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WOKINGHAM BOROUGH COUNCIL

A Meeting of the **AUDIT COMMITTEE** will be held in David Hicks 1 - Civic Offices, Shute End, Wokingham RG40 1BN on **WEDNESDAY 1 FEBRUARY 2023** AT **7.00 PM**

Susan Parsonage
Chief Executive

Published on 24 January 2023

This meeting may be filmed for inclusion on the Council's website.

Note: Non-Committee Members and members of the public are welcome to attend the meeting or participate in the meeting virtually, in line with the Council's Constitution. If you wish to participate either in person or virtually via Microsoft Teams please contact Democratic Services. The meeting can also be watched live using the following link: https://youtu.be/9mIG_DWCUYY

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Our Vision

A great place to live, learn, work and grow and a great place to do business

Enriching Lives

- Champion excellent education and enable our children and young people to achieve their full potential, regardless of their background.
- Support our residents to lead happy, healthy lives and provide access to good leisure facilities to enable healthy choices for everyone.
- Engage and empower our communities through arts and culture and create a sense of identity for the Borough which people feel part of.
- Support growth in our local economy and help to build business.

Providing Safe and Strong Communities

- Protect and safeguard our children, young and vulnerable people.
- Offer quality care and support, at the right time, to reduce the need for long term care.
- Nurture our communities: enabling them to thrive and families to flourish.
- Ensure our Borough and communities remain safe for all.

Enjoying a Clean and Green Borough

- Play as full a role as possible to achieve a carbon neutral Borough, sustainable for the future.
- Protect our Borough, keep it clean and enhance our green areas for people to enjoy.
- Reduce our waste, promote re-use, increase recycling and improve biodiversity.
- Connect our parks and open spaces with green cycleways.

Delivering the Right Homes in the Right Places

- Offer quality, affordable, sustainable homes fit for the future.
- Ensure the right infrastructure is in place, early, to support and enable our Borough to grow.
- Protect our unique places and preserve our natural environment.
- Help with your housing needs and support people, where it is needed most, to live independently in their own homes.

Keeping the Borough Moving

- Maintain and improve our roads, footpaths and cycleways.
- Tackle traffic congestion and minimise delays and disruptions.
- Enable safe and sustainable travel around the Borough with good transport infrastructure.
- Promote healthy alternative travel options and support our partners in offering affordable, accessible public transport with good transport links.

Changing the Way We Work for You

- Be relentlessly customer focussed.
- Work with our partners to provide efficient, effective, joined up services which are focussed around our customers.
- Communicate better with customers, owning issues, updating on progress and responding appropriately as well as promoting what is happening in our Borough.
- Drive innovative, digital ways of working that will connect our communities, businesses and customers to our services in a way that suits their needs.

Be the Best We Can Be

- Be an organisation that values and invests in all our colleagues and is seen as an employer of choice.
- Embed a culture that supports ambition, promotes empowerment and develops new ways of working.
- Use our governance and scrutiny structures to support a learning and continuous improvement approach to the way we do business.
- Be a commercial council that is innovative, whilst being inclusive, in its approach with a clear focus on being financially resilient.
- Maximise opportunities to secure funding and investment for the Borough.
- Establish a renewed vision for the Borough with clear aspirations.

MEMBERSHIP OF THE AUDIT COMMITTEE

Councillors

Rachel Burgess (Chair) | Maria Gee (Vice-Chair) | David Davies
Peter Harper | John Kaiser | Tahir Maher
Mike Smith

ITEM NO.	WARD	SUBJECT	PAGE NO.
45.		**APOLOGIES** To receive any apologies for absence	
46.		**MINUTES OF PREVIOUS MEETING** To confirm the Minutes of the Meeting held on 30 November 2022.	5 - 14
47.		**DECLARATION OF INTEREST** To receive any declarations of interest	
48.		**PUBLIC QUESTION TIME** To answer any public questions A period of 30 minutes will be allowed for members of the public to ask questions submitted under notice. The Council welcomes questions from members of the public about the work of this committee. Subject to meeting certain timescales, questions can relate to general issues concerned with the work of the Committee or an item which is on the Agenda for this meeting. For full details of the procedure for submitting questions please contact the Democratic Services Section on the numbers given below or go to www.wokingham.gov.uk/publicquestions	
49.		**MEMBER QUESTION TIME** To answer any member questions	
50.	None Specific	**UPDATE ON 2020/21 STATEMENT OF ACCOUNTS** To receive an update on the 2020/21 Statement of Accounts.	**Verbal Report**
51.	None Specific	**WOKINGHAM BOROUGH COUNCIL AUDIT PLANNING REPORT YEAR ENDED 31 MARCH 2022** To receive the Wokingham Borough Council Audit planning report year ended 31 March 2022.	15 - 68
52.	None Specific	**CORPORATE RISK REGISTER REVIEW** To consider the Corporate Risk Register Review.	69 - 100

Any other items which the Chairman decides are urgent
A Supplementary Agenda will be issued by the Chief Executive if there are any other items to consider under this heading

CONTACT OFFICER

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MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 30 NOVEMBER 2022 FROM 7.00 PM TO 9.05 PM

Committee Members Present
Councillors: Rachel Burgess (Chair), Maria Gee (Vice-Chair), John Kaiser, Tahir Maher, Mike Smith and Mike Drake (independent Committee member)

Also Present
Madeleine Shopland, Democratic & Electoral Services Specialist
Helen Thompson, Ernst and Young (online)
Graham Cadle, Assistant Director Finance (online)
Catherine Hickman, Head of Internal Audit and Investigation (online)
Steve Moore, Director Place and Growth (online)
Andrew Moulton, Assistant Director Governance
Mark Thompson, Chief Accountant (online)

34. APOLOGIES

An apology for absence was submitted from Councillor David Davies.

Councillor Peter Harper attended the meeting online.

35. MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Committee held on 28 September 2022 were confirmed as a correct record and signed by the Chair subject to the following amendment:

Mike Drake indicated that under item 31 Corporate Risk Register it should read *Mike Drake praised the presentation of the Corporate Risk Register. He went on to question whether there was a reputational risk for the financial situation of potentially having ~~un~~qualified accounts.*

Councillor Harper suggested that a table of actions be produced separately to make them easier to track.

Councillor Burgess referred to the following actions. Councillor Harper had requested data regarding complaints from a longer period than previously provided by Officers. The Assistant Director Governance agreed to look into to this.

Councillor Davies had requested a simplified summary of the infrastructure assets and how they were stated in the accounts. The Assistant Director Finance agreed to look into further.

Following concern expressed by Councillor Gee regarding investments in gilts, it had been confirmed that the Council did not have any investments in gilts.

Councillor Kaiser had requested the debtors audit report which had now been circulated to the Committee.

In response to a query from Councillor Kaiser regarding the possibility of representation from the Council on the Pension Board given the fact the Council was a large contributor, the Assistant Director Finance clarified that how this governance was arranged was set by guidance. He would summarise the guidance and share it with the Committee.

36. DECLARATION OF INTEREST
There were no declarations of interest submitted.

37. PUBLIC QUESTION TIME
There were no Public questions.

38. MEMBER QUESTION TIME
There were no Member questions.

39. UPDATE ON THE ACCOUNTS (2020/21 AND 2021/22)
The Committee received an update on the accounts 2020/21 and 2021/22.

During the discussion of this item, the following points were made:

- With regards to infrastructure, Members were advised that there had been movement in this area since the previous committee meeting. A statutory instrument which would create a statutory overlay, had been laid before Parliament. If no challenges were received it would become part of the legislation that governed the way in which the financial statements were presented. CIPFA had also recently published its amendment to the Code of Accounting Practice. This would allow progress to be made and enable an unqualified opinion to be issued.
- With regards to the pensions fund audit, the letter from the pension fund auditors which would allow completion of the audit, was now expected by Christmas. It had been agreed with Officers that it would be better to have an unqualified opinion, hence the accounts and audits result report had not been presented at the November Committee meeting.
- The possibility of alternative procedures around the pension fund element, in future, was being looked at, to potentially mitigate against delays. The Assistant Director Finance added that Officers were working across other Berkshire authorities to provide pressure and support where appropriate.
- In response to a question from Mike Drake regarding alternative procedures, Helen Thompson commented that it related to testing the value of investments and getting assurance over the value of investments that were held by the Pension Fund.
- Councillor Kaiser asked if the Council had invested in any companies which might be suffering financial issues. The Assistant Director Finance stated that the main providers were financially stable, and there was not an immediate risk at this time.

RESOLVED: That the update on accounts 2020/21 and 2021/22 be noted.

40. TREASURY MANAGEMENT MID YEAR REPORT 2022-23
The Committee received the Treasury Management Mid Year Report 2022-23.

During the discussion of this item, the following points were made:

- The level of internal borrowing continued to remain higher than detailed in the Treasury Management Strategy, reflecting the current financial climate. It also reflected a delay in the Capital Programme and allowed a review going forwards.
- A new Treasury Management Strategy would be presented in February.

- Councillor Kaiser questioned whether the Council was close to a point where the level of internal borrowing could be considered unsafe, and was informed that it was not. There was a profile of some debt which was renewing in the next year so there was some flexibility going forwards. It was important to take the right decisions according to the conditions of the economy.
- In response to a question from Councillor Kaiser as to whether the Council was moving quick enough to move money out of accounts as necessary to maximise investments, the Assistant Director Finance commented that there was a balance. Many current arrangements had default costs. Officers regularly met with external advisors to look at potential opportunities. The current issue was making those commitments in the long term and having the best possible forecast as to whether rates would go up or down.
- Councillor Gee commented that she had previously requested more detail in the Treasury Management reports. She wanted information on the borrowing structure over different periods with the interest rates and the maturity dates of those borrowings. The Assistant Director Finance stated that Officers would be working with external experts to consider whether to bring this in for the next year.
- Councillor Gee responded that it was difficult to ascertain how liquid the Council was, what was invested, the maturity structure of investments and the maturity structure of borrowing, and the total level of borrowing.
- Councillor Gee commented that there was no reference to the changes to Minimum Revenue Provision within the report. The Assistant Director Finance explained that the changes had been proposed for some time. Further clarification as to what they would or would not encompass was required. The scheme had been delayed and there would not be any changes prior to April 2024.
- In response to a question from Councillor Gee, the Assistant Director Finance explained that the Town Centre regeneration business case had included the requirement to provide funding and for the return of income and the sale of properties to repay the debt and interest charges. A higher interest rate had been included in the business case. As the work was nearing completion a detailed review had been undertaken. The level of charge was higher than the Council was reflecting and the charges of interest to that fund had been amended. Councillor Gee queried whether this was a switch on the return of community investments and the financing costs in the General Fund. The Chief Accountant agreed to check this, but confirmed it was a movement as to which line this was classified on. The net cost to the Council would remain the same.
- Councillor Harper asked whether there was a list of capital expenditure projects that were being delayed and was informed that there had been some reprioritisation of projects. The Executive received Capital Monitoring reports and Members could be sent links to these.
- Mike Drake agreed it would be useful to have information on the interest rates for the different maturities of the borrowings.
- Mike Drake referred to Table A and noted that the annual benefit to the taxpayer had decreased by £0.5million.
- Councillor Smith commented that the average interest rate of external borrowing for 2022/23 was forecast to be 1.56%. He queried how this would change going into 2023/24. The Assistant Director Finance indicated that there were a number of long-term loans and borrowing arrangements in place. It was important to understand the future capital requirements, the level of internal borrowing and the best time to borrow if additional funds were required.

- Councillor Kaiser stated that a lot of the borrowing was forward funding of infrastructure which would be paid as CIL was collected from developers. The Assistant Director Finance confirmed that some of the funding would be from this.
- Councillor Gee requested further narrative in the report about what was certain and what was uncertain.
- Councillor Smith referred to the table regarding the Council's net indebtedness, and questioned whether Officers were happy with the level of movement. The Assistant Director Finance confirmed that they were.

RESOLVED: That the Audit Committee support the Treasury Management Mid Year Report 2022-23 and recommend it to Council and note that:

1) all approved indicators set out in the Treasury Management Strategy have been adhered to; with the exceptions of internal borrowing which is forecast to be higher than set out in the strategy and ratio of financing costs to net revenue stream – General Fund;

2) due to the current uncertainty in the interest rate market, the internal borrowing parameter is being reviewed with our external treasury management advisors and will be reported back as part of treasury management strategy;

3) the contents of "Table A", as set out in the report, which shows the net benefit per council tax band D equivalent, from the income generated less the financing costs on all borrowing to date equates to £15.29 per band D for 2022/23. This income is used by the Council to continue to provide priority services for the borough residents;

4) As at the end of September 2022, the forecast for the total external general fund debt was £112m at March'23, which reduces to £81m after taking into account cash balances (net indebtedness) reducing interests costs in the current economic climate;

5) The Executive agreed on 27th October 2022, recommendation 3 of the Capital Monitoring 2022/23 – Q2 report 'note that due to the current uncertainty surrounding higher interest rates, as part of our financial management process, a review is to be undertaken to determine what capital projects can be postponed this year, to minimise exposure to borrowing at high rates. Any postponement is to be agreed at Executive.'

41. CORPORATE RISK REGISTER REVIEW

The Committee considered the Corporate Risk Review.

During the discussion of this item, the following points were made:

- The Council's top corporate risks were Budget and financial resilience; and Health and Social Care reform.
- There had been an overall increase in risk faced by the Council since the last review of the risk register due to increased national political and financial instability, significant challenges on the budget position, and uncertainty on the timing of the Health and Social Care reforms.
- No new risks had been added since the last review. However, the Cyber and Information Governance risk had been split into two separate risks to enable a more

appropriate focus on the different elements. Risk 5 Outcomes and Costs for Children with Send and Risk 11 High Needs Block had been combined.

- Members were informed that Risk 1 Financial Stability, Risk 4 Uncontrolled Development and Risk 8 Climate Change, had seen an increase.
- The Risk Management Group, a group of officers from the different directorates, met monthly. It had carried out a self-assessment and an action plan for improvement was included in the report.
- Benchmarking work with other Berkshire authorities had been undertaken.
- With regards to the risk around financial resilience, the Director Place and Growth emphasised the uncertainty around the level of the local government settlement, which was expected in the next few weeks. The economic downturn had brought greater demand for services, and increased costs within the system. Changes in inflation rates were also having a significant impact. The Council was working hard to mitigate the financial resilience risk.
- The Local Plan was still progressing and was at Regulation 18 stage. The Council continued to be successful in defending against uncontrolled development.
- The Director of Place and Growth indicated that the Climate Change risk had increased, largely relating to the financial element. Funding from central government and partners playing their part was vital to the delivery of this.
- The Director of Place and Growth referred to inward migration from areas such as Ukraine. He indicated that hosting arrangements would not continue indefinitely and an increase in housing presentations was expected. A more strategic approach was required to the wider asylum situation.
- The Director Place and Growth referred to public transport and buses in particular. Whilst bus patronage had increased following the pandemic, it was starting to plateau. Nationally, bus driver recruitment and retention, was an issue, and there was also uncertainty around government funding beyond March. The Council was working closely with its partners and providers and looking at skill and employment opportunities.
- With regards to the risk around the Local Plan, Councillor Kaiser queried the target date for Regulation 19, and was informed that it depended on national planning policy, but it was anticipated for next summer. The risk relating to the five-year land supply and the Local Plan was discussed in more detail.
- Councillor Kaiser referred to the impact of increasing inflation such as rising material costs and an impact on salaries. He questioned whether salary increases had been considered as a separate risk. The Director of Place and Growth highlighted some of the issues around increasing construction costs.
- Councillor Kaiser commented that the S106 agreements in place did not take in to account inflation at 10% or more, which would put pressure on the Council's Capital Programme.
- Councillor Smith questioned whether there should be a specific risk about the Capital Programme on the Corporate Risk Register. The Assistant Director Finance commented that he would expect a level of contingency within each bid. There was also a corporate contingency within the Capital Programme.
- In response to a question from Councillor Smith regarding the hierarchy of risks, the Director of Place and Growth indicated that there were a number of factors which affected the level of risk. Those in the top right hand corner of the graph within the report were the highest level.
- Mike Drake noted that all in all risk areas bar one, the current risk was higher than the target risk. He questioned whether the target risks were unrealistic, and if they were considered realistic what the plans were to reduce the current risks down to

the targets. The Assistant Director Governance responded that the mitigating actions would help to reduce down to the risk appetite. However, the Council still had a way to go in terms of making more precise connections between the current assessment and the desired position. Mike Drake asked whether there were any timescales for this and was informed that it varied by risk.

- Councillor Harper was of the opinion that the risk around the website replacement project was significant and should come to the Committee. The Assistant Director Governance indicated that it was on the relevant departmental risk register and was also encompassed in the information governance risk.
- Councillor Burgess sought an update on the budget setting process, and the nature of the lobbying around the local government settlement. The Director Place and Growth stated that the Council had been one of the lowest funded authorities in the past, and that a lot of lobbying was being undertaken. The Council had been prudent over a number of years. Officers were focusing on what the local government settlement could entail, and the Corporate Leadership Team was considering a range of possible assumptions and how best to mitigate. The Assistant Director commented that whilst difficult decisions would be required, the Council was in a stronger financial position than many. Updates on the budget setting process would be taken to the Community and Corporate Overview and Scrutiny Committee in December and January. The Assistant Director Governance commented that CIPFA had produced a lessons learnt report from those authorities that had issued Section 114 notice. An assurance report which would highlight the assurances in place in Wokingham, would be presented to the Committee in the new year.
- Councillor Gee expressed concern regarding the Safety Value programme, which she believed was for the twenty councils that had the highest deficits in the Dedicated Schools Grants. She questioned the timescale for repaying the deficit, and if the forthcoming new SEN school would form part of the Council's SEN provision. The Director Place and Growth indicated that nationally demand for SEN provision was increasing. The Council was required to produce a robust plan to demonstrate how it planned to cover the gap. The Assistant Director Finance stated that work was ongoing in this area, and the Safety Valve programme was for all Councils not just those with the top twenty highest DSG deficits. Councillor Gee suggested inviting the Director Children's Services and the Executive Member Children's Services to a future meeting to provide an update.
- Councillor Smith suggested that the risk around the website project include the replacement of the CRM system.
- The Assistant Director Governance agreed to check the relevant Director and Executive Member for the cyber security and information governance risks.
- In response to a question from Councillor Maher regarding reviewing the financial situation, the Director Place and Growth indicated that the local government settlement would give a clearer picture.

RESOLVED: That

1) the Corporate Risk Register be reviewed;

2) the Risk Management Group effectiveness be reviewed.

42. 2022/23 INTERNAL AUDIT AND INVESTIGATION PLAN - QUARTER 2 PROGRESS UPDATE (TO 30 SEPTEMBER 2022)

The Committee received the 2022/23 Internal Audit and Investigation Quarter 2 Progress Report (activity to 30 September 2022).

During the discussion of this item, the following points were made:

- The Head of Internal Audit and Investigations highlighted the Council's key corporate risks as of September. The team was not resourced to be able to audit all of those risks every year. Those being undertaken this year were annotated with a progress update.
- Overall, the Audit Plan was on track to be delivered. There were two financial audits which were key to feeding into the Head of Internal Audit's opinion; financial resilience and compliance with the CIPFA financial management code and; financial management.
- A treasury management audit had now been programmed for Q4.
- There were no new Category 3 or 4 audits.
- With regards to investigations, work in Q2 had concentrated on the National Fraud Data Matching Initiative. The remaining two datasets around payroll and creditors were now complete.
- Work had also been undertaken around empty homes and Covid grants.
- In August an initial RIPA inspection and then a more detailed inspection had been carried out. Positive feedback had been received and RIPA procedures were considered to be comprehensive.
- Two audit reports showing as being in draft in the report, had now been finalised.
- Councillor Maher questioned why Risk 3 Workforce and Risk 4 Uncontrolled Development, were not being audited that year and was informed that there was a need for prioritisation due to resource levels. The Head of Internal Audit and Investigations attended leadership meetings and discussed with senior officers which areas should be focused on.
- Councillor Kaiser noted that there was £16.5million of debt over 30 days. The Assistant Director Finance commented that some of this could be with other public bodies, which reduced the risk. Work was being undertaken around the debtors service. Members would be provided with a breakdown of the £16.5million.
- In response to a question from Councillor Kaiser, the Assistant Director Finance indicated that the collection of council tax and business rates remained on track currently.
- Mike Drake questioned whether there was a programme over three years during which all risk areas were covered, but the riskier areas were audited each year. He went on to note that there a number of outstanding new actions which had not been closed. He suggested the inclusion of a management comment on how risk concerns were being addressed. The Head of Internal Audit and Investigations commented that there was a move away from a three year Audit Plan as the situation was constantly changing. The Council now had an annual plan. There was always a focus on key corporate risks and the Committee reviewed the Plan before it was finalised.
- The Head of Internal Audit and Investigations agreed to check if there were any overdue high risk concerns.
- Councillor Burgess queried what awareness and training was provided to staff regarding fraud. The Assistant Director Governance commented that there was some but more needed to be done,

- Councillor Gee commented that the return on community assets was not visible on the Council's website. She questioned whether Internal Audit would ever review whether assets were under utilised. The Director Place and Growth commented that the Strategic Growth and Asset Board looked at all assets and understanding the level of need. He would be happy for the visibility of community assets to be audited.
- Councillor Kaiser referred to a delay in charges for deferred care payments. He questioned what was meant by 'alternative recovery methods are being sought.' The Assistant Director Finance agreed to feed back on this matter.
- Members were assured that there was not a high level of unallocated payments.

RESOLVED: That the 2022/23 Internal Audit and Investigation Quarter 2 Progress Report (activity to 30 September 2022) be noted.

43. ANNUAL GOVERNANCE STATEMENT 2021/22 - UPDATE
The Committee received the Annual Governance Statement 2021/22 update.

During the discussion of this item, the following points were made:

- The Annual Governance Statement had identified seven improvement actions to the Council's governance arrangements. Whilst none of the actions were due to be fully implemented at this stage, the report provided the latest (November 2022) position.
- Positive progress was being made regarding risk management and the approach taken was improving. Councillor Harper praised the risk management training provided to the Committee.
- The Assistant Director Governance informed the Committee that a report on the CIPFA Code of Financial Management would be taken to the next Committee meeting.

RESOLVED: That the update on the improvement actions arising from the 2021/22 Annual Governance Statement be noted.

44. FORWARD PROGRAMME
The Committee considered the forward programme for the remainder of the municipal year.

Due to the large number of items scheduled for the February meeting it was agreed that an extraordinary meeting be scheduled for March. The Assistant Director Governance indicated that the Audit Committee Annual Report would be presented at the March Committee meeting.

RESOLVED: That the forward programme be noted.

