have not been notified of any such breach, and our inspections did not constitute a survey for such breaches. The information on housing stock within the Housing Revenue Account contained certain designations as to property type. As independent external Valuers we have applied our beacon valuation approach to those categorisations and have not sought to extend or sub-divide these property types into further categories in any way.

- This includes external cladding and other similar fittings – we have not been notified of any such issues affecting the portfolio and therefore have worked on the assumption that none are present. The presence of these factors may have a significant effect on value.

- You will be aware that the "Vacant Possession Adjustment Factor" may not have been applied to the whole of your asset stock. Often the residents of sheltered accommodation do not enjoy the same level of tenure, renewal rights or, indeed have "Right to Buy" qualification.

These issues have been agreed with the Authority and our valuation report reflects these assumptions.

IMPAIRMENT

Impairment occurs because something has happened to the fixed assets themselves or to the economic environment in which the fixed assets are operated.

This may include:-

(a) a significant decline in the demand for social housing;
(b) evidence of obsolescence or physical damage to the asset;
(c) an adverse change in the statutory or regulatory environment in which the Authority operates;
(d) a commitment to significant housing re-organisation by the Authority;

MARKET UNCERTAINTY

However, for this report it is worth noting that following the EU referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit.

At the time of preparing this commentary, the UK has now officially left the EU and the transition period has come to an end as of 31st December 2020.

Whilst the deal provides a more certain position in relation to the UK's future relationship with the EU the full implications of the deal will take some time to realise.

We therefore remain in a period of uncertainty in relation to many factors that impact the construction markets and costs associated with this market.

In any event we are now in a period of uncertainty in relation to many factors that impact the property investment and letting markets.

In addition to the general uncertainty because of the changes to the UK and EU relationship the outbreak of Novel Coronavirus (COVID-19) is also relevant.

As at the time of preparing this report the outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11th of March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity.

Nevertheless, as at the report date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.

Finally, the recent Russian invasion of Ukraine has added to the levels of global uncertainty.

As a response the international community has been united in applying sanctions against the Russian state which is now reported to be having an impact on the Russian economy. The reliance on energy resources may lead to wider implications across Europe although this may be more relevant over the coming months.

As at the valuation date we are not aware of any specific impact on the value of the assets within the portfolio because of the invasion although we will continue to monitor as the crisis develops.

Given the unknown future impact of the areas covered within this section we would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should you wish to affect a disposal.

Accordingly, and for the avoidance of doubt, our report is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

COMPONENTISATION

The fundamental objective of depreciation is to reflect, in the revenue account, the cost of using the asset i.e., in this case, the amount consumed in providing the service of social housing. This cost of use includes the wearing out, using up or other reduction in the economic life of a tangible fixed asset. This may arise through use, the passage of time or obsolescence or through changes in technology or demand for the goods and services produced by the asset.

SECTION THREE – PROCESS AND METHODOLOGY

In accordance with the Code of Practice on Local Authority Accounting, depreciation should be provided for on all fixed assets with a finite useful life. Subsequent expenditure that maintains or enhances the previously assessed standard of performance of an asset does not negate the need for depreciation. Enhancements will also depreciate and their consumption over time should be reflected in the revenue account.

Since the adoption of IFRS in 2010 it is clear that component accounting should be applied, and this approach should apply to accounting within the Housing Revenue Account as far as possible.

IAS 16 paragraphs 43-47 require that each part of an item of PP&E with a cost that is significant in relation to the total cost of the item, and with a significantly different useful economic life, should be depreciated separately, but those with the same useful lives and depreciation methods may be grouped for depreciation purposes.

In deciding the degree to which a structure should be broken down into its component parts for depreciation purposes, the matter of materiality, i.e., the extent to which the additional componentisation will impact on the actual depreciation charge, needs to be considered. If the impact is minimal then the extra work involved in breaking down the structure into 10 or 20 component parts is unlikely to be justified. The Department's view, in discussion with CIPFA, is that it should be possible for a pragmatic approach to be taken. CIPFA have issued LAAP Bulletin 86 Componentisation of Property, Plant and Equipment, June 2010 with a further update in February 2015.

The Department for Communities and Local Government does not envisage that this need be an onerous task and expects that for non-specialised buildings minimal componentisation should be required. However, it is for the individual local authority to decide what its material components are. Traditionally (i.e., pre-International Financial Reporting Standards UKGAAP) the minimum requirement has been for the building itself.

In this case, and further to discussions with the Authority, we have not provided any componentisation information for the authority as part of this exercise.

ADDITIONAL COMMENTS

It may be that further report(s) and valuations are necessary to reflect any in year changes to assets within the portfolio not valued and covered by this report to ensure that carrying figures are appropriate for the final day of the accounting period, 31st March 2023.

These circumstances may include material changes and new acquisitions and if required would be reported separately to this report.

AUDIT SUPPORT

We expect that as part of the valuation process, we will be required to provide certain additional explanation and assistance to the Authority where the process will be subject to audit.

SECTION FOUR – VALUATION ASSUMPTIONS

SPECIAL ASSUMPTIONS

We are not aware of any special assumptions.

VALUATION ASSUMPTIONS

The accuracy of the beacon valuation together with the choice of beacon is a major factor governing the quality of the overall housing stock asset valuation.

The beacon valuations assume that the property is vacant and that the current future use is for residential accommodation, with no potential residential redevelopment of the site, or intensification of use as a result of possible sub-division or extension of the property. No account is taken of any other alternative development potential that may include demolition and merging of sites.

These assumptions have been adopted to ensure that all the beacon valuations are prepared on a consistent basis. The beacon valuations are, in the majority of cases, applied to council housing stock which for the foreseeable future will remain as council housing with no requirement for demolition and redevelopment. To include elements of 'Hope Value' attributable to the possibility of redevelopment of the existing buildings within the existing planning use would include elements of value inappropriate to the groups of property valued by the beacon.

Situations where it is inappropriate to make the assumption that the property will remain tenanted for the foreseeable future are dealt with separately. These situations may arise in areas of low demand and unpopular housing.

The assumptions to make in preparing the beacon valuation are set out below. EUV as defined in the Red Book at UK VPGA 6 provides the basic assumptions for the beacon valuation but with additional assumptions to meet the needs of a local authority housing stock asset valuation.

EUV-SH is the estimated amount for which a property should exchange, in the valuation date, between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion, subject to the following special assumptions that the property will continue to be let by a body pursuant to delivery of a service for the existing use:

(a) At the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to an organisation intending to manage their housing stock in accordance with the regulatory body's requirements;

(b) Properties temporarily vacant pending re-letting would be valued, if there is letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession and;

(c) Any subsequent sale would be subject to all of the above special assumptions.

SECTION FOUR – VALUATION ASSUMPTIONS

For leasehold properties IFRS introduced significant changes to the treatment of leased assets for capital accounting purposes. Currently the standard adopted is IAS 17.

In summary these classifications will require the following valuations.

i. Lessee of Operating Lease – no value required as not captured on the balance sheet.
ii. Lessor of Operating Lease – usually accounted for as an Investment Property (IAS 40).
iii. Lessee of Finance Lease – CV of the lease interest (which is not the value of the legal interest in the lease but the underlying freehold existing use value of the property as if owned as risks and rewards of ownership are considered to have transferred).
iv. Lessor of Finance Lease – no figure normally required from the Valuer.

Other assumptions

- Planning Proposals
    - We have not made formal written enquiries of the Local Authority Planning Departments to ascertain if there are any adverse proposals likely to affect specific properties. We are instructed, however, that for the purposes of this Valuation Certificate, we should assume that there are no planning proposals that are likely to have an effect on the value of the properties unless these were specifically notified to us.

- Construction and State of Repair
    - Structural / Condition surveys have not been undertaken of the properties nor have the service installations been tested.
    - We have not carried out a structural survey nor have we inspected those parts of the properties that are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts.
    - No allowances have been made for rights, obligations or liabilities arising from the Defective Premises Act 1972.
    - Unless we are aware that a specific property has a limited economic life, we have assumed that the assets are at a suitable level of condition for service provision, and that all internal and external repairs and maintenance have been carried out. We have assumed that these repairs do not constitute improvement to the properties and do not have a material effect on asset value.

- Hazardous or Deleterious Materials
    - We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this report we have assumed that such investigation would not disclose the presence of any such material in any adverse condition.

- Contaminated Land
  - We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out on the property. We have not carried out any investigation into past or present uses either of the properties or of any neighbouring land to establish whether there is any potential for contamination from these sites to the subject property and have therefore assumed that none exists.

  - Should it however be established subsequently that contamination exists at any of the properties or any neighbouring land or that the properties have been or are being put to a contaminative use this might reduce the values now reported.

- Plant and Machinery
  - Any plant and machinery that has been considered to form part of the property or service installations is included in the valuation. Where there is doubt as to the correct classification, assets installed primarily to provide services to the properties have been valued with the land and buildings and assets primarily serving the commercial or industrial process have been excluded. Any departure from this is stated on the relevant Valuation Statement.

- Lotting
  - Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if a number of properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.