ACTION	OFFICER
Councillor Harper had requested data regarding complaints from a longer period than previously provided by Officers.	Andrew Moulton
Councillor Davies had requested a simplified summary of the infrastructure assets and how they were stated in the accounts.	Graham Cadle

In response to a query from Councillor Kaiser regarding the possibility of representation from the Council on the Pension Board given the fact the Council was a large contributor, the Assistant Director Finance clarified that how this governance was arranged was set by guidance. He would summarise the guidance and share it with the Committee.	Graham Cadle
Councillor Gee commented that she had previously requested more detail in the Treasury Management reports. She wanted information on the borrowing structure over different periods with the interest rates and the maturity dates of those borrowings.	Graham Cadle
In response to a question from Councillor Gee, the Assistant Director Finance explained that the Town Centre regeneration business case had included the requirement to provide funding and for the return of income and the sale of properties to repay the debt and interest charges. A higher interest rate had been included in the business case. As the work was nearing completion a detailed review had been undertaken. The level of charge was higher than the Council was reflecting and the charges of interest to that fund had been amended. Councillor Gee queried whether this was a switch on the return of community investments and the financing costs in the General Fund. The Chief Accountant agreed to check this, but confirmed it was a movement as to which line this was classified on.	Mark Thompson
Mike Drake agreed it would be useful to have information on the interest rates for the different maturities of the borrowings.	Graham Cadle
Treasury Management - Councillor Gee requested further narrative in the report about what was certain and what was uncertain.	Graham Cadle
Councillor Harper was of the opinion that the risk around the website replacement project was significant and should come to the Committee.	Andrew Moulton
The Assistant Director Governance commented that CIPFA had produced a lessons learnt report from those authorities that had issued Section 114 notice. An assurance report which would highlight the assurances in place in Wokingham, would	Andrew Moulton

be presented to the Committee in the new year.	
Safety Valve - Councillor Gee suggested inviting the Director Children's Services and the Executive Member Children's Services to a future meeting to provide an update.	Helen Watson/Prue Bray
The Assistant Director Governance agreed to check the relevant Director and Executive Member for the cyber security and information governance risks.	Andrew Moulton
Councillor Kaiser noted that there was £16.5million of debt over 30 days. The Assistant Director Finance commented that some of this could be with other public bodies, which reduced the risk. Work was being undertaken around the debtors service. Members would be provided with a breakdown of the £16.5million.	Graham Cadle
Internal Audit report – Mike Drake suggested the inclusion of a management comment on how risk concerns were being addressed.	Catherine Hickman
The Head of Internal Audit and Investigations agreed to check if there were any overdue high risk concerns.	Catherine Hickman
Visibility of community assets audit.	Catherine Hickman
Councillor Kaiser referred to a delay in charges for deferred care payments. He questioned what was meant by 'alternative recovery methods are being sought.' The Assistant Director Finance agreed to feed back on this matter.	Graham Cadle
The Assistant Director Governance informed the Committee that a report on the CIPFA Code of Financial Management would be taken to the next Committee meeting.	Andrew Moulton
Audit Committee annual report to be presented at March meeting.	Andrew Moulton

Wokingham Borough Council
Audit planning report

Year ended 31 March 2022

January 2023

Agenda Item 51.

20 January 2023

Wokingham Borough Council
Audit Committee
Civic Offices
Shute End
Wokingham
RG40 1BN

Dear Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Wokingham Borough Council, and outlines our planned audit strategy in response to those risks. We have not yet completed our detailed planning procedures and any changes to our risk assessment will be communicated to the Committee at the earliest opportunity, or we will circulate the plan separately if Members prefer.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

For and on behalf of Ernst & Young LLP

Enc

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Wokingham Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Wokingham Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Wokingham Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2021/22 audit strategy

2021/22 Audit

2021/22 financial statements audit

In our outline audit plan, presented to the Committee in July 2022, we reflected wider national issues around the factors leading to delays in audit opinions and CIPFA LASAAC paper. In addition there has been the delay to the majority of local government audit reports due to the accounting for infrastructure assets. This has been addressed in the 2020/21 audit and therefore we have not included a risk in relation to this in our audit strategy. However, we will need to keep this under review during the 2021/22 audit.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change in risk or focus from prior year	Details
Misstatements due to fraud or error (management override)	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk/ Significant risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We believe the risk of manipulation is most likely to manifest in the incorrect capitalisation of revenue expenditure through either inappropriate additions to Property, Plant and Equipment (PPE) and Investment Property (IP) or incorrect classification of expenditure as Revenue Expenditure Funded from Capital Under Statute (REFCUS), as there is an incentive to reduce expenditure which is funded from Council Tax.
Valuation of Land & Buildings in PPE and IP	Significant risk	No change in risk or focus	The value of land & buildings in PPE and in IP represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, covering both those assets that are revalued within the year and the continuing material accuracy of those valued in prior periods. We identified errors in the previous two years' audits which required material adjustments to the reported land and buildings value in both PPE and IP.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change in risk or focus from prior year	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Royal Borough of Windsor & Maidenhead, the Berkshire Pension Fund Administrator. The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Going Concern Disclosure	Inherent risk	No change in risk or focus	There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the Council to ensure it's going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change in risk or focus from prior year	Details
Accounting for Public Finance Initiative (PFI)	Inherent risk	No change in risk or focus	The PFI liability and associated expenditure represent material figures within the Council's financial statements. The accounting for a PFI scheme involving reliance on historic accounting models and a number of judgements. Errors within the models or changes in judgement can have a material impact on the financial statements. We therefore recognise the PFI scheme as an area of audit focus. There is a risk the Council fails to account properly for the PFI contract. Due to the size and complexity of the PFI and associated transactions, we believe there is a potential to have an impact on the financial statements. In 2018/19, we commissioned a detailed review of the RE3 Waste PFI arrangements for Bracknell, Reading and Wokingham Councils by our PFI specialist. This included a review of the assumptions used in the RE3 PFI accounting model and commenting on local adjustments made to the model. Our work will focus on any changes to estimates within the model and accounting plus future inflation assumptions.
Group Accounting	Inherent risk	No change in risk or focus	The Council prepares group accounts which involves consolidating the financial statements of its following four subsidiaries: • Optalis Limited that provides Adult Social Care Services; • WBC Holdings (WBCH) Limited that provides social and affordable housing. (WBCH also includes Wokingham Housing Limited, Loddon Homes Limited and Berry Brook Homes Limited as its subsidiaries) These subsidiaries contain accounting entries and balances that can be considered material or significant to the group, and will be classified as either full or specific scope audits. This is consequently an area of potential complexity and judgement requiring regular revision by senior management.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change in risk or focus from prior year	Details
Cash and cash equivalents	Inherent risk	No change in risk or focus	The Council has a number of imprest bank accounts within its portfolio that were not reconciled on a regular basis in prior years, resulting in unexplained differences between the Council's accounting records and statements from the relevant financial institutions. Although these differences have not been material, there is a need to perform reconciliations on these accounts to ensure appropriate record keeping and prevent any undetected irregularities.

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Overview of our 2021/22 audit strategy

Group Materiality

Planning materiality £8.48m	Materiality has been set at £8.48m, which represents 2% of the final 2020/21 gross expenditure on provision of services. The amount we consider material at the end of the audit may differ from our initial determination, and will be determined on receipt of the draft 2021/22 financial statements in February 2023. In addition we will also consider items which are ‘qualitatively’ material to the users of the financial statements. This includes the remuneration report disclosures subject to audit and the disclosure of losses & special payments. Errors identified in these areas will be individually assessed based on their impact to the users of the financial statements.
Performance materiality £4.24m	Performance materiality has been set at £4.24m, which represents 50% of materiality. See section 04 for further details.
Audit differences £424,000	We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £424,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

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Overview of our 2021/22 audit strategy

Council Materiality

Planning materiality

£7.78m

Materiality has been set at £7.78m, which represents 2% of the final 2020/21 gross expenditure on provision of services. The amount we consider material at the end of the audit may differ from our initial determination, and will be determined on receipt of the draft 2021/22 financial statements in February 2023. In addition we will also consider items which are 'qualitatively' material to the users of the financial statements. This includes the remuneration report disclosures subject to audit and the disclosure of losses & special payments. Errors identified in these areas will be individually assessed based on their impact to the users of the financial statements.

Performance materiality

£3.89m

Performance materiality has been set at £3.89m, which represents 50% of materiality. See section 04 for further details

Audit differences

£389,000

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £389,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2021/22 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Wokingham Borough Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and

- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Wokingham Borough Council Council's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements

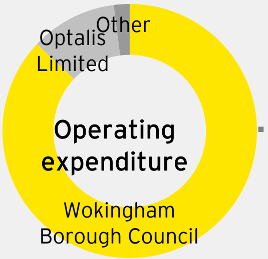
Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

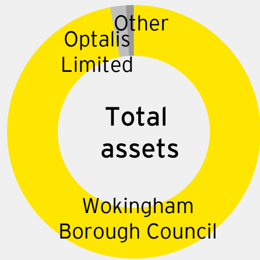
Overview of our 2021/22 audit strategy

Audit scope – for group audit

Through our on-site work we will cover the following percentages, by full scope and specific scope audits, of operating expenditure and total assets.



100% (2021/22) of the group's operating expenditure is covered by full and specific scope audits.



100% (2021/22) of the group's forecast total assets is covered by full and specific scope audits.

- We have specifically considered the scope of our audit in response to the identified risks above, which has impacted the work which we have instructed the component auditors to carry out and the extent of procedures performed

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- For those entities that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations
- Section 5 provides an overview of the nature of our planned involvement in the work to be performed by the component auditors
- We intend to take a substantive audit approach.

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the Council's arrangements against three reporting criteria:
  - 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; and
  - 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.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error *

(management override)

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Financial statement impact

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

We will undertake our standard procedures to address the fraud risk, which include:

- Identifying fraud risks during the planning stages;
- Inquiry of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address those identified risks of fraud; and
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
    - Testing of journal entries and other adjustments in the preparation of the financial statements.
    - Reviewing accounting estimates for evidence of management bias.
    - Evaluating the business rationale for significant unusual transactions.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure and REFCUS *

Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to PPE.

In 2020/21, the Council incurred additions to PPE of £110.4m (Group of £117.8m) with nil additions to IP and REFCUS of £4.3m.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Test PPE additions using lowered testing thresholds, to ensure they are appropriately supported by documentary evidence, and that the expenditure incurred and capitalised is clearly capital in nature;
- Seek to identify and understand the basis for any significant journals transferring expenditure from non-capital codes to PPE additions or from revenue to capital codes on the general ledger at the end of the year; and
- Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of Land & Buildings in PPE and IP

Financial statement impact

The valuation of land and buildings and investment properties represent material figures within the Council's financial statements.

Those valuations are reliant upon judgements and assumptions which can have a material impact on the values on the Council's balance sheet.

PPE assets were valued at £510.8m, Council Dwellings at £234.8m and Investment Properties at £36.1m in the final 2020/21 audited financial statements.

What is the risk?

The value of land & buildings in PPE and in IP represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.

Misstatements were furthermore identified in property valuations during the previous two years' audits that required subsequent material adjustments to PPE and IP.

What will we do?

We will:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Challenge the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists (as necessary – such as significant or unusual movements in valuation, difficult to value specialist assets, etc.)
- Sample testing key asset information used by the valuer in performing their valuation (e.g. building areas to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that all relevant properties have been valued within a 5 year rolling programme as required by the Code for PPE, and annually for IP. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
<u>Pension Liability Valuation</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Berkshire County Council Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead (RBWM). The Council's pension fund liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled 357.17m. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management	We will: ▸ Liaise with the auditors of Berkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Wokingham Borough Council; ▸ Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; ▸ Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. We undertake our work after production of the Council's draft financial statements, when the year-end actuarial valuation of pension fund assets is available. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required. We note there have been significant delays in obtaining the assurances over the from the auditors of Berkshire Pension Fund in prior years. We expect these delays to continue to impact the audit for 2021/22. We are considering whether there are alternative approaches to gaining the appropriate assurance over the controls within the Pension Fund to reduce the impact of these delays.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
<u>Going Concern Disclosure</u> There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 during 2021/22, there is a need for the Council to ensure it's going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.	We will: ▸ Challenge management's identification of events or conditions impacting going concern; ▸ Test management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias); ▸ Review the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow; ▸ Undertake a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ Challenge the disclosure made in the accounts in respect of going concern and any material uncertainties.
Accounting for Public Finance Initiative (PFI) The Council has one waste PFI arrangement with the Waste Recycling Group RE3 Limited. This is a joint PFI contract entered into with Reading and Bracknell Forest Councils in 2006/07 for the disposal of waste. The total outstanding value of the contract is estimated to be £101.5m as at 31 March 2021, to be shared between the Councils based on usage. Actual payments are based on the contractor's performance as well as that of the individual councils in waste collection. Estimated payments to be made by Wokingham Borough Council under the contract are £37.8m over the next 10 years of the contract. As part of the contract, the contractor built a transfer station, materials recycling facility, civic amenity site and offices. The Council's share of the assets, valued at £6.4m as at 31 March 2021, are recognised as Property, Plant and Equipment on the Council's Balance Sheet. The liability resulting from the contract, at the end of March 2020, was reported as £5.3m.	PFI is a complex area and we commissioned a detailed review of the RE3 arrangements, for the three councils involved, namely Bracknell Forest, Reading and Wokingham Borough Councils as part of the 2018/19 audit. Work conducted by our PFI specialist in 2018/19, included: ▸ a review of the assumptions used in the RE3 PFI accounting model; and ▸ comment on local adjustments, if any, by Wokingham Council, made to the output from the RE3 model held by the host council, Reading Borough Council. For the 2021/22 audit, our work will include: ▸ a review of the assurances brought forward from prior years regarding the appropriateness of the PFI model; ▸ a review of the calculations behind the inputs in the accounting models; ▸ a review of the assumptions used in the Waste PFI accounting model; ▸ a review to ensure that the inputs into the accounting models are consistent with the PFI contract and agree to underlying records and the operational model; ▸ commenting on local adjustments, made by the Council, following any changes to the accounting model held by the host council, Reading Borough Council; and ▸ ensuring the accounting entries and disclosures made in the financial statements are consistent with the accounting model and the changes to the contract.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
Group Accounting IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Council has interests in other entities, it needs to undertake qualitative and quantitative assessments to inform its decisions as to whether group accounts are required. The Council is therefore required to prepare group accounts which involves consolidating the financial statements of its following subsidiaries: ▸ Optalis Limited that provides Adult Social Care Services; ▸ WBC Holdings (WBCH) Limited that provides social and affordable housing. WBCH also includes Wokingham Housing Limited, Loddon Homes Limited and Berry Brook Homes Limited as its subsidiaries. These subsidiaries contain accounting entries and balances that can be considered material or significant to the group, and will be classified as either full or specific scope audits. In 2019/20, misstatements in group consolidation entries and workings, group cash flow calculations, and the misalignment of accounting policies between the group accounts and those of the subsidiaries required numerous corrections to the consolidated group accounts. This is consequently an area of potential complexity and judgment requiring regular review.	We will: ▸ Consider if these subsidiaries are individually material or significant to the group, and classify them either full or specific scope audits; ▸ Instruct the auditors of these subsidiaries (Hazlewoods Limited for Optalis Holdings Limited; and Haslers for WBCH Limited and its subsidiaries) to undertake a predetermined programme of work; ▸ Engage with the audit teams at Hazlewoods Limited and Haslers to discuss the work performed and their audit findings; ▸ Review the work performed by the auditors of the subsidiaries; ▸ Seek assurances from the auditors of these subsidiaries to ensure their 2021/22 financial statements do not contain material misstatements which may impact the consolidated group financial statements; ▸ Review consolidation entries and workings to ensure that financial performances and balances of the subsidiaries have been appropriately consolidated into the Authority's financial statements, especially in light of the changes to the group holdings for Optalis Limiited; and ▸ Review the Group Cash Flow Statement in the consolidated group financial statements and its workings to ensure appropriate disclosure in accordance with IAS 7.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
Cash and cash equivalents There are a number of imprest bank accounts within it Council's current portfolio included in Cash and Cash Equivalents of £131.6m as at 31 March 2021. In the prior year these imprest bank accounts contained a number of unreconciled differences between the Council's accounting records and statements from the relevant financial institutions. Although these differences were not material, there is a risk relating to appropriate record keeping and prevention of undetected irregularities in the absence of these reconciliations performed on a regular basis.	We will increase our focus on these imprest bank accounts to confirm that regular bank reconciliations are performed to ensure that there are no unexplained differences between the Council's accounting records and statements from the relevant financial institutions.

03 Value for Money Risks

Value for Money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

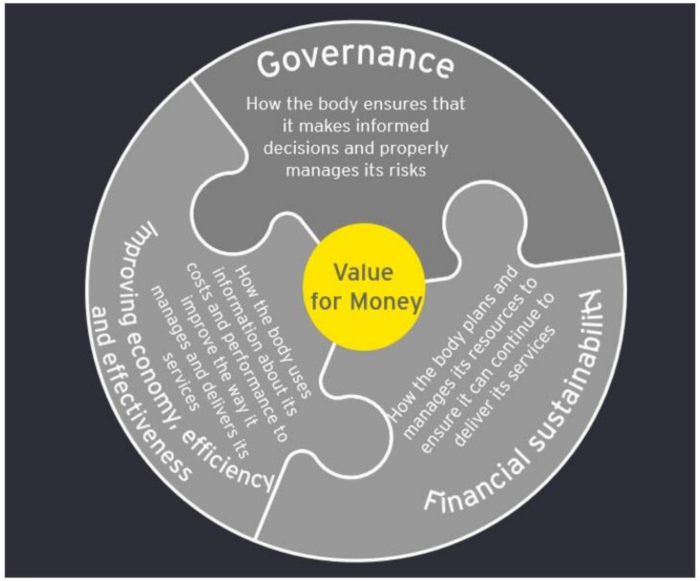
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified 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.



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit, Standards and Statutory Committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

Our risk assessment is not yet complete. As part of completing our risk assessment we will consider:

- Our entity level controls and understanding the business assessment
- Council meeting minutes
- Our planning meetings with management
- Key financial and budget information
- Key performance reports
- Our cumulative knowledge and experience
- Other documentary evidence available on the Council's website

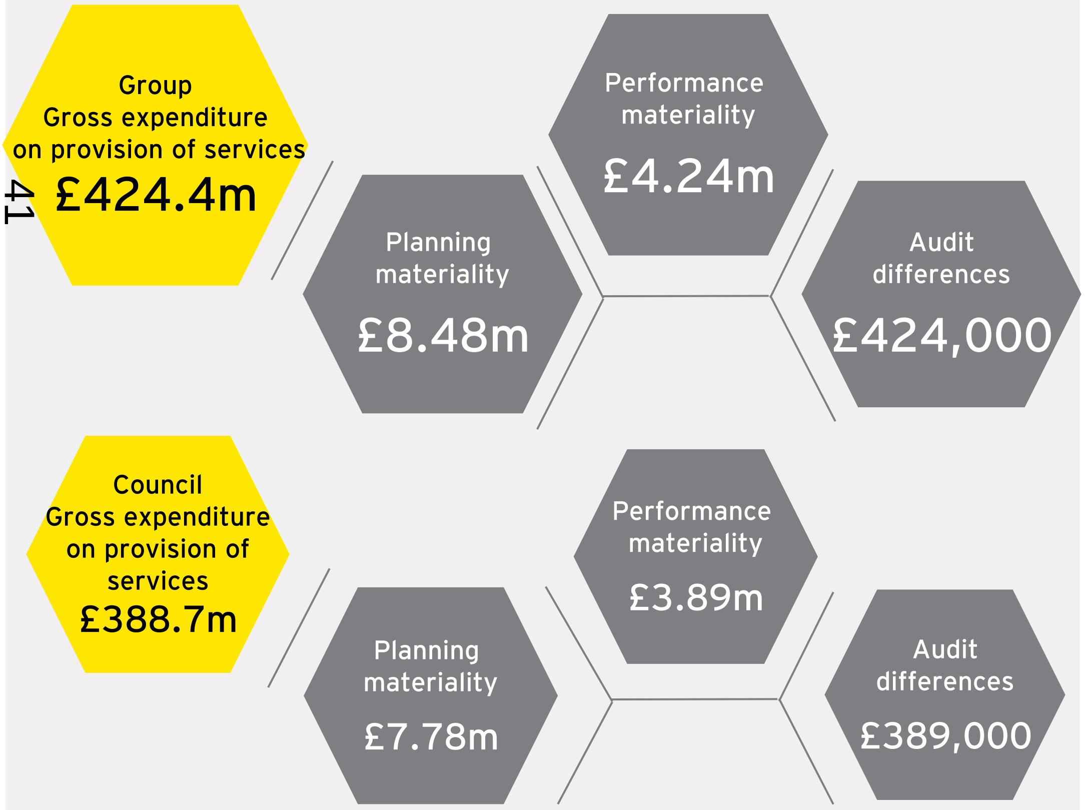
We have not identified a risk of significant weakness in the Council's arrangements that the Council did not have proper arrangements to secure economy, efficiency and effectiveness on its use of resources at that time in our work completed to date.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for the Group financial statements for 2021/22 has been set at £8.48m. This represents 2% of the Group's 2021/22 gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £4.24m which represents 50% of planning materiality. This has been reduced from 75% due to the volume and value of errors identified in the 2020/21 audit.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Standards and Statutory Accounts committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £4,000 for remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

Materiality

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances and exit packages: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Change in Tolerable Error

We have reduced our tolerable error level from 75% to 50% compared to the prior year due to the high level of corrected and uncorrected misstatements identified during the 2020/21 audit.

We have considered the number of misstatements, their value individually and in aggregate, the nature of the misstatements, including whether they were factual, projected or judgmental misstatements, and whether they related to routine classes of transactions, non-routine transactions or to areas of estimation. We also considered the fact that these impact on more than one balance within the financial statements in determining the appropriate level to set tolerable error. We consider that, based on the outcome of the audit of 2020/21 there is a higher likelihood that misstatements may occur within the financial statements.

The impact of a lower tolerable error level on the audit is that our testing thresholds will be lower and our sample sizes will increase compared to prior years as a result.

In addition to the impact on the setting of the tolerable error level, the turnaround impact of the uncorrected misstatements identified in 2020/21 will also be included in our accumulative assessment of any corrected and uncorrected misstatements identified in 2021/22. This effectively lowers the threshold of the cumulative uncorrected misstatements we can accept as part of the audit.

We are aware the 2020/21 audit results have not yet been reported to the Audit Committee and we will provide an update on materiality and our planned risks to the Committee once we have reported these results.

We request that the Audit and Assurance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our opinion on the financial statements:

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

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:
We will review internal audit plans and the results of their work. We use this to inform our ongoing assessment of risks likely to impact our responsibilities.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix A.

2	A	Full scope audits
3	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

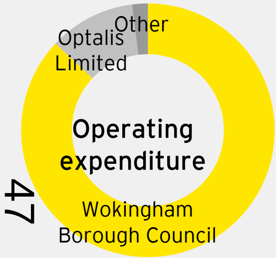
Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. We have not identified any group entities of this nature as part of Wokingham Borough Council Council.

Scoping the group audit

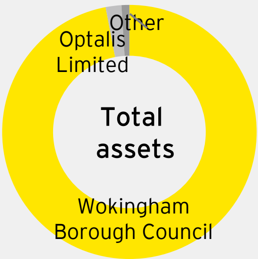
Coverage of Surplus/Deficit and Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the group's operating expenditure and total assets.



100% (2021/22)

of the group's operating expenditure is covered by full and specific scope audits.



100% (2021/22)

of the group's forecast total assets is covered by full and specific scope audits.

Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Key changes in scope from last year

There has been one significant change in the group structure since the prior year which does not impact on the work which we plan to perform, therefore the scope of the group audit has not changed. Optalis Limited was previously owned by Optalis (Holdings) Limited, which was jointly owned by Wokingham Borough Council and the Royal Borough of Windsor & Maidenhead and is now directly owned by the two Councils.

Details of other procedures

- Optalis Limited will be covered by full scope procedures
- WBC Holdings (WBCH) Limited and its subsidiaries Wokingham Housing Limited, Loddon Homes Limited and Berry Brook Homes Limited will be covered by specific scope procedures
- In order to respond to the significant risk identified in relation to valuation of land and buildings, we will review the valuation of the assets, rather than requesting the auditors of Loddon Homes Limited and Berry Brook Homes Limited to perform specified procedures on our behalf. We consider this to be the most efficient manner to obtain this assurance.

06 Audit team

Changes to the Audit Team

Under the PSAA terms of contract, Helen will reach the maximum length of time she is allowed to serve as your engagement partner at the conclusion of the 2021/22 audit. Alongside this, PSAA is responsible for appointing an auditor from 2023/24 to eligible bodies that have chosen to opt into its national auditor appointment arrangements and has recently announced the outcome from this exercise. To manage the transition from EY to the new audit firm, Janet Dawson is taking over as engagement partner for 2021/22. She will be supported by Helen to ensure a smooth transition. They will both be supported by Hannah Lill as your new engagement manager.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Management specialist: CBRE, Cushman and Wakefield, Colliers, Sanderson Weatherall – RICS Registered Valuers EY Real Estate Specialists
Pensions disclosure	Management specialist: Barnett Waddingham - Actuary EY Actuaries PWC Actuary commissioned by NAO

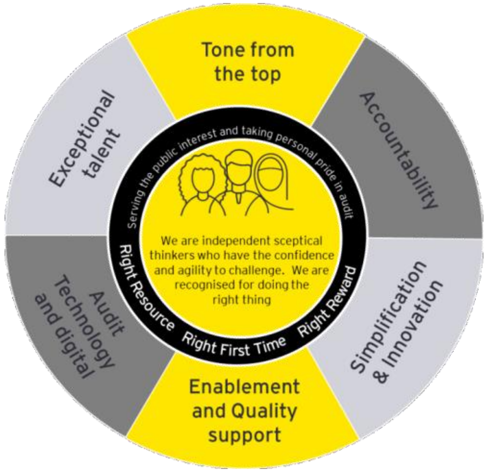
In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
   - **Right resources** – We team with competent people, investing in audit technology, methodology and support
   - **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
   - **Right reward** – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of **Sustainable Audit Quality** are implemented.

01 **Tone at the top**

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

02 **Exceptional talent**

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management

03 **Accountability**

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

04 **Audit technology and digital**

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

05 **Simplification and innovation**

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

06 **Enablement and quality support**

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

2021 Audit Culture Survey result
A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures…..have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

Sir John Thompson
Chief Executive of the FRC

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

At the point of issuing this report we have not yet completed the audit of 2020/21; this has impacted our timetable for 2021/22. We have started our audit planning in January 2023, including the completion of system walkthroughs, and have sent group instructions to the component auditors and held an initial meeting with both firms. We have also booked time In February to select samples for the year end audit and time in April to review the work of the component auditors. Our current plan is to start the year end audit in July 2023 with the aim to complete by the end of November subject to receiving the assurances from the Pension Fund auditors.

We continue to liaise with the auditor of Berkshire Pension Fund and we are considering whether there are alternative procedures we can apply to gain the relevant assurances. We will keep the Audit Committee updated through our attendance at Committee meetings.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit/additional services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Janet Dawson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval.

In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the only non-audit work undertaken is the certification of the Council's Housing Benefit Claim. We are satisfied that no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Relationships, services and related threats and safeguards

Management threats
Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2022
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022: EY UK 2022 Transparency Report | EY UK

09 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Final Fee 2020/21	Final Fee 2019/20
	£	£	£
PSAA Scale Fee	81,325	81,325	81,325
Scale Fee Rebasing: (Note 1)	73,318	73,318	
Total agreed fees:	**154,643**	**154,643**	
In-year fee variation due to additional work from reduced materiality, prior period adjustments, group accounts, going concern, pension valuations, Land & Buildings valuations within PPE & IP, the use of an expert in relation to these Land & Buildings valuations, and data preparation issues. (Note 2)	TBC	TBC	68,541 (Determination by PSAA) (Note 1)
PSAA expected additional minimal core fees (Note 3): ISA 540 accounting estimates	4,400	4,400	
PSAA expected additional minimal core fees (Note 2): ▸ VFM	10,000 to 19,000	10,000	
Total audit related fees	TBC	TBC	149,866
Housing Benefit claim certification fees	TBC	TBC	47,000

All fees exclude VAT

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

➢ Officers meeting the agreed timetable of deliverables;

➢ Our accounts opinion being unqualified and having nothing to report by exception for value for money;

➢ Appropriate quality of documentation is provided by the Council; and

➢ The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

We have updated the table opposite to estimate the fee based on the work completed at the point of issuing this report. These figures could change, and need to be agreed with officers and the PSAA. Any further additional fees for 2021/22 will be communicated to officers following the completion of the audit.

Notes are on the following page.

Appendix A

Fees (continued)

Notes to the fee table

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £73,318. This was based on the amount of £58,655 we shared with the Council in 2019/20, uplifted for the 25% increase in PSAA hourly rates. We also submitted a further in-year fee variation of £56,528 as explained in note 2 below for the 2019/20 audit. PSAA has determined the total fee variation across both elements for 2019/20 as £68,541. We expect similar costs in nature in 2020/21 and subsequent years. However, PSAA has stated that this will need to be determined each year.

Note 2 - During 2020/21 we undertook additional work to address specific risks identified. However, as the audit is ongoing, we have not yet calculated an additional fee for discussion. For 2021/22 we expect similar additional work to be performed in addition to additional work required as a result of lowering our tolerable error level.

Note 3 - PSAA communicated a range of fees in August 2021 for the new requirements of the 2020 Code of Audit Practice, and the revised International Standard of Auditing 540 on Estimates. In the absence of further information, we have rolled these ranges forward for 2021/22.

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Appendix B

Required communications with the Audit Committee

Our Reporting to you

We have detailed the communications that we must provide to the Audit Committee.

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – February 2023
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – November 2023

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report – November 2023
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report – November 2023
Subsequent events	▸ Enquiries of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit Results Report – November 2023
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility	Audit Results Report – November 2023

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – November 2023
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report – February 2023 Audit Results Report – November 2023

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – November 2023
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit Results Report – November 2023
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report – November 2023

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Planning Report – February 2023 Audit Results Report – November 2023
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – November 2023
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – November 2023
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2023 Auditor's Annual Report – February 2024
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report – February 2023 Audit Results Report – November 2023
Value for Money	▸ Risks of significant weakness identified in planning work ▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Audit Planning Report – February 2023 Audit Results Report – November 2023 Auditor's Annual Report – February 2024

Appendix C

Additional audit information

Objective of our audit

Our objective is to form an opinion on the Council's and Group's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's and the Group's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council and the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	► Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. ► Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period
Other procedures	► We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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Agenda Item 52.

TITLE	**Corporate Risk Register Review**
FOR CONSIDERATION BY	Audit Committee on 1 February 2023
WARD	None Specific
LEAD OFFICER	Deputy Chief Executive - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Enterprise Risk Management (ERM) provides for robust and transparent decision-making. Effective ERM is therefore an integral part of the Council's governance arrangements and helps demonstrate the effective use of resources and sound internal controls. The Council's Risk Management Policy and Guidance sets out the policy framework and formally guidance for officers to enable them to pro-actively identify and manage its risks.

RECOMMENDATION

The Audit Committee is asked to review the Corporate Risk Register (at Appendix A) to determine that strategic risks are being actively managed.

SUMMARY OF REPORT

The Corporate Risk Register has been revised by the officer Risk Management Group and Corporate Leadership Team and is shown at Appendix A.

The Council's top corporate risks are:
- Budget and financial resilience
- Health & Social Care Reform

The Director of Children's Services will present the report to the Committee.

Since the register was last reported to Audit Committee on November 2022, one new risk has been added:
- Risk 20 Website Replacement

The following risk has seen an increase:
- Risk 9 Cyber Attack

The following risk has decreased:
- Risk 19 Elections

Following a request from the Audit Committee the report includes a spotlight on Risk 5 Outcomes and Costs for Children with SEND.

The Council's approach to risk management is being benchmarked by internal audit and the results will be reported to the Committee in due course.

Background

The Council's Constitution sets out the remit of the Audit Committee as follows with regard to Risk Management.

> *Extract from Constitution (paragraph 4.4.3.2 (d))*
> *To provide an independent assurance of the adequacy of the Risk Management Strategy and the associated control environment. In particular:-*
>
> *i) To receive the annual review of internal controls and be satisfied that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it;*
>
> *ii) To receive quarterly reports reviewing implementation of the Council's Risk Management Policy and Strategy to determine whether strategic risks are being actively managed;*
>
> *iii) To review, revise as necessary and recommend adoption of the Risk Management Policy and Strategy to Executive when changes occur;*
>
> *iv) To have the knowledge and skills requisite to their role with regard to risk management and to undertake awareness training in respect of Enterprise Risk Management (ERM) as and when specific training needs are identified.*

Analysis of Issues

The following changes have been made to the Corporate Risk Register since the register was last presented to the Committee on 27th June 2022

2.1 Increased risk - Risk 1 Financial Sustainability

<Update following S151 report to Executive.> The Council's financial position remains challenging. Further information on the financial risks facing the Council can be found in the S151 Officers Report <link>

2.6 Risk 9 Cyber Attack increased likelihood

The risk of cyber-attack has increased. Routine monitoring of cyber-attacks has shown an increase in general and targeted acts. The Council has brought on-board specialist advisors to strengthen our cyber response. The Council has undergone a simulated phishing attack, with additional training for those that fell for the deception. The Council has reviewed its approach to Cyber security against the National Cyber Security Board Toolkit and created an action plan to strengthen the Council's approach. The increase in risk is likely to remain for the medium term but this risk is volatile due to the dynamic threat environment.

2.7 No Change Risk 12 Health & Social Care Reform

Further consideration is needed to understand the impact of the Autumn Statement. However, People at the Heart of Care will proceed, which will place additional pressure on the service including assurance and inspection readiness. The risk level will be regularly reviewed as more official and confirmed information is released.

2.8 Update Risk 4 Uncontrolled Development

The DLUHC announcement of a consultation on housing targets is welcome signal and we are monitoring the details to analyse the impact that this has on the 5 Year Housing Land Supply and the local planning process. Until the detail is know the risk of uncontrolled development remains.

2.8 Update Risk 19 Information Governance Risk

The Council has struggled to respond within appropriate timescales set by the Information Commissioner Office to increased demand for Subject Access Requests. This has largely been driven by an increase in demand in Children's Services where requests can be complex and large. This is a national trend and other local authorities are experiencing similar challenges. The Council has responded by recruiting experienced resources internally and utilised an external redaction service to reduce the backlog. Work continues to proactively manage demand in the area of care leavers through the creation of life stories that support carers understand their life without recourse to their statutory rights. This risk is likely to remain at its current level in the short to medium term.

2.8 Escalated Risk 20 Website Replacement

The technology that supports our current website will be end of life from 31st July 2023. This is something that we had previously planned for and was supported through a capital and growth bid in the MTFP. This means that the Council needs to move the website to a new website publishing platform. The main website is our virtual front door. The site has 4 million views per year and 48,000 customer transactions. Additionally, there are six 'microsites' covering standalone areas such as Schools, Countryside Services and News effected by the changes. This is a significant project and poses a significant risk. If the risk materialises the impact on residents would be extensive and prolonged, incurring additional costs to deal with more expensive channels of communication and reputational damage to the Council as a whole.

This project is subject to extensive governance reporting through to CLT via Monthly Portfolio Board, it has its own project Risk Register, the project has prioritised content of key services, the project has engaged an experienced supplier to support the process and has secured resources to deliver the project. Contingency plans have been developed to ensure that a copy of the old website is available should the new website fail. There is contingency in the project timeline between go-live and the switch off the old website.

The high level of risk is likely to be of a short-term nature until the new website becomes operational. The project creates the opportunity for the Council to improve the functionality of the current website particularly improvements around its accessibility to users of assisted technology and optimisation for mobile users. This is likely to be a short term risk.

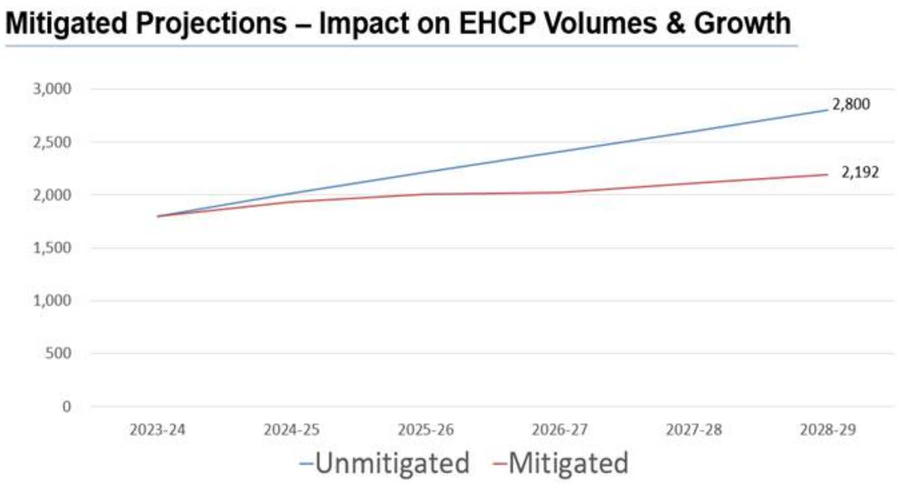
Risk Spotlight

2.9 Risk 5 Outcomes and Costs for Children with Send

At its November meeting the Committee asked for further information related to risk 5 and specifically the Governments Safety Valve Programme.

Since the 2014 SEND reforms, which enabled greater eligibility for children and young people with SEND to be supported by local area services, there has been an increase in the volume and complexity of SEND need within the borough. A lack of funding to support these additional statutory duties/responsibilities has resulted in significant overspend against the High Needs Block of the Dedicated Schools Grant (DSG). This is a national issue and is reflected in the vast majority of LA's, however there is a variation in the overall deficit impact between authorities. As such the DfE/ESFA have launched two key programmes to respond. 'Safety Valve' is for LA's with the highest proportion of DGS deficit, and 'Delivering Better Value' is for LA's with a lower proportional deficit. Safety Valve attracts DfE/ESFA funding against a quarterly monitoring agreement, whereas the Delivering Better Value programme does not attract investment but does receive analytic support.

The current Deficit for Wokingham is c£10m, rising to c£40m by 2028/29 (inclusive of safety valve mitigations). Excluding the safety valve mitigations the cumulative deficit could be in excess of c£100m.



The Safety Valve programme is to identify different ways of investing/working to reduce the deficit and create a balanced budget position within the lifetime of the programme (c5 years). As part of the agreement with the DfE/ESFA additional funds will be released to assist with the reduction of any cumulative deficit amount.

The key challenges on reducing the deficit are linked with what is recognised nationally as insufficient funding to cover the expanded costs of meeting SEND need following the 2014 reforms. This lack of funding has been further exacerbated by increasing need (volume and complexity) within the SEND system and a lack of affordable local provision.

The Safety Valve Programme consists of a variety of workstreams covering demand management, direct delivery and provision in order to deliver a more cost efficient system that continues to meet the needs of children with SEND and improve the support and provision available to them. The programme is 5 years (with potential to extend to 6 years). This risk is therefore likely to remain at its current level for the medium term.

Children's Services Directorate Risks

2.10 The Corporate Risk Register is the top of the risk management pyramid. Risks are being managed across the Council at strategic, tactical and operations on a daily basis. Many risks are managed at a Directorate level. This meeting will focus on the top Directorate risks in Children's Services that are not on the Corporate Risk Register. These are:

- Failure to deliver School Improvement activity
- Home to School Transport risk of overspend due to increasing demand
- Risk of non-achievement of MTFP savings targets

2.11 Other Directorate risks will be presented in forth coming meetings but the current risks will be found in the MTFP under each service narrative.

Other Risk Management Activity

2.12 The Internal Audit Team are currently conducting an audit of Risk Management using the Institute of Internal Auditors maturity model. The results of this audit will enable the Risk Management Group to identify areas for improvement. Internal Audit will report the findings separately to the Committee.

2.13 Work continues to embed Risk Management across the Council's programme management approach by strengthening the links with the Risk Management Group. Briefings have been delivered to Senior Responsible Owners. Further work on risk in procurement and contract management has taken place to support integration of those risks into the risk management structure.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities. we r committing tax fraud

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue
Next Financial Year (Year 2)	£0	Yes	Revenue
Following Financial Year (Year 3)	£0	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
Effective risk management mitigates financial risks associated with the Council achieving its objectives.

Cross-Council Implications (how does this decision impact on other Council services, including properties and priorities?)
Risk management influences all areas of the Council – effective risk management is one of the ways assurances is provided that the Council's key priorities and objectives will be achieved.

Public Sector Equality Duty
An Equality Impact Assessment is not required on the Corporate Risk Register. The impact on Equality is assessed in the impact of each risk.

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*
The effective management of risk supports the achievement of this important priority

Reasons for considering the report in Part 2
Not applicable.

List of Background Papers
Protiviti global survey top risks 2023-2032

Contact Andrew Moulton, Paul Ohsan Ellis	**Service** Governance
Telephone No Tel: 07747 777298, Tel: 0118 974 6096	**Email** andrew.moulton@wokingham.gov.uk, paul.ohsan.ellis@wokingham.gov.uk

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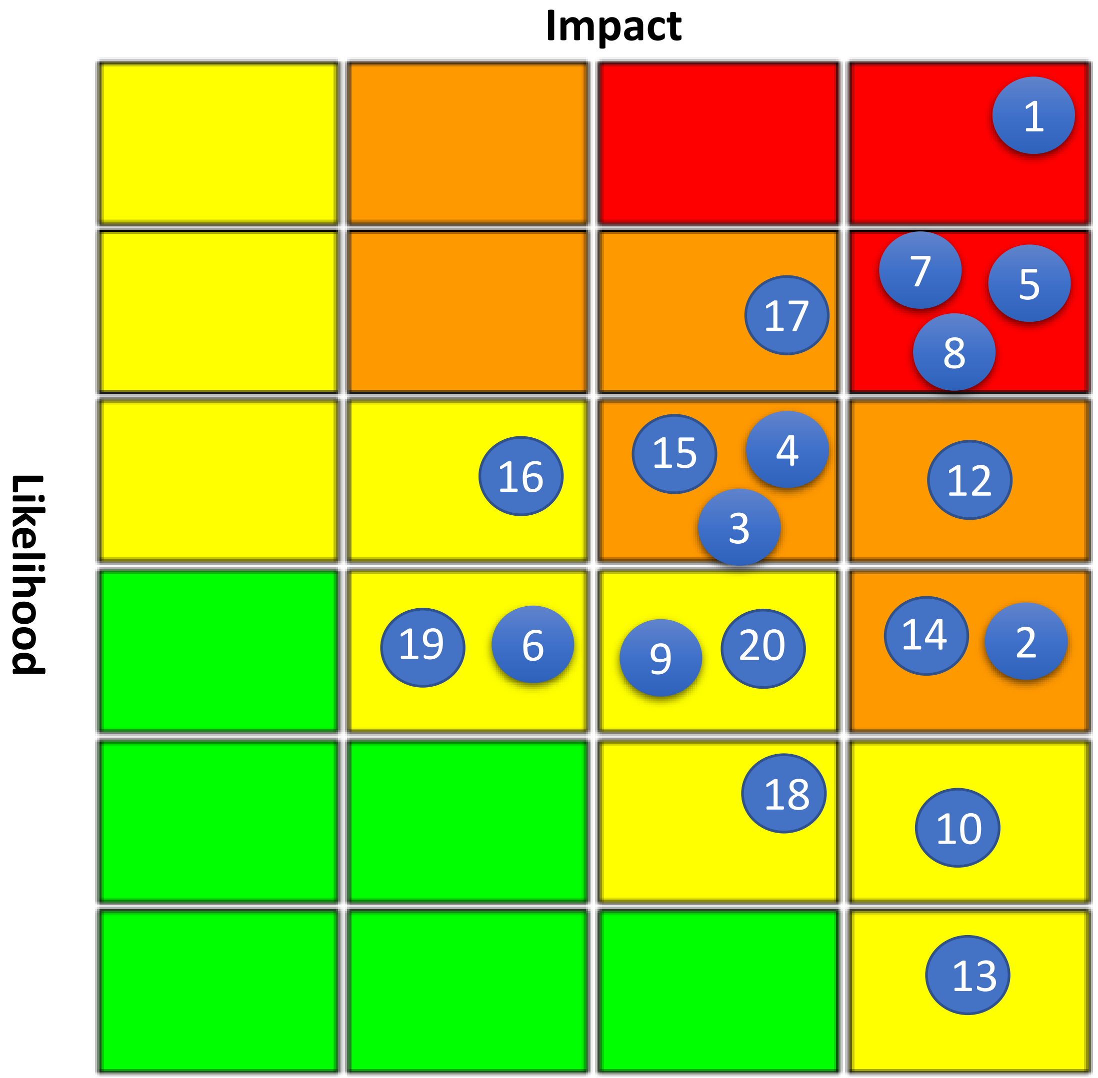
Appendix A - Corporate Risk Register
January 2023

Current Assessment	Very High	High	Medium	Low



Ref	Risk
1	Budget & Financial Resilience
2	Corporate Governance
3	Workforce
4	Uncontrolled Development (Local Plan Update) ↓
5	Outcomes & Costs for Children with SEND
6	Health & Safety ↓
7	ASC Supplier Sustainability and Sufficiency
8	Cyber Security ↑
9	Implementation of Climate Emergency Action Plan ↓
10	Major Emergency Response (e.g. Pandemic)
12	Health & Social Care Reform ↓
13	Adult Safeguarding
14	Children's Safeguarding
15	Inward migration
16	Public Transport ↓
17	Sufficiency of School Places
18	Elections Act Implementation (Voter ID) ↓
19	Information Governance
20	Website Replacement NEW

Key to Abbreviations

CJ Cllr Clive Jones, Leader of Council
CH Cllr Stephen Conway, Deputy leader and executive member for housing
RBF Cllr Rachel Bishop Firth, Executive member for equalities, inclusion and fighting poverty
LF Cllr Lindsay Ferris, Executive member for planning and the local plan
SK Cllr Sarah Kerr, Executive member for climate emergency and residents services
IS Cllr Ian Shenton, Executive member for the environment, sports and leisure
PF Cllr Paul Fishwick, Executive member for active travel, highways and transport
PB Cllr Prue Bray, Executive member for children's services
DH Cllr David Hare, Executive member for wellbeing and adult services
ISD Cllr Imogen Shepherd-Dubey, Executive member for finance
SP Susan Parsonage, Chief Executive
GE Graham Ebers, Deputy Chief Executive & Director of Resources & Assets
SW Sally Watkins, Chief Operating Officer (COO)
HW Helen Watson, Director of Children's Services
SM Steve Moore, Interim Director of Place & Growth
MP Matt Pope, Director of Adult Social Services
AM Andrew Moulton, Assistant Director Governance & Monitoring Officer

Key Priorities (from Community Vision and Council Plan)

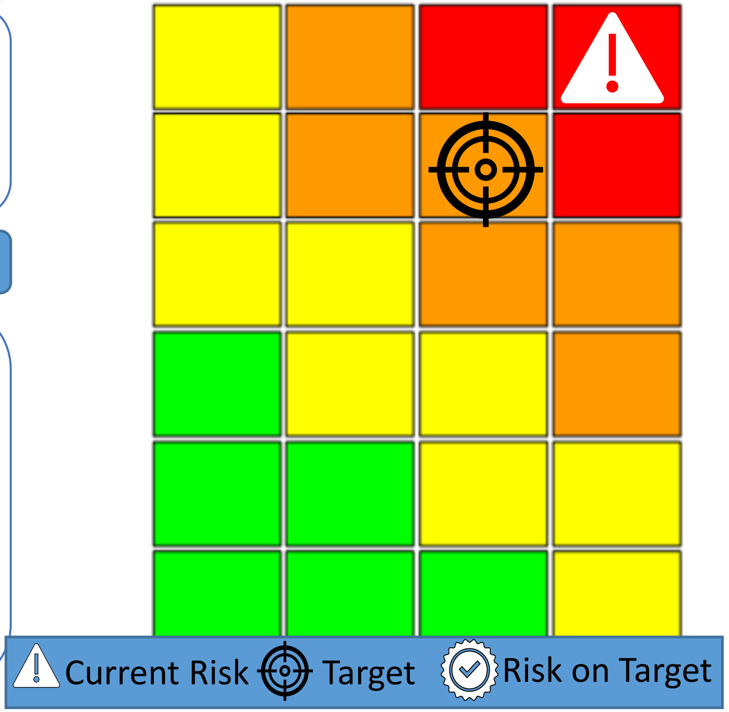
1. Safe, strong communities
2. Enriching lives
3. Right homes, right places
4. Keeping the Borough moving
5. A clean and green Borough
6. Changing the way we work
7. Be the best we can

Key Priority at Risk: Community Vision

Owner		Change
ISD	GE	None

1 RISK: Budget and financial resilience

Due to increased costs (including inflation), loss of income, increased cost of borrowing or non-realisation of forecast savings and increased demand for services due to the cost of living there is a risk that the Council is unable to finance its current services resulting in a reduction in reserves and services.