- Taxation
  - No allowance has been made for liability for taxation which may arise on disposal, whether actual or notional. Where possible VAT and Capital Gains Tax are specifically excluded, and our valuation does not reflect costs of realisation unless specifically requested by the client. No additions have been made for Stamp Duty Land Tax (SDLT).

- Acquisition and Disposal Costs
  - No notional directly attributable acquisition costs or selling costs have been applied to or deducted from the Current Value and Fair Value figures provided within this report.

  - For indicative purposes only, the Valuer would expect purchaser's cost to be in the region of 0.5% and 5.0% (plus or minus) dependent on the overall value of the asset and property type on an acquisition or disposal respectively.

  - The Valuer has made no allowance for any vendor's costs or taxation (actual or notional) nor has any allowances been made for any capital or annual grants or incentives to which a purchaser may be entitled.

  - The Valuer has not been asked by the client to specifically reflect these costs separately.

  - Guidance on this matter is provided within UKVS 1 Paragraph 1.7 - Costs to be excluded of the Red Book:

    - The valuer must not include directly attributable acquisition or disposal costs in the valuation. When asked by the client to reflect costs, these must be stated separately.

    - In determining the figure to enter into the balance sheet (the 'carrying amount'), IAS16 requires the addition of notional, directly attributable acquisition costs, where material, to the EUV. Likewise, where property is surplus to the entity's requirements and valued on the basis of market value, there should be a deduction for expected, directly attributable selling costs, where material. If requested to advise on these costs, the Valuer should report them separately and not amalgamate them with either the EUV or market value. The valuation should reflect the Valuer's opinion of the consideration that would appear in the hypothetical sale and purchase contract.

    - IAS16 states that directly attributable costs can include stamp duty, import duties and non-refundable purchase taxes, as well as professional fees, the Valuer is alerted to a potential problem with a property that would, or would potentially, be subject to VAT in any transaction but the entity may not be able to reclaim the VAT. The decision whether or not to treat this as a directly attributable acquisition cost should be determined by the entity, together with its auditors. Even if this is the case the Valuer should state clearly in the report what assumptions have been made and the likely impact of VAT in any transaction.

    - In the case of surplus properties, directly attributable selling costs that are material may need to be itemised separately. If this is the case, they will include not only the transaction costs but also any marketing costs that can be reasonable anticipated.

- Energy Performance Certificates
  - In England and Wales, the Energy Performance of Buildings Directive requiring Energy Performance Certificates (EPC) is relevant.

- This directive requires all properties to have an Energy Performance Certificate (EPC) covering the residential and commercial sectors. The Certificate is valid for ten years and includes an Energy Efficient Rating of between A and G.

- Since 26th March 2015 the minimum energy efficiency standard (MEES) has been introduced.

- This minimum standard applies to both domestic and non-domestic property and from 1st April 2018 Landlords have been unable to let an F or G rated commercial property on a new or renewed tenancy / lease.

- From 1st April 2020, the regulations apply to all property leases, initially for domestic properties, and then in 2023 non-domestic properties too.

- Exceptions include leases of less than six months and leases of longer than 99 years as well as listed buildings.

- For these purposes we have assumed that all properties valued within the portfolio meet the E or higher required rating for letting purposes.

- Sustainability
  We consider sustainability and environmental issues as part of the valuation process. This includes the guidance outlined within the RICS guidance note 'Sustainability and ESG in commercial property valuation and strategic advice 3rd Edition - December 2021' which is effective from 31st January 2022.
  The role of the Valuer is to assess and report value in light of the evidence obtained. The Red Book Global Standards VPGA 8 section 2.6 (c) states:

  > *'While Valuers should reflect markets, not lead them, they should be aware of sustainability features and the implications these could have on property values in the short, medium and longer term'.*

  From a valuation perspective we therefore recognise that Sustainability has an impact on the value of an asset implicitly and/or explicitly and where relevant/possible these have been reflected in the valuations completed.

- Deminimis Levels of Value

  - Only those properties the value of which is considered likely to exceed the "deminimis" level of value determined by The Authority are included separately in this valuation. In all cases, we have included the valuation within the main body of the report as well as summarising them in letter format even if the Authority chooses not to include these within their financial statements.

SECTION FOUR – VALUATION ASSUMPTIONS

AUDIT COMMENTARY

Our valuation methodology and assumptions evolved from ongoing instructions since 1992 when the current accounting requirements were introduced.

Our working processes are audited through our External Certification Body, DNV Business Assurance UK Limited on an annual basis to achieve our ISO 9001:2015 accreditation.
The valuation report and results are reviewed by the client accountant and estates teams before we issue the final version of the report.