Existing Controls:

- MTFP (inc CFO report on risk)
- Financial and Contract Regulations (section 12 & 13 constitution)
- Budget Monitoring (Revenue & Capital)
- Capital Strategy
- Treasury Management Strategy
- Commercialisation Strategy (July 21)
- Investing in our Community Strategy (July 21)
- CIPFA Resilience Assessment
- Internal Audit
- External Audit
- Overview and Scrutiny consideration of 23/24 budget

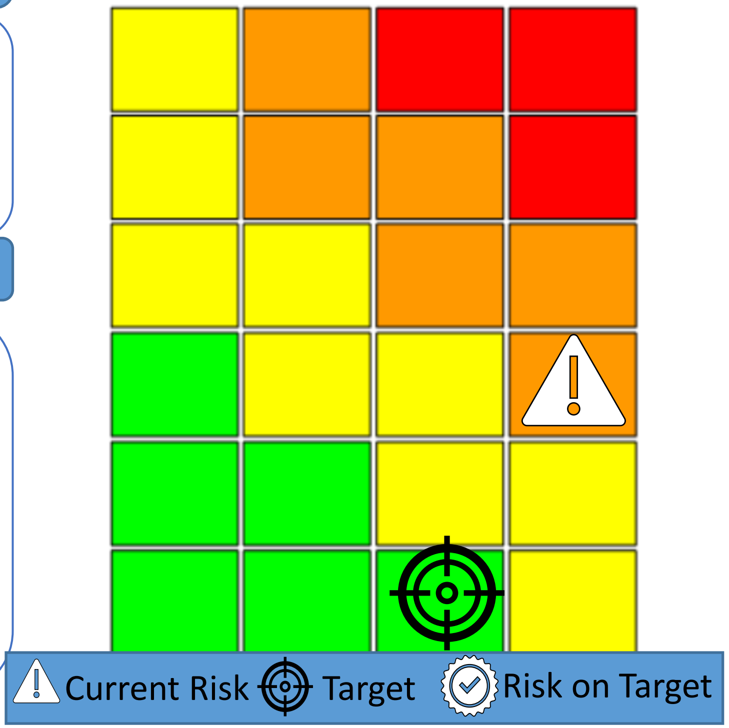
Mitigating Actions	Owner	Date
Work on in-year budget and following year budget pressures	GE	October 22
Organisational Foundation Programme delivery of savings	GE	February 23
Action plans to implement Internal and External Audit findings	GC	March 2023
Ongoing lobbying prior to Dec 22 announcement on three-year settlement	GE	December 2022

Key Priority at Risk: Community Vision

Owner		Change
CJ	SP	None

2 RISK: Corporate Governance

Governing effectively to ensure achievement of the Council's purpose and priorities within the resources available and achieving value for money. Without effective corporate governance, there is a risk that through unethical behaviour or ineffective decision-making, residents lose trust in the way the Council undertakes and carries out its duties.



Existing Controls:

- Community Vision and Corporate Delivery Plan
- Local Code of Corporate Governance
- Constitution (i.e. Council rules of procedure, conduct and compliance)
- Annual Governance Statement
- Performance framework

- Risk Management Policy & Guidance
- Internal Audit
- External Audit
- Standards Committee
- Overview & Scrutiny function
- LGA Corporate Peer Challenge & Follow up visit
- Governance Dashboard

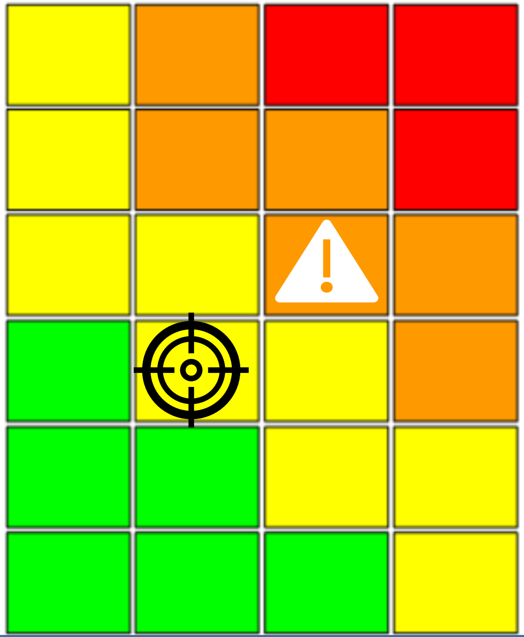
Mitigating Actions	Owner	Date
Review and self assessment against Local Code of Corporate Governance reported in the Annual Governance Statement 22/23	SP	June 2023

Key Priority at Risk: Community Vision, Safe, Strong Communities & Enriching Lives

Owner		Change
RBF	SP	None

3 RISK: Workforce

Due to the national challenges in recruiting permanent staff with the right levels of skills, competence and experience, there is a risk to the council's ability to deliver its community vision, which could, if not managed lead to fines and reputational risks



Current Risk Target Risk on Target

Existing Controls:

- Annual Performance Regime
- HR Hub
- Reward and Recognition
- Training Budgets
- Recruitment Resources
- Corporate Agency Contract
- Workforce Dashboard and Establishment reporting
- IT systems (BWO, Applicant Tracking and Learning Management)
- Mandatory Training
- Learning & Organisational Development Functions

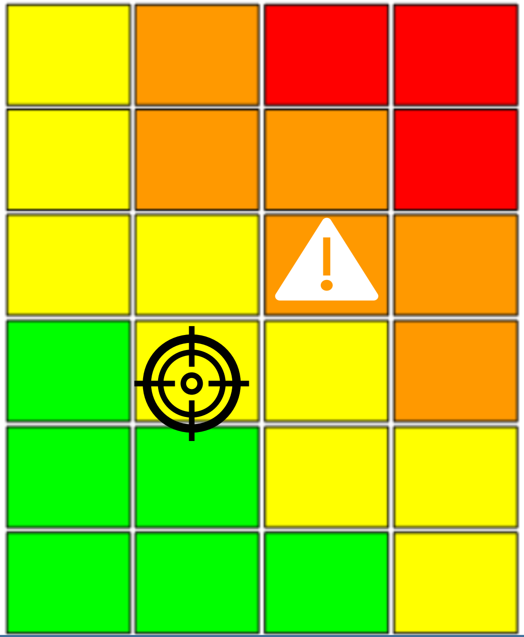
Mitigating Actions	Owner	Date
Engage with stakeholders to undertake HR policy review with implementation and training programme set up to support review	SP	End March 23
Fully populated HR operating model with everyone in post.	SP	End Feb 23
Engagement with stakeholders to write the HR & OD Strategy	SP	End March 23
Creation of a new resourcing team to aid in the attraction and appointment of candidates.	SP	End March 23

Key Priority at Risk: Right Homes, Right Places

Owner	Change
LF, SM	None

4 RISK: Uncontrolled Development - Local Plan Update

Without effective planning policies, there would be no real control or influence over where and how new housing and other types of development take place. This could lead to housing and other forms of development being allowed in poor locations, being of lower quality, and in places where infrastructure cannot be improved to help deal with the impacts.



Current Risk Target Risk on Target

Existing Controls:

- Timetable for adoption of new Local Plan in place but needs to be reviewed
- Resources allocated
- Cross party planning policy working group reconstituted following election of new administration
- Revised growth strategy consulted upon in November 2021 – January 2022
- Monitoring housing developments and five-year land supply

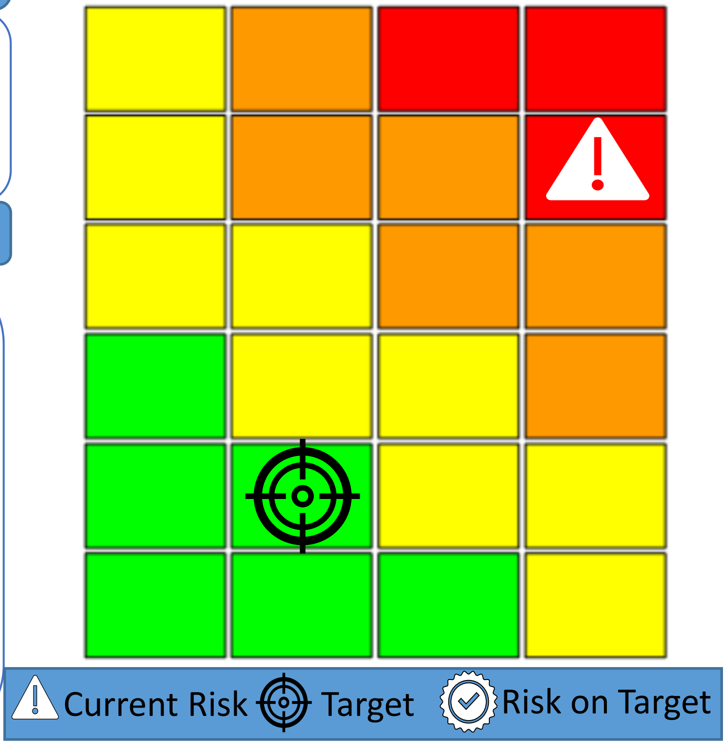
Mitigating Actions/Key Milestones	Owner	Date
Local plan timetable to be reviewed Next local plan consultation stage Submission of Local Plan Update to Government	TS TS TS	Early 2023 Summer 2023 TBC
Inspector examination	TS	TBC
Adoption of LPU	TS	TBC

Key Priority at Risk: Enriching Lives & Safe, strong communities

Owner		Change
PB	HW	None

5 RISK: Outcomes and Costs of Provision for Children with SEND

Due to increased demand and complexity of need there is a risk that there are insufficient funds to ensure Children with SEND receive adequate provision without further overspend on the High Needs Block (£10m+) risking a substantial impact on the Council's finances.



Existing Controls:

- Regular review of SEND Strategy
- Collaboration with SEND Voices & SENDIASS Wokingham
- Monitoring and Forecasting of Need and Demand
- Gold & Silver Monitoring and Direction Meetings Weekly
- Learning from engagement with other Local Authorities (Safety Valve and DBV)
- Improved relationships with providers
- Weekly meetings with DfE SEND Advisor
- Deficit Reduction Plan
    - Expansion of Addington School
    - Winnersh Farm School (Oak Tree)
    - PRU improvement
    - Resource Base & SEND Unit review
    - Additional School Bids (x2)
- SEND Improvement Board

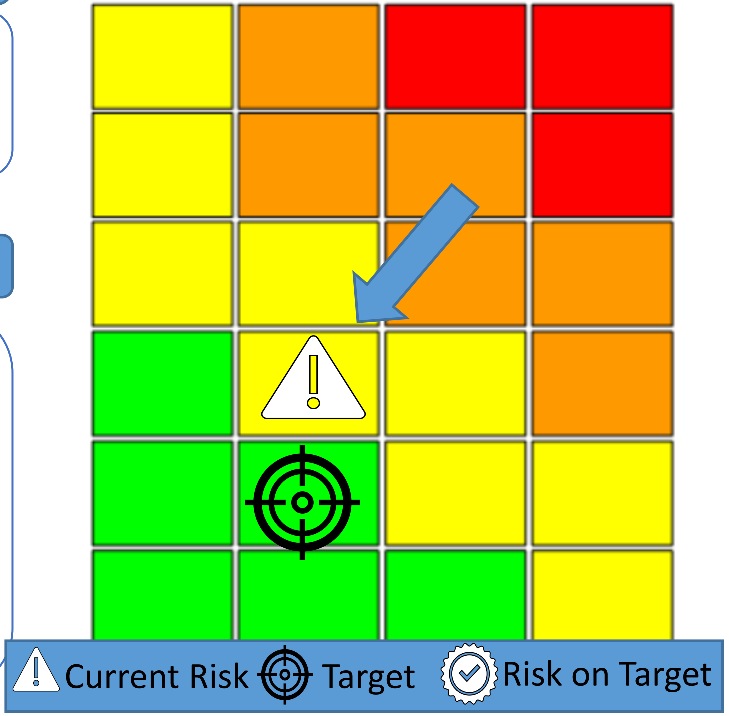
Mitigating Action	Owner	Date
Development of in-borough infrastructure for Children and Young People	HW	Sept 2027
Engagement with DfE Safety Valve Programme development & delivery	HW	April 2023
SEND System Improvements as a result of SEND IIB	HW	April 2023
SEN Support arrangements and new Vulnerable Learners Panel Pilot	HW	April 2023

Key Priority at Risk: Enriching Lives & Safe, Strong Communities

Owner		Change
RBF	SP	Decrease

6 Failure to meet statutory duties (Health & Safety)

Due to insufficient capability, capacity and awareness there is the risk that the Council does not meet its statutory duties in key areas leading to avoidable harm, litigation, fines, corporate manslaughter and reputational damage.



Existing Controls:

- Statutory policies in place health & safety
- Prioritisation of H&S activity
- Strategic Plan to identify continuous improvement “Seeking Assurance” programme (two yearly)
- Health & Safety specialist advisers in place

- Incident Reporting System
- H&S Quarterly Dashboard

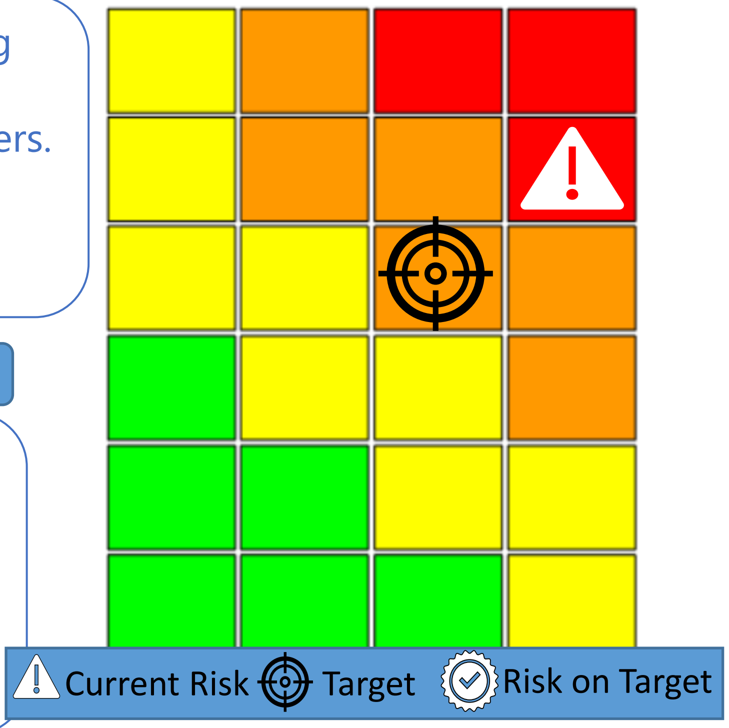
Mitigating Action	Owner	Date
Implementation of the strategic safety improvement action plan	SP	April 23

Key Priority at Risk: Enriching Lives & Safe, Strong Communities

7 Adult Social Care Supplier Sustainability and Sufficiency

Owner		Change
DH	MP	None

Due to increasing needs of our local older and disabled people population demand is increasing placing the social care system under huge strain. It is acknowledged that nationally that there is insufficient funding within the care sector to meet the challenges faced by our local care providers. COVID-19 has exacerbated the issues and while local providers have maintained high levels of care, additional workforce pressures will impact on the capacity within the sector. There is a risk that a provider may fail or that we are unable to source care for a vulnerable resident.



Existing Controls:

- Care Capacity Tracker monitoring and targeted action taken as required
- Lobbying of MPs and Government
- Workforce Strategy finalised and workstreams in place to implement the identified actions
- Recruitment campaign (Every day is different)
- Quarterly provider forums
- Early warning flags identified for key providers
- Winter pressures funding distributed to the Home Care market for Dec-22 to Mar-23

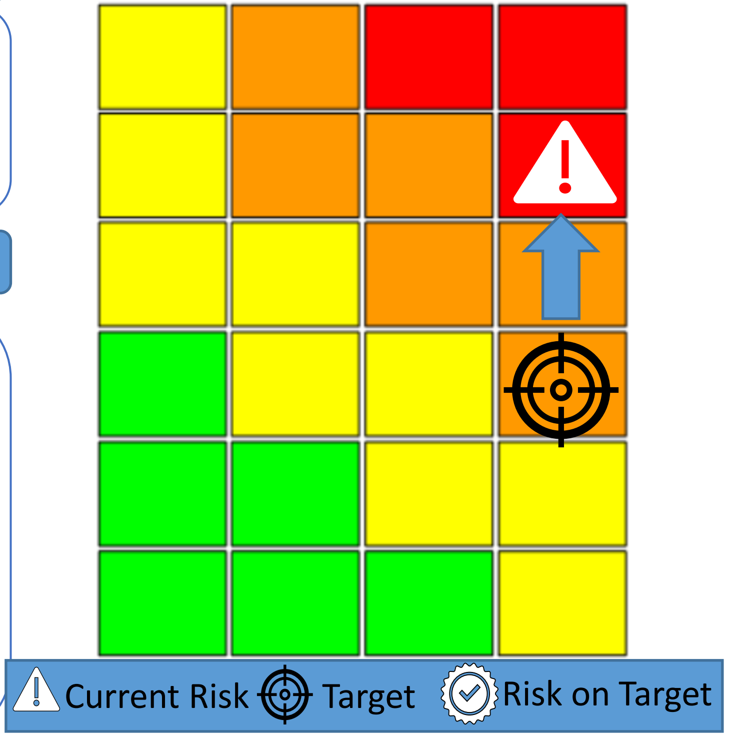
Mitigating Action	Owner	Date
Continue to work with the sector to ensure that commissioning arrangements are fit for purpose	MP	March 23
Routine monitoring of providers sufficiency with support provided as required, and monthly reviews to assess any wider action required. Contingency planning in place to address any significant issues raised by care providers. Action to remain in place for the remainder of the year and reviewed regularly	MP	March 23
Market sustainability plan to be finalised	MP	February 23

Objective at Risk: Community Vision

Owner		Change
SK	SW	Increase

8 Cyber Security

Due to an external cyber attack there is a risk of unavailability of key information and/or disclosure of personal sensitive data causing inability to deliver services, increased costs, fines, reputational damage and loss of trust.



Existing Controls:

- Cyber security response team BCP
- Public Sector Network (expires 2024)
- Independent penetration testing (annual)
- Information Security and Acceptable Use Policy
- Encrypted and patched equipment
- Cyber security awareness campaign
- Internal Audit
- Internal Data and Information Governance Board
- Routine & Emergency patching and firewall configuration (increased frequency)
- NCSC Board Toolkit Action Plan
- Membership of the South East Warning Advisory Group
- Cyber Response Partner
- Simulated phishing attack programme

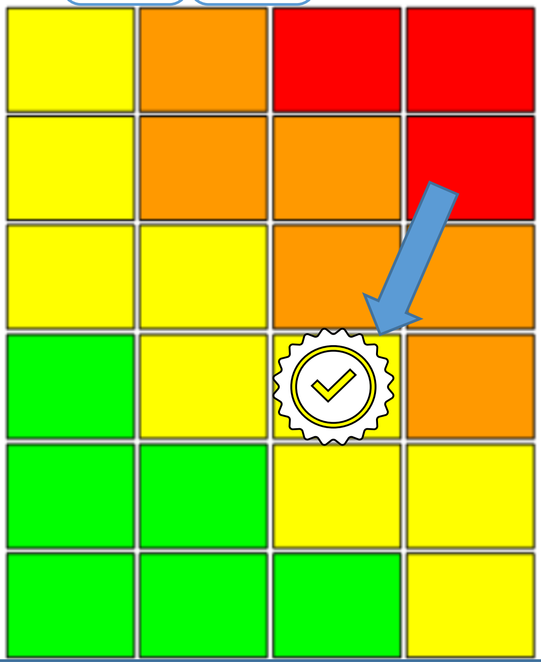
Mitigating Action	Owner	Date
National Cyber Security Centre Board Toolkit review action to CLT	AM	Feb 23
Cyber incident plan update	SW	Feb 23
Internal Audit Action Plan Implementation	SW	June 23
Cyber Essentials Plus Accreditation	SW	January 24
Data and Information Management Policy	AM	March 23

Objective at Risk: A clean and green borough

Owner		Change
SK	SM	Decrease

9 Failure to Deliver Council Climate Emergency Action Plan

Due to the costs, increasing competing priorities and complexity of behaviour change required, there is a risk that the Council is unable to meet its carbon reduction aspirations leading to a failure of the Council to deliver its contribution to climate change reduction.



Current Risk Target Risk on Target

Existing Controls:

- Climate Emergency Action Plan (CEAP)
- Climate Change Interim Policy Position Statement
- Climate Emergency Group
- Capital Programme investment
- Annual Climate Change Report to Council
- Internal Audit completed
- Climate Emergency Overview and Scrutiny Committee

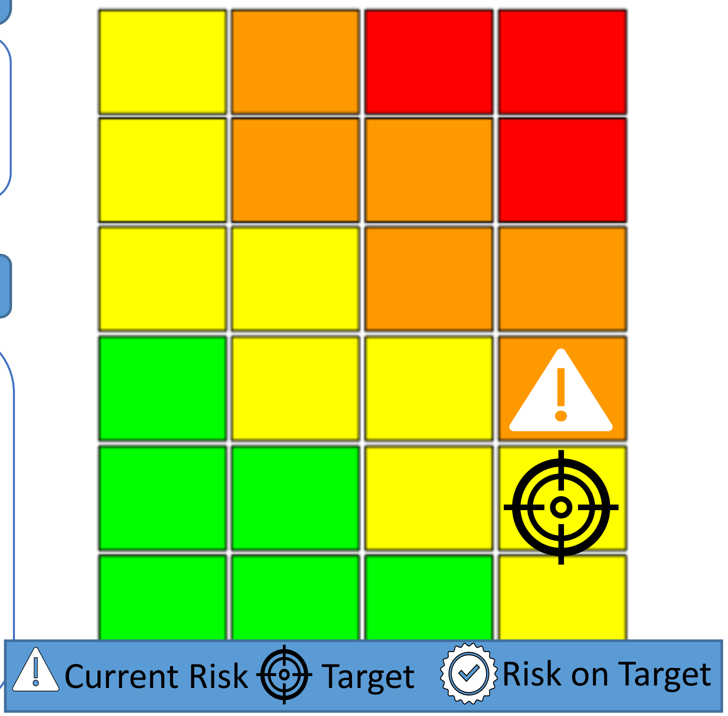
Mitigating Action	Owner	Date
Deliberative Process	RH	March 23
Energy Re-procurement	RH	January 22
Climate Change adaptation plan	RH	April 23

Objective at Risk: Safe, Strong Communities

Owner		Change
CJ	SP	None

10 Major Emergency Response (e.g. Pandemic)

Due to an unlikely but high impact major emergency the Council is required to lead a large-scale community response leading to impact on business as usual and requirement to focus resources on key priorities.



Existing Controls:

- Emergency plan and Council-wide Business Continuity Planning
- Learning from Overview &Scrutiny review of Covid response
- In-house Emergency Planning Service
- Gold, Silver and Bronze response structure
- Seasonal business continuity training and plan updates
- Delivering training for gold, silver and bronze

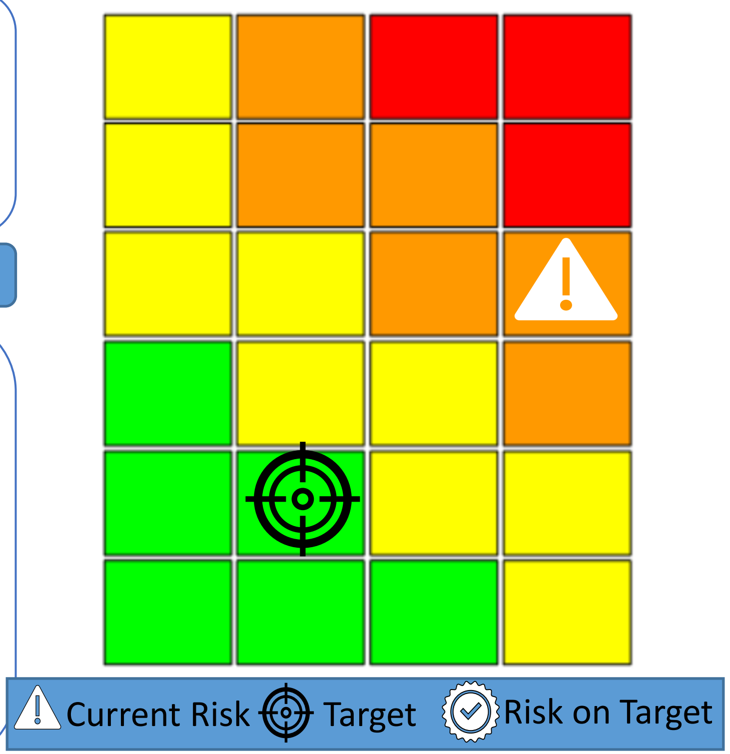
Mitigating Action	Owner	Date
Silver command restructure	FH	February 2023
Winter preparedness working group (including preparing for planned or unplanned loss of power)	FH	Ongoing until Spring 2023
Reviewing key emergency plans (including major incident plan)	FH	Spring 2023
Creation and implementation of revised business continuity programme	FH	Autumn 2023

Objective at Risk: Enriching Lives

Owner		Change
DH	MP	None

12 Health & Social Care Reform

Due to the ‘People at the heart of care’ reforms that come into force from 2022, and a funding change to follow in 2023, and number of self-funders in the borough there is a risk that there are major changes in the Council’s responsibilities that will lead to significant financial impact (£20-30m), workforce pressures, social care market pressures and administrative challenges (IT system).



Existing Controls:

Liaising with central government and professional organisations (i.e ADASS and LGA).
Analytical work to assess the potential impact on services.
Working with other LAs through our regional network to consider and plan for future impact.

LA response provided to DHSC consultation Mar-22.
Engagement with LGA workshops assessing the impact of the reforms.
Working with case management software supplier to assess required changes.
Review of Directorate Transformation Programme to incorporate requirements.

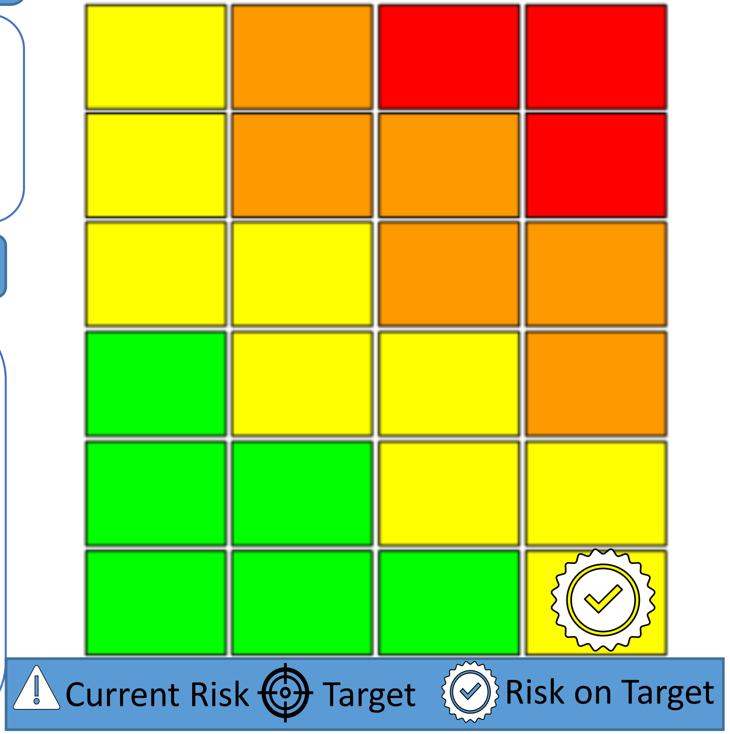
Mitigating Action	Owner	Date
Programme in place to implement the reforms in preparation for commencement in October 24.	MP	March 23

Key Priority at Risk: Enriching Lives & Safe, Strong Communities

Owner		Change
DH	MP	None

13 Failure to meet statutory duties (Safeguarding Adults)

Due to insufficient capability/capacity, there is the risk that the Council does not meet its safeguarding responsibilities for adults leading to avoidable harm, litigation, fines and reputational damage. There is risk associated with the change in legislation for Liberty Protection Safeguards (LPS) as the plans have not yet been confirmed and the demands on the system are not yet fully known.



Existing Controls:

- Adult Safeguarding Hub (ASH)
- Pan Berkshire Policies and Procedures
- ASH new proportionate and person-centred processes and pathway
- ASH fully staffed and dedicated Admin
- Effective relationships embedded with key partners and forums
- Management and supervision
- Staff training and awareness
- Berkshire West Safeguarding Board
- Care Governance Quality Assurance
- Risk Assessment for Safeguarding complete
- Joint working between HoS and PSW
- Quality Assurance Framework in place

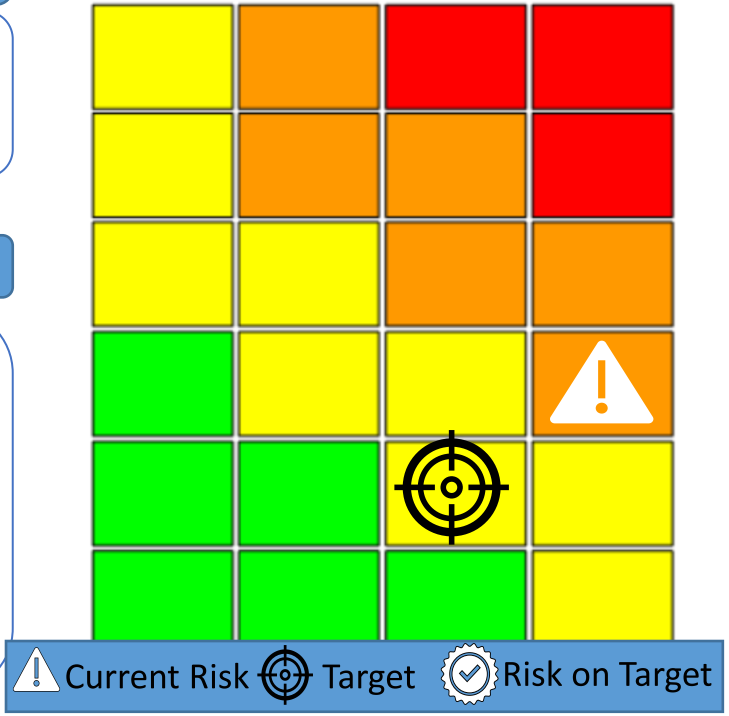
Mitigating Action	Owner	Date
Ensure workforce development around bespoke safeguarding are addressed	MP	March 23
Impacts of impending CQC inspections incorporated into project planning	MP	March 23

Key Priority at Risk: Enriching Lives & Safe, Strong Communities

Owner		Change
PB	HW	None

14 Failure to meet statutory duties (Safeguarding Children)

Due to insufficient capability/capacity, there is the risk that the Council does not meet its safeguarding responsibilities for Children leading to avoidable harm, litigation, fines and reputational damage.



Existing Controls:

- BWSCP Child Protection Procedures and Safeguarding Partnership
- Staff Learning & Development
- Case Reviews & Audits
- Policies and Procedures
- Practice Framework
- Staff Supervision
- Quality Assurance Framework
- Recruitment & Retention Programme
- Monitoring demand & caseloads, ensuring swift review of staffing needs
- Manageable case loads
- AYSE recruitment programme
- Additional Assistant Team Managers to support supervision
- Practice consultants / assistants
- OFSTED informed action plan to improve service delivery
- Use of locum staff to fill gaps in workforce as required
- Over recruitment of appropriately qualified workers at times of high demand.

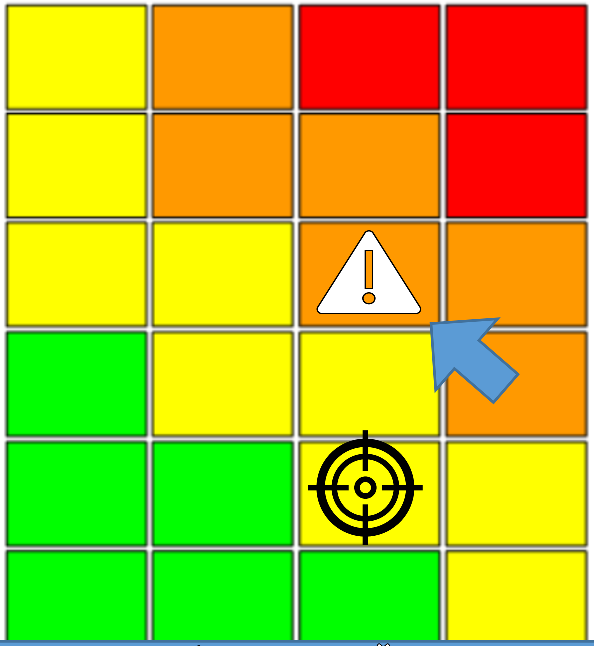
Mitigating Action	Owner	Date
Transformation Programme for Children’s Services	HW	March 24
Practice Improvement Programme for Children's Services	HW	April 23
Recruitment and Retention programme to reduce reliance on agency workers to 10% of social work workforce.	HW	March 24

Key Priority at Risk: Safe, Strong Communities

Owner		Change
RBF	SM	None

15 Inward Migration

Due to the arrival of Ukraine and Hong Kong nationals, refugees from other countries, and the mandatory National Transfer Scheme for Unaccompanied Asylum Seeking Children (UASC), there is a risk of increased costs of providing effective support, including a significant increase in affordable housing demand and statutory accommodation for Care Leavers as UASCs reach the age of 18.



Current Risk Target Risk on Target

Existing Controls:

Gold and Silver response meetings and taskforce assembled
Engagement with Voluntary Sector and Partners to ensure a coordinated approach.
Child and Adult Safeguarding to protect vulnerable guests
Caseworkers in place to liaise with hosts and Ukrainian guests.
Ensure all grants are claimed for UASC

Educational provision for children and support for adults for employment and benefits
Contingency arrangements in place to prevent and respond to relationship breakdown between hosts and guests.
Links established with Ukraine Centre in Reading.
Co-produced social inclusion and activity programme with voluntary sector.

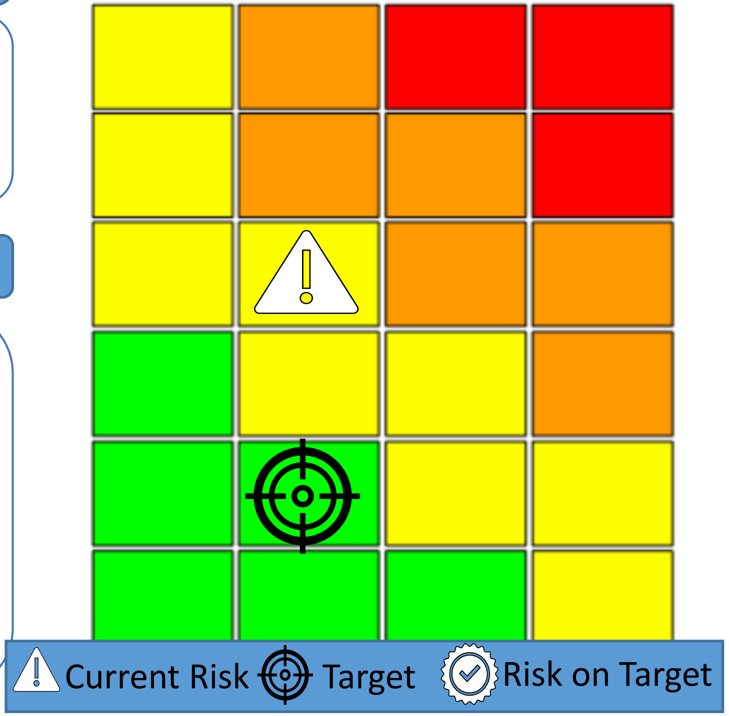
Mitigating Action	Owner	Dat
Govt have updated regulations to enable rematching. Only six households in Temporary Accommodation.	ZM	February 2022
Implementation of social inclusion and activity events programme	ZM	Ongoing
Ongoing work with Health and vol sector partners. Vol sector partnership work ongoing and thriving.	ZM	Ongoing
Develop specific accommodation to meet the needs of UASC Care Leavers	HW	Ongoing

Key Priority at Risk: Keeping the Borough Moving, Clean & Green Borough

Owner		Change
PF	SM	None

16 Public Transport

Due to fewer passengers travelling and increasing operational costs there is a risk that local bus services are withdrawn or reduced. The results will be increasing congestion, social isolation, a failure to achieve climate emergency reduction targets, and reduced accessibility to work, education, health care facilities and leisure opportunities.



Existing Controls:

- Revised local bus services to better match demand for travel with service provision
- Short-term S106 contingency funding released through emergency IEMDs.

- Officers working on retendering the network for April 2023, which will include a full EqIA and budget consideration.

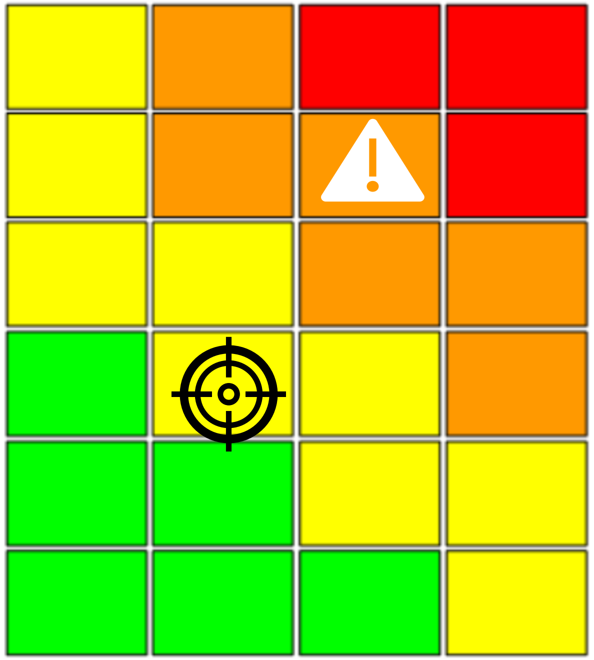
Mitigating Action	Owner	Date
Retender of local bus network	SM	April 23
Executive Decision on the contracted bus services	SM	Feb 23

Key Priority at Risk: Enriching Lives

Owner		Change
PB	HW	None

17 RISK: Insufficient school places for mainstream children

Due to (a) increased numbers of children moving into the borough including international arrivals (Hong Kong nationals and Ukrainian children) in both primary and secondary phases; (b) peak primary rolls passing into the secondary sector; and (c) too few places for girls (secondary phase) there are risks of (i) a breach in statutory place sufficiency duty and (ii) new capital programme requirements.



Current Risk Target Risk on Target

Existing Controls:

- Primary Strategy 2018 to 2028
- Secondary Strategy 2022
- Development of Post 16 arrangements
- SCAP annual statutory places return to DfE
- Annual update of roll projections
- Regular reports to CSO&SC
- Regular Leadership Team updates

- Fair Access Protocol
- Regular item at BEP meetings
- Regular meetings with Finance team
- Engagement with schools on additional places
- Relationships with neighbouring boroughs
- Portal based admissions tracking (LA and Schools)

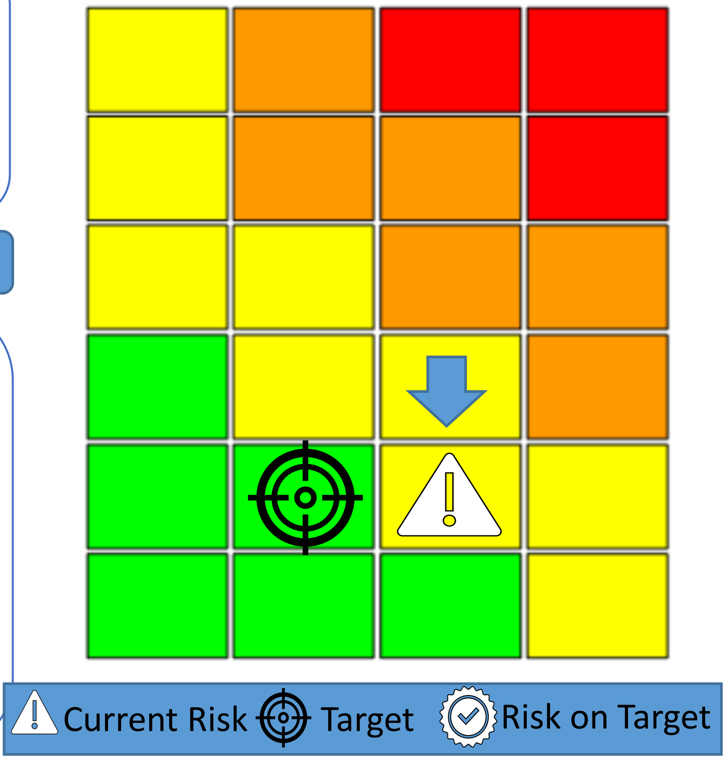
Mitigating Action	Owner	Date
Secondary place strategy school level expansion plans in preparation	HW	Sept 2023
Primary Places Strategy update	HW	Spring 2023
Engagement with Schools on additional places (above PAN)	HW	Sept 2024

Key Priority at Risk: All

Owner		Change
CJ	GE	Decrease

18 RISK: Elections Act Implementation (Voter ID)

Due to the introduction of Voter ID requirements from May 2023, there is a risk of significant additional administrative burdens and a lack of voter awareness resulting in delays to voting, disenfranchisement of some voters, breach of duty, legal challenge, reputational damage, Borough and/or Town Councils without democratic legitimacy and potential re-run of elections.



Existing Controls:

- Guidance from Electoral Commission for electoral administrators and support from Association of Electoral Administrators (AEA)
- National publicity scheme by Electoral Commission (from Jan 2023)
- Additional Government funding received to support implementation of Voter ID
- Dedicated implementation risk register
- Part of overall project plan for 2023 elections
- Information publicised on Council website

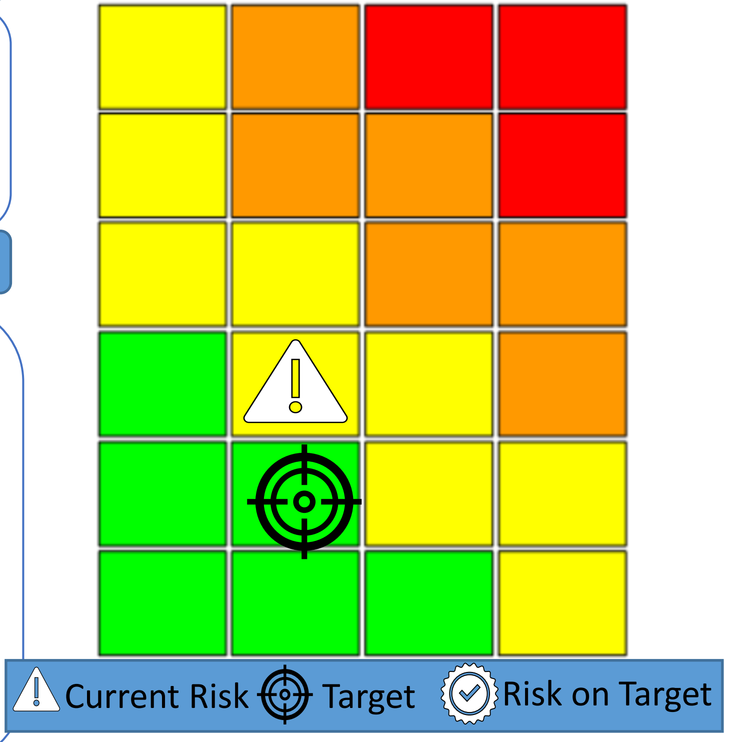
Mitigating Action	Owner	Date
Implement local communication plan particularly for hard-to-reach groups (including possible household notification letter)	AM	Jan-May 2023

Objective at Risk: Community Vision

Owner		Change
ISD	GE	None

19 Information Governance

Due to gaps in information governance arrangements, there is a risk of disclosure of personal sensitive data, resulting in individual distress, fines, reputational damage and loss of trust. The risk may also lead to performance standards for Freedom of Information (FoI) and Subject Access Requests (SARs) not being met resulting in fines, reputational damage and loss of trust.