NON-PUBLICATION CLAUSE

Neither the whole nor any part of this report nor any reference thereto may be included in any published document, circular or statement nor published in any way without the previous written approval of Wilks Head and Eve as to the form and context in which it may appear.

Our letter of consent will be given when a final proof of the document is available, and the consent will refer to a specimen annexed and signed as identification of what has been approved.

As such publication of, or reference to, this report will not be permitted unless it contains a sufficient contemporaneous reference to any departure from the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards.

This report is provided for the stated purpose and for the sole use of the named client and their professional advisors and the Valuer accept no responsibility whatsoever to any other person.

COMPANY INFORMATION

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WILKS HEAD & EVE
CHARTERED SURVEYORS AND TOWN PLANNERS

NEWARK & SHERWOOD DISTRICT COUNCIL

Report to:	Audit & Governance Committee Meeting – 6 April 2023
Director or Business Manager Lead:	Nick Wilson, Business Manager – Financial Services Sue Bearman, Assistant Director - Legal & Democratic Services

Report Summary	
Report Title	Audit & Governance Committee Work Plan
Purpose of Report	Work Plan attached for consideration and approval
Recommendations	That the Audit & Governance Committee consider the Work Plan for approval.

AUDIT & GOVERNANCE COMMITTEE
MEETING DATE 6th APRIL 2023 **WORK PLAN**

Meeting date at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
TBC JUNE 2023	Training session on Statement of Accounts	Andrew Snape	Ensure that the Committee has the appropriate skills to be able to review the Council's Statement of Accounts and consider the integrity of financial reporting
14 June 2023	Treasury Management Outturn Report 2022/23	Andrew Snape	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	Fraud Risk Assessment	Nick Wilson	Gain assurance that the Council understands its fraud risks and that actions are put in place to address them
	Counter-Fraud Activity Report	Nick Wilson	Gain assurance that counter-fraud activity is appropriately targeted and effective
	External Audit Plan for 2022/23 Accounts	David Hoose (Mazars)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts, Value for Money arrangements and Grant claims
	Statement of Accounts 2022/23 & Annual Governance Statement	Nick Wilson	Gain assurance on the integrity of financial reporting By considering the assurance gained through its activities throughout the previous year, to give assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are

			identified, and that arrangements in place support the achievement of the Council's objectives
	Annual Internal Audit Report 2022/23	Fiona Roe (TIAA) Philip Lazenby (TIAA) Lucy Pledge (Assurance Lincolnshire)	Gain assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified and that governance arrangements support the achievement of the Council's objectives
	Internal Audit Progress Report 2023/24	Fiona Roe (TIAA) Philip Lazenby (TIAA) Lucy Pledge (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Code of Conduct Annual Standards Report for the Period 1 April 2022 – 31 March 2023	Sue Bearman	To provide details of Code of Conduct complaints received in 2022/23
26 July 2023	TBC		
27 September 2023	Internal Audit Progress Report 2023/24	Fiona Roe/Phil Lazenby (TIAA Ltd)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
22 November 2023	Treasury Performance half-yearly report	Andrew Snape	Gain assurance that treasury management activities are in line with the current Treasury Management Strategy
	Internal Audit Progress Report 2023/24	Fiona Roe/Phil Lazenby (TIAA Ltd)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Counter-Fraud Activity Report	Nick Wilson	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Risk Management report	Richard Bates	Gain assurance that appropriate risk management arrangements are in place

	Annual Audit Report 2022/23	Mark Surridge (Mazars)	Gain assurance on the Council's Statement of Accounts and arrangements for achieving Value for Money
14 February 2024	Annual Review of the Council's Whistleblowing Policy	Sue Bearman	A summary of actions taken will be reported back to Committee as an annual report
	Annual Review of the Gifts and Hospitality Protocol and Policy	Sue Bearman	An annual review of the operation of the Council's Gifts and Hospitality arrangements
	Draft Treasury Strategy 2024/25	Andrew Snape	Gain assurance that risks in relation to the Council's treasury management activities are to be managed in accordance with need and the Council's risk appetite
	Draft Capital Strategy 2024/25	Andrew Snape	Outlines the principles and framework that shape the Council's capital proposals
	Draft Investment Strategy 2024/25	Andrew Snape	The investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government.
	Review of significant internal control issues highlighted in the Annual Governance Statement	Nick Wilson	Gain assurance that the Council is making progress on any governance issues that were raised in the AGS
	Internal Audit Progress Report 2024/25	Fiona Roe/Phil Lazenby (TIAA Ltd)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
24 April 2024	Annual Review of the Council's Constitution	Sue Bearman	Review the Council's Constitution
TBC	Review of the Council's Governance Arrangements	Sue Bearman	Review the Council's Governance Arrangements