Existing Controls:

- Internal Data and Information Governance (DIG) Board
- Mandatory training for new and existing staff
- Information Security and Acceptable Use Policy
- Encrypted equipment
- Secure email
- Document marking scheme

- Performance Monitoring
- Incident Reporting
- Membership of Berkshire DPO Group
- Information Governance Toolkit
- Publication Scheme
- Guidance from the ICO
- SAR Policies and Procedures
- Monitoring SAR Caseloads
- Reporting into CS Directorate Leadership Team

Mitigating Action	Owner	Date
E-learning Refresher Training completion	AM	January 2023
Information Security & Acceptable Use Policy update	AM	March 2023
Consideration of demand management opportunities to reduce SAR requests	HW	March 2023

Key Priority at Risk: Changing the way we work for you

Owner	Change
SK SW	New

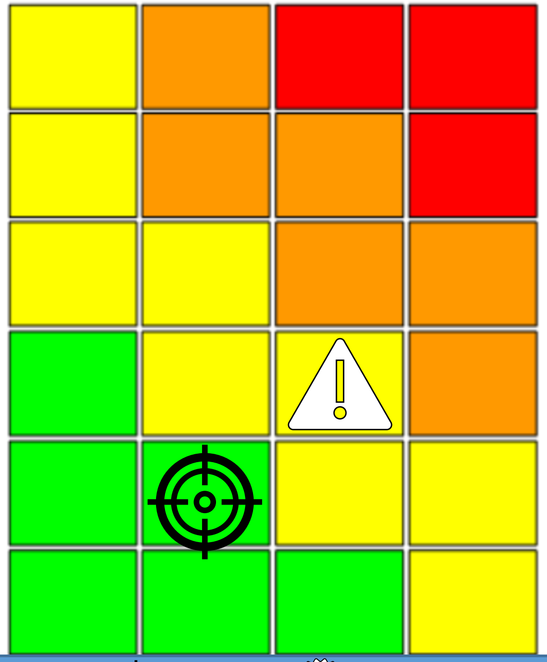
20 RISK: Website replacement

Due to the website technology no longer being supported at end of July 2023 there is a risk that the Council will not have a functioning website leading to increase in demand across more expensive channels, service failure, reputational damage and financial costs.

Existing Controls:

- Robust Project Governance
- Project Risk Register
- Prioritisation of key services and content to deliver essential services first
- Engagement with experienced supplier
- Robust resource planning

- Website contingency arrangement to copy existing website to in-house servers in case of complete project failure.



Current Risk Target Risk on Target

Mitigating Actions	Owner	Date
Ongoing dialogue with services to ensure that content is fit for purpose (including meeting accessibility standards)	JW	March 2023
Delivery of "beta" version of website	JW	May 2023
Site launch	JW	June 2023

Likelihood

Score	Level					Description
6	Very High	Certain.	>95%	Annually or more frequently	>1 in 10 times	An event that is has a 50% chance of occurring in the next 6 months or has happened in the last year. This event has occurred at other local authorities
5	High	Almost Certain. The risk will materialise in most circumstances.	80 – 94%	3 years +	>1 in 10 - 50 times	An event that has a 50% chance of occurring in the next year or has happened in the past two years.
4	Significant	The risk will probably materialise at least once.	50 – 79%	7 years +	>1 in 10 – 100 times	An event that has a 50% chance of occurring in the next 2 years or has happened in the past 5 years.
3	Moderate	Possible the risk might materialise at some time.	49 – 20%	20 years +	>1 in 100 – 1,000 times	An event that has a 50% chance of occurring in the next 5 or has happened in the past 7 years.
2	Low	The risk will materialise only in exceptional circumstances.	5 – 19%	30 years +	>1 in 1,000 – 10,000 times	An event that has a 50% chance of occurring in the next 10 year or has happened in the past 15 years.

Impact

Score	Level		Description
8	Critical	Critical impact on the achievement of objectives and overall performance. Hugh impact on costs and / or reputation. Very difficult and possibly long term to recover.	Unable to function without aid of Government or other external Agency Inability to fulfil obligations Medium - long term damage to service capability Severe financial loss – supplementary estimate needed which will have a critical impact on the council's financial plan and resources are unlikely to be available. Death Adverse national publicity – highly damaging, severe loss of public confidence. Litigation certain and difficult to defend Breaches of law punishable by imprisonment
6	Major	Major impact on costs and objectives. Serious impact on output and / or quality and reputation. Medium to long term effect and expensive to recover.	Significant impact on service objectives Short – medium term impairment to service capability Major financial loss - supplementary estimate needed which will have a major impact on the council's financial plan Extensive injuries, major permanent harm, long term sick Major adverse local publicity, major loss of confidence Litigation likely and may be difficult to defend Breaches of law punishable by fines or possible imprisonment
4	Marginal	Significant waste of time and resources. Impact on operational efficient, output and quality. Medium term effect which may be expensive to recover.	Service objectives partially achievable Short term disruption to service capability Significant financial loss - supplementary estimate needed which will have an impact on the council's financial Medical treatment require, semi- permanent harm up to 1 year Some adverse publicity, need careful public relations High potential for complaint, litigation possible. Breaches of law punishable by fines only
2	Negligible	Minimal loss, delay, inconvenience or interruption. Short to medium term affect.	Minor impact on service objectives No significant disruption to service capability Moderate financial loss – can be accommodated First aid treatment, non-permanent harm up to I month Some public embarrassment, no damage to reputation May result in complaints / litigation Breaches of regulations / standards

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TITLE	**Audit Committee Effectiveness and Action Plan**
FOR CONSIDERATION BY	Audit Committee on 1 February 2023
WARD	None Specific
LEAD OFFICER	Chief Executive - Susan Parsonage

OUTCOME / BENEFITS TO THE COMMUNITY

This report provides assurance that the Council's Audit Committee has considered its arrangements and effectiveness, and that an improvement plan is in place to further enhance the value that the Committee adds to the Council's overall governance arrangements.

RECOMMENDATION

That the Audit Committee:-

1. Reviews and agrees its annual assessment of the Committee's effectiveness at Appendix A based on the October 2022 CIPFA guidance on local authority audit committees;

2. Review and agrees the associated action plan at Appendix B including: -

    a. Approving the recruitment and appointment of a second independent member of the Committee for the 2023/24 municipal year

    b. Recommending to Council the proposed constitutional changes to the Audit Committee's terms of reference as set out at Appendix C.

SUMMARY OF REPORT

The effectiveness of the Audit Committee has been reviewed in line with the Chartered Institute of Public Finance (CIPFA) self-assessment of good practice. The overall effectiveness was found to be satisfactory with a few areas of improvement which require consideration.

The main changes proposed are an update to the Committee's terms of reference in line with the latest guidance from CIPFA which was published in October 2022, and the appointment of a second independent member to the Committee.

1. Background

1.1 Recommended practice is for audit committees to review and assess themselves annually or to seek an external review. The results of the assessment should be available in the annual report to full Council from the committee.

1.2 There are several steps that should be considered to improve effectiveness. These include:

- Ensuring that the audit committee is constituted in accordance with recommended practice, the CIPFA Position Statement on Audit Committees in Local Authorities and Police 2022
- Enabling the audit committee to have the required members with knowledge and expertise. These are essential for the committee members, whether they are drawn from elected representatives or recruited as co-opted independent (or lay) members. Selecting members with appropriate knowledge and experience can be supplemented by a planned programme of regular training. Particular attention is needed for the selection of the chair to enable effective working.
- Encouraging audit committee members to participate in networks and forums established for the purpose of sharing good practice.
- Providing access to support and briefings for the audit committee members to help them understand some of the more complex items on the committee agenda and keep up to date with new developments.
- Ensuring the committee's terms of reference are up to date, reflect recommended practice and that the committee is operating in accordance with them.
- Maintaining regular dialogue with the chair of the committee to review how well the committee is operating, provide feedback to the committee and understand any outstanding concerns the committee may have.
- Supporting the impact of the committee by helping all authority members and officers to recognise the importance of its role.

2. Annual Assessment

2.1 CIPFA recommends that the audit committee considers its self-assessment against the following key themes:-

- Audit committee purpose and governance
- Functions of the committee
- Membership and support
- Effectiveness of the committee

2.2 The last full review of the Committee’s effectiveness was completed in September 2021. The review identified a number of areas of good practice and concluded that the Committee was generally effective in promoting governance and the maintenance of appropriate risk management and control arrangements within the Council.

2.3 The following issues were identified in September 2021 as areas requiring change or improvement:

Annual evaluation – it was good practice to look at the effectiveness of the Committee. As part of the preparation and consideration of the Committee’s annual report, this evaluation would be formalised. The annual report to Council presented to the July 2022 full Council commenced this enhanced reporting process – the draft Audit Committee Annual Report for 2022/23 will be considered at the March meeting of the committee.

Any areas beyond the core functions of the Committee – to consider whether the Committee's terms of reference require amendment. Members needed to be mindful of the role of Overview and Scrutiny, and to ensure that there was not duplication in work programmes.

Independent member - CIPFA guidance set out the benefits of having at least one independent member of the Audit Committee. This was actioned in summer 2022 with Mike Drake attending his first meeting of the committee in September 2022.

Individual Committee members' knowledge and skill set – in 2022/23 a more structured training programme has been introduced with dedicated training on risk management on 21 November and an overview session led by a CIPFA consultant held on 7 December.

Adding value. It was noted that the annual report to Council would specifically address how the Audit Committee had added value during the year.

2.4 In October 2022, CIPFA updated their guidance (Audit Committees: Practical Guidance For Local Authorities And Police). A summary of the key points is as follows – the Committee is asked to note that specific areas for consideration are highlighted in bold/italics.

i. Independent and effective

- be directly accountable to the authority's governing body i.e. full Council
- be independent of both the executive and the scrutiny function
- the audit committee should have no other functions, and ***explicitly no decision-making role.***
- have rights of access to and constructive engagement with other committees/functions
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.
- The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation. Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at ***<u>least two co-opted independent members</u>*** to provide appropriate technical expertise.
- Currently, some authorities have delegated decisions such as the approval of the financial statements to the audit committee. This takes the audit committee beyond its advisory role CIPFA recommends that the ***audit committee remains an advisory committee*** and does not have delegated powers.

ii. Core functions:

<u>Maintenance of governance, risk and control arrangements</u>

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.

- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.
- The audit committee should include counter fraud and corruption within its agenda. This should not be limited to an update to the committee on a significant case of fraud or corruption. The audit committee's responsibility to have oversight of arrangements means that they should be able to judge whether the authority's arrangements are fit for purpose
- As part of the audit committee's oversight of the governance framework and assurances underpinning the Annual Governance Statement (AGS), the committee may wish to review the effectiveness of the whistleblowing arrangements

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and ***review*** the statutory statements of account and any reports that accompany them.
- Care should be taken to not overlap with financial scrutiny. Tasks such as budget monitoring should not be undertaken by the committee.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
    - ***oversee its independence, objectivity, performance and conformance to professional standards***
    - support effective arrangements for internal audit
    - promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.
- CIPFA have endorsed the recommendations of the Redmond Review that the **external audit annual report should be submitted to full council by the external auditor.**

Audit committee membership

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach and are knowledgeable.

- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:
  - promoting apolitical open discussion
  - managing meetings to cover all business and encouraging a candid approach from all participants
  - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.
- CIPFA's recommendation is that a committee size of no more than eight members should be established. CIPFA also recommends that the use of substitutes on the committee is avoided.
- Where the committee is strictly advisory and not subject to other requirements, full council can vote to waive the political balance requirement and specify other criteria to decide who should serve on the committee.

Engagement and outputs

To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- ***be able to meet privately and separately with the external auditor and with the head of internal audit***
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the CIPFA position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

2.5 The 2022/23 annual assessment for Wokingham Borough Council concludes a score of 126 out of 200. The detailed results of the assessment are provided at Appendix A.

3. Action Plan

See appendix B,

4. Terms of Reference

The functions of the Committee are set out in the Constitution at clause 4.4.3. At Appendix C is a tracked change version of 4.4.3 taking into account the latest CIPFA guidance.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces unprecedented financial pressures as a result of; the longer term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue
Next Financial Year (Year 2)	£1,000	Yes	Revenue
Following Financial Year (Year 3)	£1,000	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
The additional revenue relates to the allowance for a second independent member of the committee.

Cross-Council Implications
The Audit Committee and its effectiveness impacts all aspects of the Council's services and priorities.

Public Sector Equality Duty
Not applicable as this is an information report.

Climate Emergency – ***This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030***
There are no direct implications in this report for the Council achieving its carbon neutral objectives..

Reasons for considering the report in Part 2
Not applicable.

List of Background Papers
CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

Contact Andrew Moulton	**Service** Governance
Telephone No Tel: 07747 777298	**Email** andrew.moulton@wokingham.gov.uk

APPENDIX E

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment should be used to support the planning of the audit committee work programme and training plans. It will also inform the annual report.

Good practice questions	Does not comply	Partially complies and extent of improvement needed*			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
Audit committee purpose and governance					
1 Does the authority have a dedicated audit committee that is not combined with other functions (eg standards, ethics, scrutiny)?	☐	☐	☐	☐	☑
2 Does the audit committee report directly to the governing body (PCC and chief constable/full council/full fire authority, etc)?	☐	☐	☐	☐	☑
3 Has the committee maintained its advisory role by not taking on any decision-making powers?	☐	☑	☐	☐	☐
4 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?	☐	☐	☑	☐	☐
5 Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?	☐	☐	☐	☑	☐
6 Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?	☐	☐	☐	☑	☐
7 Does the governing body hold the audit committee to account for its performance at least annually?	☐	☐	☐	☑	☐

* Where the committee does not fully comply with an element, three options are available to allow distinctions between aspects that require significant improvement and those only requiring minor changes.

Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
8 Does the committee publish an annual report in accordance with the 2022 guidance, including:					
• compliance with the CIPFA Position Statement 2022	☐	☐	✓	☐	☐
• results of the annual evaluation, development work undertaken and planned improvements	☐	☐	✓	☐	☐
• how it has fulfilled its terms of reference and the key issues escalated in the year?	☐	☐	☐	☐	✓ 9
Functions of the committee					
9 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?					
Governance arrangements	☐	☐	☐	☐	✓
Risk management arrangements	☐	☐	☐	☐	✓
Internal control arrangements, including: • financial management • value for money • ethics and standards • counter fraud and corruption	☐	☐	☐	✓	☐
Annual governance statement	☐	☐	☐	☐	✓
Financial reporting	☐	☐	☐	☐	✓
Assurance framework	☐	☐	✓	☐	☐
Internal audit	☐	☐	☐	☐	✓
External audit	☐	☐	☐	☐	☐
10 Over the last year, has adequate consideration been given to all core areas?	☐	☐	✓	☐	☐
11 Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?	☐	☐	☐	✓	☐
12 Has the committee met privately with the external auditors and head of internal audit in the last year?	✓	☐	☐	☐	☐

Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
Membership and support					
13 Has the committee been established in accordance with the 2022 guidance as follows?					
• Separation from executive	☐	☐	☐	☐	☑
• A size that is not unwieldy and avoids use of substitutes	☐	☐	☐	☐	☑
• Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation	☐	☐	☑	☐	☐
14 Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?	☐	☐	☐	☐	☐
15 Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?	☑	☐	☐	☐	☐
16 Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?	☐	☐	☑	☐	☐
17 Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?	☐	☑	☐	☐	☐
18 Is adequate secretariat and administrative support provided to the committee?	☐	☐	☐	☐	☑
19 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	☐	☐	☐	☐	☑ 25
Effectiveness of the committee					
20 Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?	☐	☐	☑	☐	☐
21 Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?	☐	☐	☐	☐	☑
22 Are meetings effective with a good level of discussion and engagement from all the members?	☐	☐	☐	☐	☑
23 Has the committee maintained a non-political approach to discussions throughout?	☐	☐	☐	☐	☑

Good practice questions	Does not comply	Partially complies and extent of improvement needed			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5
24 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?				✓	
25 Does the committee make recommendations for the improvement of governance, risk and control arrangements?			✓		
26 Do audit committee recommendations have traction with those in leadership roles?					✓
27 Has the committee evaluated whether and how it is adding value to the organisation?			✓		
28 Does the committee have an action plan to improve any areas of weakness?			✓		
29 Has this assessment been undertaken collaboratively with the audit committee members?				✓		17
Subtotal score	0	2	22	21	80
Total score					125
Maximum possible score					**200****

** 40 questions/sub-questions multiplied by five.

APPENDIX B

Action planning – February 2023

An audit committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'.

The improvement tool below can be used to support a review of effectiveness. It identifies the broad areas where an effective audit committee will have impact.

Figure 1: The influential audit committee

The table includes examples of what the audit committee might do to have impact in each of these areas.

The third area includes key indicators that might be expected to be in place if arrangements are in fact effective. These indicators are not directly within the control of the audit committee, as it is an advisory body. They do provide an indication that the authority has put in place adequate and effective arrangements, which is the purpose of the committee.

Use the tool for discussion and evaluation of the strengths and weakness of the committee, identifying areas for improvement.

Areas where the audit committee can have impact by supporting improvement	Examples of how the audit committee can demonstrate its impact	Key indicators of effective arrangements	Your evaluation: strengths, weaknesses and proposed actions
Promoting the principles of good governance and their application to decision making.	• Supporting the development of a local code of governance. • Providing a robust review of the AGS and the assurances underpinning it. • Supporting reviews/audits of governance arrangements. • Participating in self-assessments of governance arrangements. • Working with partner audit committees to review governance arrangements in partnerships.	• Elected members, the leadership team and senior managers all share a good understanding of governance, including the key principles and local arrangements. • Local arrangements for governance have been clearly set out in an up-to-date local code. • The authority's scrutiny arrangements are forward looking and constructive. • Appropriate governance arrangements established for all collaborations and arm's-length arrangements. • The head of internal audit's annual opinion on governance is satisfactory (or similar wording).	The Council has a local code of Corporate Governance and this forms the basis of the Annual Governance Process. The Code is scheduled to be reviewed as part of that process. A review of Scrutiny has been undertaken by the Centre for Public Scrutiny and an improvement action plan is in place. The Council has a range of partnerships and Local Authority Trading Companies. The Committee's visibility of the assurance over the governance arrangements needs to be improved. The development of the assurance framework will support this. **Action 1 Assurance Mapping to include partnership and LATCo arrangements.** The 2020/21 Internal Audit Opinion was level 2 this provides a "Substantially Complete and Generally Effective but with some improvements required level" of assurance.

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Contributing to the development of an effective control environment.	• Encouraging ownership of the internal control framework by appropriate managers. • Actively monitoring the implementation of recommendations from auditors. • Raising significant concerns over controls with appropriate senior managers.	• The head of internal audit's annual opinion over internal control is that arrangements are satisfactory. • Assessments against control frameworks such as CIPFA's FM Code have been completed and a high level of compliance identified. • Control frameworks are in place and operating effectively for key control areas – for example, information security or procurement.	The 2020/21 Internal Audit Opinion was level 2 this provides a "Substantially Complete and Generally Effective but with some improvements required level" of assurance. The review of the CIPFA Financial Management Code is being presented to the Committee in March 2023 to provide assurance against compliance with the code. There is will be an action plan to develop opportunities for improvement. Significant control weaknesses that are identified during the course of internal audits and the implementation of associated recommendations are being actively monitored by the Committee.
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	• Reviewing risk management arrangements and their effectiveness, eg risk management maturity or benchmarking. • Monitoring improvements to risk management. • Reviewing accountability of risk owners for major/strategic risks.	• A robust process for managing risk is evidenced by independent assurance from internal audit or external review.	Risk Management arrangements have been reviewed by Internal Audit against the IIA maturity model. The Council is moving in a positive direction in terms of risk maturity and has an action plan to develop. The Risk Management Group has undertaken a self-assessment on their effectiveness. This has been shared with the Committee and they are monitoring the implementation of the action plan. There is stronger oversight of risk ownership by Executive.

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Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	• Reviewing the adequacy of the leadership team's assurance framework. • Specifying the committee's assurance needs, identifying gaps or overlaps in assurance. • Seeking to streamline assurance gathering and reporting. • Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.	• The authority's leadership team have defined an appropriate framework of assurance, including core arrangements, major service areas and collaborations and external bodies.	The Audit Committee have been involved in scrutiny and challenge of the Internal and External Audit plans. **Action 2 Formal Assurance Mapping** The Audit Committee has reviewed the Internal Audit self-assessment against the Public Sector Internal Audit Standards which found that the service was 'generally' conforming. The Risk Management Group has undertaken a self-assessment on their effectiveness. This has been shared with the Committee and they are monitoring the implementation of the action plan.
Supporting effective external audit, with a focus on high quality and timely audit work.	• Reviewing and supporting external audit arrangements with focus on independence and quality. • Providing good engagement on external audit plans and reports. • Supporting the implementation of audit recommendations.	• The quality of liaison between external audit and the authority is satisfactory. • The auditors deliver in accordance with their audit plan, and any amendments are well explained. • An audit of high quality is delivered.	There are regular meetings between the external auditor and the officers of the authority. The external auditor attends the meeting of the Committee **Action 3 Audit Committee to meet privately with the External Auditor** There have been significant delays to finalizing the annual audit of the accounts. This has been due to two factors beyond the authority and auditors' control. This has been explained to the Committee and they have been regularly updated on the position. The Committee oversees the implementation of External Audit recommendations.

Supporting the quality of the internal audit activity, in particular underpinning its organisational independence.	• Reviewing the audit charter and functional reporting arrangements. • Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements. • Actively supporting the quality assurance and improvement programme of internal audit.	• Internal audit that is in conformance with PSIAS and LGAN (as evidenced by the most recent external assessment and an annual self-assessment). • The head of internal audit and the organisation operate in accordance with the principles of the CIPFA Statement on the Role of the Head of Internal Audit (2019).	The Audit Committee has reviewed the Internal Audit self-assessment against the Public Sector Internal Audit Standards which found that the service were 'generally' conforming. **Action 4: Head of Internal Audit to provide assurance that they and the organization are operating in accordance with the CIPFA Statement on the Role of the Head of Internal Audit following the move to an in-house service.**
Aiding the achievement of the authority's goals and objectives by helping to ensure appropriate governance, risk, control and assurance arrangements.	• Reviewing how the governance arrangements support the achievement of sustainable outcomes. • Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. • Reviewing the effectiveness of performance management arrangements.	• Inspection reports indicate that arrangements are appropriate to support the achievement of service objectives. • The authority's arrangements to review and assess performance are satisfactory.	The LGA peer challenge report and follow-up provide strong assurance that the governance arrangements are effective. The internal audit of performance management found that satisfactory levels of assurance.
Supporting the development of robust arrangements for ensuring value for money.	• Ensuring that assurance on value-for-money arrangements is included in the assurances received by the audit committee. • Considering how performance in value for money is evaluated as part of the AGS. • Following up issues raised by external audit in their value-for-money work.	• External audit's assessments of arrangements to support best value are satisfactory.	In their Audit Results Report of March 2022 External Audit found that there are no risks of significant weaknesses in the Council's Value for Money arrangements. **Action 5: The AGS should ensure that it explicitly reflects the authority's evaluation of how it secures value for money.** The Audit Committee monitor the implementation of the issues raised by external audit in their value-for-money work.

Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	• Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014). • Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. • Assessing the effectiveness of ethical governance arrangements for both staff and governors.	• Good ethical standards are maintained by both elected representatives and officers. This is evidenced by robust assurance over culture, ethics and counter fraud arrangements.	The Audit Committee receives assurance on fraud risks in the Head of Internal Audit annual report to the Committee. **Action 6: The Committee should be sighted on the outcome of the review against the Code of Practice on Managing the Risk of Fraud and Corruption.** **Action 7: The Committee should receive assurance on the ethical governance arrangements for both staff and members.**
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	• Working with key members/the PCC and chief constable to improve their understanding of the AGS and their contribution to it. • Improving how the authority discharges its responsibilities for public reporting – for example, better targeting the audience and use of plain English. • Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency. • Publishing an annual report from the committee.	• The authority meets the statutory deadlines for financial reporting with accounts for audit of an appropriate quality. • The external auditor completed the audit of the financial statements with minimal adjustments and an unqualified opinion. • The authority has published its financial statements and AGS in accordance with statutory guidelines. • The AGS is underpinned by a robust evaluation and is an accurate assessment of the adequacy of governance arrangements.	Like most Local Authorities Wokingham Borough Council has experienced delays in meeting the statutory financial reporting deadline. The reasons for this are well understood. The Council publishes its financial statements and AGS and once the audit is complete will do so. The AGS is supported by an evaluation of the authority's governance arrangements and updates are provided to the Committee on the actions to strengthen the Council's governance. The Audit Committee publishes an Annual Report on its work to Council and the public.

OVERALL QUESTIONS TO CONSIDER

1. Does the committee proactively seek assurance over the key indicators?
2. How proactive is the committee in responding to aspects of governance, risk, control and audit that need change or improvement?
3. Are recommendations from the committee taken seriously by those responsible for taking action?

REPORTING RESULTS

The outcome of the review can be used to inform the committee’s annual report.

Appendix E Q Ref	Action	Owner	Target

3, 4, 9,11	Review Terms of Reference to ensure that:
	• the Committee does not hold or exercise any decision-making powers
	• includes
	    ○ Internal Control Arrangements
	    ○ Ethics and Standards
	    ○ Counter fraud and corruption
	• Assurance Framework
	• Remove complaints and compliments
		RB/AM	Start of new municipal year

5, 6, 7, 8, 25, 27, 28	As part of the annual report include: • the role and purpose of the Committee, • escalation of issues • report on outcome of this self-assessment and action plan • how the Committee has considered all the areas in the Model ToR • Identify how the Committee is adding value • Report any recommendations for improvement of governance risk and control	RB/AM	March 23
12	Committee to meet privatively with HiA and External Auditors	MS	June 23
13	Recruit an additional independent Member	RB/AM	July 23
15, 16, 17	Undertake a formal knowledge, skills and training needs analysis	AM	September 23
20	Formally obtain feedback on the Audit Committee's performance	AM	June 23
25	Committee to formally record recommendations for the improvement of governance, risk and control.	RB	September 23
Appendix F	Promote the principles of Good Governance via the AGS process and review of LCCG.	POE	September 23
	Formal Assurance Mapping including Partnership and LATCo arrangements.	CH	September 23

	Head of Internal Audit to provide assurance that they and the organization are operating in accordance with the CIPFA Statement on the Role of the Head of Internal Audit following the move to an in-house service.	CH	June 23
	The Committee should be sighted on the outcome of the review against the Code of Practice on Managing the Risk of Fraud and Corruption.	CH	June 23
	The Committee should receive assurance on the ethical governance arrangements for both staff and members via the Annual Governance Statement process. The AGS should ensure that it explicitly reflects the authorities evaluation of how it secures value for money.	POE	September 23

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AUDIT COMMITTEE

Statement of purpose

The committee's purpose is to provide an independent, objective and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

The committee has oversight of both internal and external audit, and risk management, together with the financial and governance reports,- helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.

4.4.1 Composition and Meetings

Membership of the Audit Committee will be allocated in accordance with political balance rules. In addition, two independent members will be appointed to the Committee. The Committee shall meet four times per year in accordance with a schedule agreed by Council. Additional meetings may be arranged with the agreement of the ~~Chairman~~Chair. The Audit Committee may appoint specialist advisors to support it in its work if required. Funding will be secured in advance of any appointment and financial commitment on a case by case basis.

4.4.2 Restrictions on Membership

Members of the Executive and Overview and Scrutiny Committees shall not be Members of the Audit Committee.

4.4.3 Functions

4.4.3.1 Governance, risk and control

a. To review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.
b. To monitor the effective development and operation of risk management in the council.
c. To monitor progress in addressing risk-related issues reported to the committee.
d. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
e. To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's **Financial Management Code**.
f. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
g. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
h. To monitor the counter fraud strategy, actions and resources.
i. To review the governance and assurance arrangements for significant partnerships or collaborations.

4.4.3.2 Financial and governance reporting

Governance reporting

a. To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.

b. To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.

Financial reporting

c. To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met, and that reporting is objective and fair~~.~~
d. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
e. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

4.4.3.3 Arrangements for audit and assurance

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

External audit

a. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA) or the authority's auditor panel as appropriate.
b. To consider the external auditor's annual letter, relevant reports including value for money, and the report to those charged with governance.
c. To consider specific reports as agreed with the external auditor.
d. To review the external audit plan and comment on the scope and depth of external audit work and to ensure it gives value for money.
e. To consider additional commissions of work from external audit.
f. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.
g. To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

Internal audit

h. To support and oversee internal audit arrangements.
i. To approve the internal audit charter.
j. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
k. To ~~approve~~ review and scrutinise the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
l. To monitor progress against the internal audit plan and approve significant interim changes to the risk-based internal audit plan and resource requirements.
m. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
n. To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.

o. To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
– updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
– regular reports on the results of the Quality Assurance & Improvement Programme (QAIP)
– reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), considering whether the non-conformance is significant enough that it must be included in the AGS.

- To consider the head of internal audit's annual report, including:
  – the statement of the level of conformance with the PSIAS and Local Government Application Note (LGAN) and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
  – the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS).

• To consider summaries of specific internal audit reports as requested.
• To monitor the implementation of internal audit recommendations by management and ~~To~~ to receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
• To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.
• To consider a report on the effectiveness of internal audit to support the AGS where required to do so by the accounts and audit regulations

- To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

4.4.3.4 Accountability arrangements

a. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
b. To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
c. To publish an annual report to full Council on the work of the committee, including a conclusion on the compliance with the **CIPFA Position Statement**.

~~**4.4.3.1 Audit Activity – Monitoring the Council's Operations**~~

~~a) To approve the Head of Governance and Improvement Services' annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements. In addition to approve any significant additional consulting services engaged upon during the year, since the submission of the annual internal audit plan~~

~~b) To consider summaries of specific internal audit reports as requested and make recommendations as appropriate.~~

~~c) To consider reports dealing with the management and performance of the providers of internal audit services and make recommendations as appropriate.~~

~~d) To consider a report on agreed internal audit recommendations not implemented within a reasonable timescale and agree actions as appropriate. The Committee may require Directors to attend for the consideration of specific reports.~~

~~e) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.~~

~~f) To consider specific reports as agreed with the external auditor.~~

~~g) To comment on the scope and depth of external audit work, to ensure it gives value for money and to make recommendations as appropriate.~~

~~h) To commission work from internal and external audit.~~

~~i) To approve the External Audit Plan.~~

~~j) To agree the Treasury Management Strategy and Policies prior to recommendations being made to the Executive and Council.~~

~~k) To monitor treasury management decisions to ensure compliance with the approved Treasury Management Strategy.~~

~~4.4.3.2 Regulatory Framework~~

~~a) To maintain an overview of the Constitution in respect of contract procedure rules and financial regulations and to make recommendations to Council as appropriate.~~

~~b) To compliment the work of the Standards Committee in relation to its role in promoting good governance and ensuring adherence to the Codes of Conduct for Members and Officers, making recommendations to and receiving recommendations from it as appropriate.~~

~~c) To review any issue referred to it by the Council, Chief Executive or Directors.~~

~~d) To provide an independent assurance of the adequacy of the Risk Management Strategy and the associated control environment. In particular~~

~~i) To receive the annual review of internal controls and be satisfied that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it;~~
~~ii) To receive quarterly reports reviewing implementation of the Council's Risk Management Policy and Strategy to determine whether strategic risks are being actively managed;~~
~~iii) To review, revise as necessary and recommend adoption of the Risk Management Policy and Strategy to Executive when changes occur;~~
~~iv) To have the knowledge and skills requisite to their role with regard to risk management and to undertake awareness training in respect of Enterprise Risk Management (ERM) as and when specific training needs are identified.~~

~~e) To agree the following policies prior to their adoption being recommended to Council for inclusion in the Constitution:~~

~~i) Anti-Fraud and Anti-Corruption Policy;~~
~~ii) Whistleblowing Policy;~~
~~iii) Anti-Money Laundering Policy;~~
~~iv) Prosecution and Sanction Policy; and~~
~~v) Anti-Bribery Policy.~~

~~f) To monitor Council policies on whistleblowing and the anti-fraud and anti-corruption strategy and the Council's complaints process.~~

~~g) To oversee the production of the Authority's Annual Governance Statement and to recommend its adoption.~~

~~h) To consider the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.~~

~~i) To consider the Council's compliance with its own and other published standards and controls and to make recommendations as appropriate.~~

~~**4.4.3.3 Accounts**~~

~~a) To agree the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.~~

~~b) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.~~

4.4.3.4 Training

To identify training opportunities for Audit Committee Members and all Members of the Council in corporate governance issues and to make recommendations as appropriate.

4.4.4 Reporting Lines

The Audit Committee shall make formal recommendations to Council as appropriate, in accordance with its functions described in Rule 4.4.3. The Minutes of the Committee shall be formally recorded and received by Council. The ~~Chairman~~ Chair of the Committee shall draw to the attention of Council any issues that require action.

4.4.4.1

The Audit Committee shall have clear reporting lines and rights of access to other committees and functions, and make recommendations to these bodies as appropriate.

4.4.5 Review of Terms of Reference

These Terms of Reference shall be reviewed on an annual basis. Any changes proposed by the Assistant Director Governance~~Head of Governance and Improvement Services~~, in consultation with the ~~Chairman~~Chair, shall be submitted to the Council for approval.

4.4.6 Public and Member Questions

Public and Member questions can be asked in accordance with the requirements set out in Chapter 4.2 of this Constitution.

4.4.7 Petitions

Petitions can be submitted to the Audit Committee subject to the requirements of the Council's Petition Protocol described in Chapter 3.5 of this Constitution.

4.4.8 Quorum

The quorum of a meeting of the Audit Committee shall be three.

4.4.9 Speaking Rights

A Member of the Council who is not a Member of the Committee shall be entitled to attend and speak (but not vote) at any full meeting of the Audit Committee. Members attending under the provision shall notify the ~~Chairman~~ Chair of the Committee in advance that they will be attending.

Members of the public or other organisations shall only be entitled to speak at a full meeting of the Committee by invitation from the ~~Chairman~~Chair.

4.4.10 Disturbance by Public

If a member of the public interrupts proceedings, the ~~Chairman~~ Chair will warn the person concerned. If they continue to interrupt, the ~~Chairman~~ Chair will order their removal from the meeting room.

If there is a general disturbance in any part of the meeting room open to the public, the ~~Chairman~~ Chair may call for that part to be cleared.

4.4.11 Duration of Meeting

As set out in Chapter 4.2, unless the majority of Members present vote for the meeting to continue, any meeting of the Audit Committee that has not concluded by 10.30pm will adjourn immediately. If, once a motion to continue has been proposed and seconded, the majority of Members present vote to continue, the meeting will continue for a further period not exceeding 30 minutes.

Remaining business will be considered at a time and date fixed by the ~~Chairman~~Chair. If he/she does not fix a date the remaining business will be considered at the next ordinary meeting.

TITLE	**Learning from Council's with serve financial challenges**
FOR CONSIDERATION BY	Audit Committee on 1 February 2023
WARD	None Specific
LEAD OFFICER	Deputy Chief Executive & Director of Resources and Assets - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Wokingham Borough Council is committed to ensuring its financial wellbeing. The Audit Committee can ensure the learn lessons from other Local Authorities are applied to WBC and avoid the negative impact on residents in their areas.

RECOMMENDATION

To consider the report CIPFA report.

To consider the suggested actions for Audit Committee.

SUMMARY OF REPORT

Wokingham Borough Council is committed to good governance and as part of this process is continuously reviewing its arrangements. This includes learning from those local authorities that have failed to achieve high standards of governance. The Council believes that it is in a robust financial position and is keen to support the Audit Committee to provide assurance on the Council's financial wellbeing.

The Chartered Institute of Public Finance (CIPFA) has published a report into the lessons learnt from three local authorities that have issued Section 114 notices in recent years. Section 114 notices are the last resort for local authorities in financial trouble. It is likely that warning signs have been missed prior to the decision of the Chief Financial Officer to issue a Section 114 notice.

The report identifies six themes that occurred across the three authorities:

- Over-ambitious savings targets
- Lack of a medium-term financial plan
- Leadership weaknesses
- Inadequate governance
- Weak financial management
- Lack of reserves.

Officers have identified some self-reflection questions that the Audit Committee can use to consolidate the learning from the report.

Appendix A provides some high-level narrative around each of the key questions to support the Audit Committee in identifying the assurances that it has around the financial health of the Council.

The Audit Committee should be assured that they are sighted on the issues that the report identifies as causing the other local authorities' severe financial difficulties and can base their conclusions on the financial health of the Council on a robust evidence base.

Background

The term 'Section 114' refers to this section of the Local Government Finance Act 1988, part (3) of which sets out the duty of the Chief Finance Officer (CFO) to "make a report under this section if it appears to him that the expenditure of the authority incurred (including expenses it proposes to occur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure."

Issuing the notice under Section 114(3) immediately suspends all financial activity apart from that which is necessary to maintain statutory duties; it also initiates a 21-day period for full council to consider the report and agree urgent action to start to remedy the situation. The authority's external auditors and the Department for Levelling Up, Housing and Communities (DLUHC) will also be notified and can step in to provide advice and support.

There has been a recent increase in the number of section 114 notices across local authorities. The review considers the Section 114 notices issued at Northamptonshire, Croydon, and Slough.

Analysis of Issues

The conclusion of the report identifies four areas themes, which can be drawn on as ways to avoid reaching the point where a Section 114 notice becomes a possibility:

1. Facing up to uncomfortable reality,
2. Leadership,
3. Governance
4. Financial Management

To support the Committee in each of these areas we have created some questions for the Audit Committee to reflect on under each theme:

1. **Facing up to uncomfortable reality**

- What are the warning signs?
    - How would we know when there is a concern? (Auditor reports, S151 report, Peer reviews, Partners warnings)
- Are forecast savings realistic?
- Is there a robust financial risk management framework?

2. **Leadership**

- Is there adequate scrutiny and challenge of budgets, financial reports, and capital/investment strategies?
- Is there urgency to tackle problems confronting the authority?
- What support can the Committee offer to Statutory Officers in fulfilling their duties?

3. **Governance**

- Is the Audit Committee effective?

- Does the Audit Committee have sufficient oversight of Council owned companies?
- Do senior officers and Members have the skills to govern and oversee Council owned companies?

4. **Financial Management**

- Does the Council comply with the CIPFA financial management code?
- Is Medium Term Financial planning robust?
- What assurance does the Committee have over accuracy of financial planning, both short and long term?
- Are the Council's reserves adequate?
- Are levels of borrowing adequately monitored, scrutinised, and controlled?
- What assurance does the Committee have over return on investment for major projects?

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION
The Council faces unprecedented financial pressures as a result of; the longer-term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue
Next Financial Year (Year 2)	£0	Yes	Revenue
Following Financial Year (Year 3)	£0	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
N/A

Cross-Council Implications (how does this decision impact on other Council services, including properties and priorities?)
The report supports the Committee in fulfilling its governance role in overseeing the Council’s financial resilience.

Public Sector Equality Duty
The report takes account of the Public Sector Equality Duty has been taken. There is no need to undertake an equalities assessment as the report is not making a decision and is for information only.

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*
The report has no direct impact on the climate emergency.

Reasons for considering the report in Part 2
None

List of Background Papers
CIPFA: Learning lessons: what Section 114 can teach us

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Questions Arising from the Review	Situation at Wokingham	Audit Committee Action
Facing up to uncomfortable reality		
1. What are the warning signs?	External Auditor reports show no cause for concern. The inability to sign off the Accounts are understood and do not cause a concern. The S151 report provides assurance on the overall financial health of the authority. The LGA Peer Review and follow up has shown a proactive response to the issues raised. The Council's overall performance remains on target (quarterly performance monitoring). Monthly Revenue and Capital Monitoring show financial pressures but these are understood and being addressed in budget settings and savings programmes Internal Audits of Key Financial Systems provide assurance. CIPFA's Financial resilience index shows Wokingham have been rated in the top 20 of upper tier councils for financial sustainability	Continue to monitor and assess warning signs of financial stress. To review the CFO report to Executive. 83a. Appendix A CHIEF FINANCE OFFICER Report final.pdf (moderngov.co.uk)
2. Are forecast savings realistic?	Savings targets are challenging and subject to external changes in the environment. They are based on the best available information and a prudent assessment of risk. The Council's track record of delivering savings is strong. The CFO report details the delivery of past savings and provides a context for the future savings challenges.	

3. Is there a robust financial risk management framework?	The financial risk management framework is effective. Internal and external assurance supports this. There have been no significant cases of fraud or irregularities detected in the financial system. The CFO report and MTFP identify the Council's key financial risks and the mitigating actions to mange these risks. Financial risk is a key competent of the Council's risk management process with all Strategic and Operational risks being assessed for financial impacts.	
Leadership		
4. Is there urgency to tackle problems confronting the authority?	Key financial risks are raised through revenue monitoring reported via Executive which alerts to pressures and Officers and Council's respond to these. The Council has responded to the economic situation by establishing a response via the organisational foundations programme to identify and deliver savings.	
5. What support can the Committee offer to Statutory Officers in fulfilling their duties?	The Statutory Officers (S151, Monitoring Officer and Head of Paid Service) appear before the Committee on a regular basis and provide an update on the Council's risks. This provides an opportunity for the Committee to support the Statutory Officers in the discharge of their duties.	To understand and support the roles of the statutory officers and recognise the various bodies and committees responsible for financial management.
6. Is there adequate scrutiny and challenge of budgets, financial reports, and capital/investment strategies?	Budget setting is subject to review by O&S over a six-month period. Financial reporting is monthly to Executive.	

	The Capital strategy is subject to annual approval by Council and is monitored by Executive monthly. Treasury Management Strategy, mid-year review and annual report are received by the Audit Committee.	
1. Governance		
7. Is the Audit Committee effective?	The Audit Committee assessed its effectiveness in March 2021 and found that it was effective. Several actions were identified to improve the functioning of the Committee.	The Audit Committee will conduct a self-assessment against the CIPFA Guidance on Audit Committees and report back in March.
8. Does the Audit Committee have sufficient oversight of Council owned companies?	The Audit Committee have included Council owned companies in the Internal Audit plan for 23/24	Consider the findings of the Internal Audit report.
9. Do senior officers and Members have the skills to govern and oversee Council owned companies?	The Audit Committee have included Council owned companies in the Internal Audit plan for 23/24 Council officers and Members are supported by Non-Executive Directors with relevant industry experience and knowledge.	
Financial Management		
2. Does the Council comply with the CIPFA financial management code?	The self-assessment found that the Council is largely compliant with the CIPFA financial management code. The is an improvement plan to enhance our approach. The self-assessment is currently being reviewed by Internal Audit and the results reported to the Audit Committee in March.	Monitor implementation of financial management code improvement plan.

3. Is Medium Term Financial planning robust?	The MTFP is reviewed annually and presented to Council with the Budget each February. The MTFP is reviewed by senior officers, CLT, O&S and Executive.	
4. What assurance does the Committee have over accuracy of financial planning, both short and long term?	The Council has a strong track record of delivery of robust financial planning. The CFO report provides the outturn report for the last five-year budget to actuals which shows a budget variance of less than £1m per year. The CFO report also demonstrates the level of savings, income, and additional efficiencies achieved in the past 3 financial years. External Audit report on the going concern nature of the Council in their annual report. Internal Audit provide coverage of financial planning in their audit plan.	
5. Are the Council's reserves adequate?	The CFO report shows that Council’s reserves are in line with the CIPFA resilience index.	
6. Are levels of borrowing adequately monitored, scrutinised and controlled?	The levels of borrowing are reviewed by Council and the Audit Committee via the Treasury Management Strategy and mid-year and annual reports.	
7. What assurance does the Committee have over return on investment for major projects?	There is robust due diligence of Business Cases supported by analysis via industry experts (where necessary externally commissioned). The Council has a robust programme governance that is applied to its major corporate programmes. Project performance reported to Executive and Overview and Scrutiny.	

	Financial variances are identified in the revenue and capital monitoring report. The risk management process incorporates programme and project risk. Significant strategic programme risks are escalated onto the Corporate Risk Register. Assurance is provided via the Internal Audit Programme of activity.	

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TITLE	**Treasury Management Strategy 2023-2026**
FOR CONSIDERATION BY	Audit Committee on 1 February 2023
WARD	None Specific
LEAD OFFICER	Deputy Chief Executive - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Agree the treasury management procedures, limits, and objectives for 2023/24.

Effective and safe use of our resources to deliver service improvements and service continuity through the management of the council's cash flow and investments while funding the capital programme.

RECOMMENDATION

The Audit Committee is asked to support the Treasury Management Strategy 2023-2024 and recommend to Council to:

1) approve the Treasury Management Strategy as set out in Appendix A including the following additional appendices;
    - Prudential Indicators (Appendix B)
    - Annual Investment Strategy 2023/24 (Appendix C)
    - Minimum Revenue Provision (MRP) policy (Appendix D)

SUMMARY OF REPORT

The Chartered Institute of Public Finance & Accountancy (CIPFA) 2021 Prudential Code sets out the requirements for all local authorities to set an annual Treasury Management Strategy. The key objectives is to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice. Local authorities are required to have regard to the prudential code as set out in part one of the Local Government Act 2003 in England and Wales.

Under the prudential system, individual local authorities are responsible for deciding the level of their affordable borrowing, having regard to the code. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so within a robust framework.

Using the guidance from the Prudential Code, every year the Council produce a **Treasury Management Strategy** and a **Capital Strategy.** Both strategies are closely linked and also support the Medium Term Financial Plan. The Capital Strategy is considered in a separate report.

This report outlines the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years. A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury management.

Further monitoring reports are produced during the year: a mid-year monitoring and a year-end outturn.

Treasury Management Strategy

The audit committee are asked to recommend the Treasury Management Strategy as set out in Appendix A including the following appendices;

- Prudential Indicators (Appendix B)

  These are primary indicators designed to ensure the key objectives of the Prudential Code are met and that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice.

  These are summarised below and consist of limits and performance indicators for categories of Affordability and Prudence.

Prudential Indicators	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Limits			
Authorised Limit (Note: CFR*120%)	£594.0m	£647.2m	£661.0m
Operational Boundary (Note: CFR*110%)	£544.5m	£593.2m	£605.9m
Maturity structure of borrowing	See Appendix B		
Performance Indicators			
Capital financing requirement – General Fund (GF)	£417.3m	£443.8m	£449.6m
Capital financing requirement – HRA	£77.7m	£95.5m	£101.2m
Gross external borrowing – General Fund (GF)	£130.1m	£177.7m	£185.7m
Gross external borrowing - HRA	£65.0m	£82.8m	£88.5m
Ratio of financing costs to net revenue stream - GF	(0.57%)	(0.36%)	(0.39%)
Ratio of financing costs to net revenue stream - HRA	20.26%	20.06%	21.61%
Net income from commercial & service investments to net revenue stream - GF	9.44%	9.77%	9.75%
Liability benchmark	See Section 5		

- Annual Investment Strategy 2023/24 (Appendix C)

This sets out the investment parameters that the Council treasury service will work within when making decisions. The CIPFA Code and DLUHC Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's investment priorities will be security first, liquidity second, then return.

- Minimum Revenue Provision (MRP) policy (Appendix D)

The policy in which the Council set aside a prudent revenue provision each year to repay historic capital spend also known as the capital financing requirement. The current approach which is inline with the Statutory Guidance on Minimum Revenue Provision requires a local authority to calculate in each financial year an amount of MRP that it considers to be prudent. The Secretary of State considers that the methods of making prudent provision (set out in Appendix D). However, this does not rule out or otherwise preclude a local authority from using an alternative method should it decide that is more appropriate.

Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure that the Council has sufficient available cash to manage its day-to- day operations. By planning this daily cashflow the treasury service is able to invest short term surplus balances in suitable low-risk counterparties, which provide security of the investment and the appropriate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing requirement of the Council, essentially the longer- term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer- term cash may involve arranging long or short- term loans or using core balances. On occasion, debt previously drawn may be restructured to achieve a better financial position.

Details of the Council's capital spend plans are set out in the **Capital Strategy** document. As capital spend impacts on treasury management, key highlights from the capital strategy are included in the treasury management strategy (Appendix A) and summarised below;

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Housing, Local Economy & Regeneration – Non HRA	42.9	13.3	8.3	64.5
Children Services and Schools	17.3	27.0	21.0	65.3
Roads and Transport	10.5	9.3	7.9	27.7
Adult Social Care	6.8	3.1	1.8	11.7
Internal Services	6.4	3.7	3.0	13.1
Climate Emergency	5.3	3.1	4.9	13.3
Environment	0.9	0.1	1.1	2.1
Total General Fund Capital Programme	**90.1**	**59.6**	**48.0**	**197.7**
Housing, Local Economy & Regeneration – Housing Revenue Account (HRA)	11.6	25.1	21.7	58.4
Total Capital Programme 2023/24 to 2025/26	**101.7**	**84.7**	**69.7**	**256.1**

Note – the figures above do not include any carry forward budgets from the current approved 2022/23 capital programme.

The capital programme proposed for the next year is prudent and affordable as per the principles of the treasury management code of practice. The proposed funding of the three year programme is summarised below;

General Fund

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(39.0)	(17.5)	(9.3)	(65.8)
Developer contributions (S106 / CIL)	(8.6)	(3.0)	(0.9)	(12.5)
Capital grants	(23.0)	(29.1)	(21.8)	(73.9)
Other contributions	(0.6)	(0.4)	(0.1)	(1.1)
Capital receipts	(5.6)	(1.0)	(1.0)	(7.6)
General fund borrowing	(13.3)	(4.1)	(5.2)	(22.6)
Total	**(90.1)**	**(55.1)**	**(38.3)**	**(183.5)**

Housing Revenue Account

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(0.4)	(18.8)	(7.1)	(26.3)
Other contributions	(5.5)	(5.7)	(5.4)	(16.6)
Capital receipts	(5.7)	(0.6)	(9.2)	(15.5)
Total	**(11.6)**	**(25.1)**	**(21.7)**	**(58.4)**

The general fund capital programme (including carry forwards) currently has an estimated budget shortfall of c£28m over three years which includes a fully funded year 1 programme. This shortfall over three years will be balanced through a combination of reducing or reprofiling capital expenditure and maximising capital funding opportunities such as bidding for capital grants.

Borrowing Position

An important part of the treasury management strategy is to highlight the level of borrowing need. This is known as the capital financing requirement (CFR) and is an accounting concept which monitors how much capital expenditure has been incurred but not yet paid for.

A major source of funding for the Council's general fund capital programme is borrowing. This is described in two forms, supported borrowing and general fund borrowing. A significant part of the Council's capital programme is either self-financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services. These are referred to as "supported borrowing". General fund borrowing is funded through existing base budget and supports general investment to maintain Council assets and continue to provide services to customers and residents.

A summary of the general fund CFR for the next three financial years is estimated below.

	Supported Borrowing				General Fund Borrowing			
	22/23	23/24	24/25	25/26	22/23	23/24	24/25	25/26
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	280.9	300.4	309.6	329.2	100.6	103.2	107.7	114.7
Expenditure in year	46.1	42.8	44.8	31.0	6.3	7.9	11.0	7.7
Repayments in year	(26.6)	(33.6)	(25.2)	(28.6)	(3.7)	(3.5)	(4.0)	(4.2)
Closing balance	**300.4**	**309.6**	**329.2**	**331.5**	**103.2**	**107.7**	**114.7**	**118.1**

It is important to note, the "expenditure in year" row is an estimate of actual capital expenditure to be incurred in the financial year based on a detailed analysis of project spend, timing and delivery and includes the impact of carry forwards from the previous year and carry forwards into future years based on historic trends. This ensures a more accurate CFR position which is important when considering investment and borrowing decisions. It will therefore be different to the amount identified as funding earlier in the report in the capital funding tables as these are setting out the permission to allocate capital budget to a project.

Also, worth noting, is the CFR balance does not reflect the level of debt the Council holds. Where the Council hold surplus balances such as reserves, unspent grants and working capital, this avoids the need to borrow externally saving on interest costs. This is known as internal borrowing. Furthermore, it is important to take into account any treasury investment balances when looking at external debt to understand a more accurate debt figure.

The tables on the previous page are referred to as the "general fund" position and exclude the Housing Revenue Account (HRA) CFR because this is ringfenced and funded entirely from tenants rental income.

The HRA CFR for the next three years is estimated below.

	Housing Revenue Account			
	22/23	23/24	24/25	25/26
	£m	£m	£m	£m
Opening balance	80.3	78.2	77.6	95.4
Expenditure in year	0	0.4	18.8	7.0
Repayments in year	(2.1)	(1.0)	(1.0)	(1.4)
Closing balance	**78.2**	**77.6**	**95.4**	**101.0**

The repayments of the Housing Revenue Account CFR are known as Voluntary Revenue Provision (VRP). These are set out as part of the HRA budget setting and form part of the budget setting process. The additional prudential borrowing from year 2 onwards relate primarily to Gorse Ride Redevelopment. Capital receipts and additional rental income will be received once the project is completed and will be used as additional VRP to reduce the HRA CFR balance.

Repayment Of Borrowing

As highlighted previously, the Council continue to invest significant amounts into the capital programme generating assets such as roads, schools, housing, regeneration properties and many more. The graph below sets out the expected repayment of this debt.

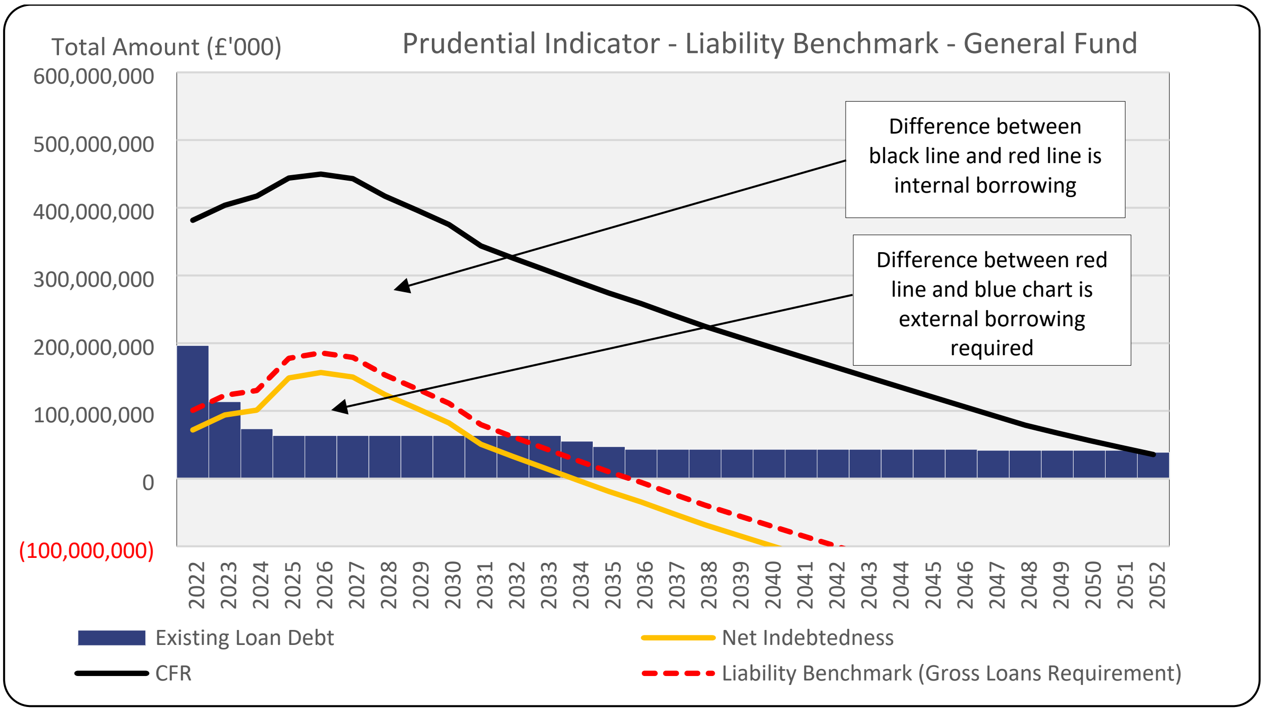
The graph includes four key parts in reference to debt;

- CFR (Capital financing requirement) - A technical calculation of historic capital expenditure less that already paid for, required to arrive at the annual level of debt repayment.
- Existing Loan Debt – this is the actual amount currently borrowed with third parties.
- Net Indebtedness (Net Loans Requirement) – this is external debt less treasury (i.e. liquid) investment balances. It is important that these are considered together as treasury investments could be used to repay external debt.
- Liability Benchmark – Net loans requirement plus a liquidity buffer held for daily treasury management.

The Council are expecting debt to rise over the next three years in line with the capital programme and then it is expected to reduce over time as income is generated from these projects and cost savings are realised.

CFR and external debt will reduce as borrowings are repaid through income and will reach a point in time when debt is fully repaid and the ongoing income will be transferred to benefit the general fund.

The graph is based on general fund only and excludes HRA as this is ringfenced and shown separately.



	2023/24	2024/25	2025/26
	£m	£m	£m
Loans CFR (a)	417	444	450
Less internally Funded (b)	287	266	264
External debt - general fund only (c = a+b)	130	178	186
Less treasury investments (d)	29	29	29
Net indebtedness (e = c -d)	**101**	**149**	**157**

Key Changes to the Strategy

There are no changes proposed to the strategy for 2023/24.

- Prudential Indicators

  - Inclusion of the new prudential indicator called 'the liability benchmark'. This sets out a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the CFR) is offset by other cash flows and balances, which reduce the level of actual debt required.

    This is shown in graphical format. Due to similarities with the debt graph previously used, this has been replaced.

  - Inclusion of the new prudential indicator called 'Net income from commercial & service investments to net revenue stream – GF'. This indicator comprises interest and investment income (other than from investments held for treasury management purposes), together with net income from other assets held primarily for financial return, such as commercial property. The intention of this indicator is to show the net financial impact on the authority of its entire non treasury investment income.

- Minimum credit rating criteria for Investments - It is proposed that the Council change their minimum credit rating for investments from high grade rated investments to upper medium grade rated investments. This will give the Council more flexibility with counterparties when investing surplus cash balances. This will allow the treasury team greater resilience around options for investing cash balances whilst maintaining security of investments. Further information is set out in section 9 of appendix A

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces unprecedented financial pressures as a result of; the longer term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	N/A	N/A
Next Financial Year (Year 2)	N/A	N/A	N/A
Following Financial Year (Year 3)	N/A	N/A	N/A

Other financial information relevant to the Recommendation/Decision
Capital spend plans are outlined in further detail in the Capital Strategy which is available within the agenda pack for the 16 February 2023 Executive meeting and will be available on the Council's website once approved.

Cross-Council Implications
None

Public Sector Equality Duty
An Equality Impact Assessment is not required for this report

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*
None

Reasons for considering the report in Part 2
None

List of Background Papers

Appendix A - Treasury Management Strategy Appendix B - Prudential & Treasury Management Indicators 2023/24 to 2025/26 Appendix C - Annual Investment Strategy Appendix D - MRP policy

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Treasury Management Strategy 2023-24

WOKINGHAM
BOROUGH COUNCIL

Contents

1. Introduction

The Chartered Institute of Public Finance & Accountancy (CIPFA) 2021 Prudential Code sets out the requirements for all local authorities to set an annual Treasury Management Strategy. The key objectives is to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice. Local authorities are required to have regard to the prudential code as set out in part one of the Local Government Act 2003 in England and Wales.

Under the prudential system, individual local authorities are responsible for deciding the level of their affordable borrowing, having regard to the code. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so within a robust framework.

Alongside the 2021 Prudential Code, local authorities are required to comply with the 2021 Treasury Management Code. Both codes are closely linked; with the prudential code covering a framework for capital investment plans, the treasury management code ensures treasury management practices (TMPs) are adapted and can support the capital investment plans.

The 2017 Prudential Code introduced the requirement for local authorities to produce a capital strategy. The purpose of the capital strategy is to firmly place decisions around borrowing in the context of the overall longer-term financial position of the authority and to provide improved links between the revenue and capital budgets. Both strategies are closely linked and also support the Medium Term Financial Plan.

This strategy outlines the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years. A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury management.

The Strategy for 2023/24 covers two main areas: treasury management activities and capital activities.

<u>Treasury Management activities</u>

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates and use of external professional advisors
- the investment strategy and the borrowing strategy;
- reporting arrangements and management evaluation

<u>Capital activities</u>

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

2. Treasury Management Policy Statement

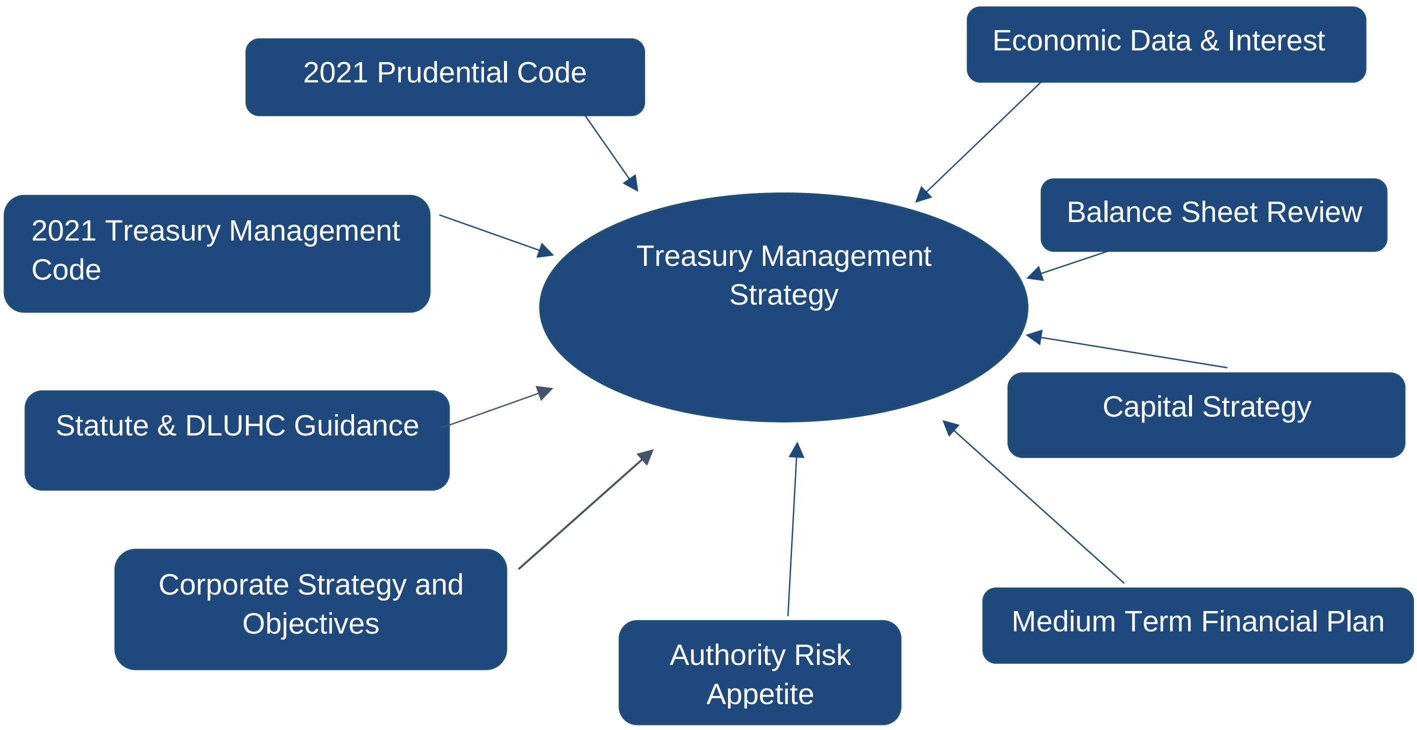
Wokingham Borough Council Treasury Management Policy Statement for 2023/24 is:

- The Council defines our treasury management activities as:
  The management of the Council's investments and cash flows, banking, money market and capital market transactions, the effective control of the risks associated with above mentioned activities and the pursuit of optimum performance consistent with those risks.

- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Factors that shape the Treasury Strategy



Policy on use of external service providers

The Council use financial advisers Link Group, to advise and support our treasury management practices, policies, investment and borrowing strategy. The Council recognises that responsibility for treasury management decisions always remains with the Council and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

When making investment or borrowing decisions, the Council have access to treasury brokers to ensure we achieve best value for money in our treasury deals.

3. Governance and Monitoring

The Deputy Chief Executive confirms that the treasury service will comply with the strategy set out within this document and any breaches to limits and prudential indicators will be reported to the Audit Committee as part of the two further statutory reports that are produced during the year: a mid-year monitoring report and a year-end outturn report.

During the year, the finance team engages in the following governance activities:-

- Capital monitoring (forecast expenditure) is reported to the Executive on a quarterly basis and on a monthly basis to the Corporate Leadership Team.
- Regular analysis of income projections for all funding assumptions.
- Regular cashflow reviews and forecasting.
- Treasury management training including continuing professional development (CPD).
- Financial modelling to support investment / borrowing strategy.
- Monthly meetings with Link Group (treasury advisors).

4. Updates to Treasury Management Strategy

The following changes are proposed to the Treasury Management Strategy for 2023/24.

- Prudential Indicators
    - Inclusion of the new prudential indicator called ‘the liability benchmark’. This sets out a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the CFR) is offset by other cash flows and balances, which reduce the level of actual debt required.

      This is shown in graphical format. Due to similarities with the debt graph previously used, this has been replaced.

  - Inclusion of the new prudential indicator called 'Net income from commercial & service investments to net revenue stream – GF'. This indicator comprises interest and investment income (other than from investments held for treasury management purposes), together with net income from other assets held primarily for financial return, such as commercial property. The intention of this indicator is to show the net financial impact on the authority of its entire non treasury investment income.

- Minimum credit rating criteria for Investments - It is proposed that the Council change their minimum credit rating for investments from high grade rated investments to upper medium grade rated investments. This will give the Council more flexibility with counterparties when investing surplus cash balances. This will allow the treasury team greater resilience around options for investing cash balances whilst maintaining security of investments. Further information is set out in section 9 of this report.

5. The Council's Capital Expenditure and Financing 2023/24

The Council undertakes capital expenditure on long term assets. These activities may either be:

- financed in year, immediately through the application of capital or revenue resources (capital receipts, capital grants, capital contributions and revenue contributions etc.), which has no resulting impact on the Council's borrowing need or;

- funded by borrowing (internal or external);

  - internal borrowing - is the use of the internal cash reserves of the Council to fund the cashflow requirement for its capital expenditure.

  - external borrowing - is the use of loans from outside organisations to fund the cashflow requirements for its capital expenditure. For example, borrowing from other local authorities or the Public Works Loans Board.

The capital expenditure plan is a key driver of the treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirmation of the Capital Programme.

The table below sets out the capital programme for the next three years by key area. Full details of the Capital Programme can be found in the Capital Strategy and the Medium Term Financial Plan.

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Housing, Local Economy & Regeneration – Non HRA	42.9	13.3	8.3	64.5
Children Services and Schools	17.3	27.0	21.0	65.3
Roads and Transport	10.5	9.3	7.9	27.7
Adult Social Care	6.8	3.1	1.8	11.7
Internal Services	6.4	3.7	3.0	13.1
Climate Emergency	5.3	3.1	4.9	13.3
Environment	0.9	0.1	1.1	2.1
Total General Fund Capital Programme	**90.1**	**59.6**	**48.0**	**197.7**
Housing, Local Economy & Regeneration – Housing Revenue Account (HRA)	11.6	25.1	21.7	58.4
Total Capital Programme 2023/24 to 2025/26	**101.7**	**84.7**	**69.7**	**256.1**

The capital programme proposed for 2023/24 is prudent, sustainable, and affordable as per the principles of the prudential code. The proposed funding of the programme is summarised below for the general fund and the housing revenue account (HRA).

General Fund

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(39.0)	(17.5)	(9.3)	(65.8)
Developer contributions (S106 / CIL)	(8.6)	(3.0)	(0.9)	(12.5)
Capital grants	(23.0)	(29.1)	(21.8)	(73.9)
Other contributions	(0.6)	(0.4)	(0.1)	(1.1)
Capital receipts	(5.6)	(1.0)	(1.0)	(7.6)
General fund borrowing	(13.3)	(4.1)	(5.2)	(22.6)
Total	**(90.1)**	**(55.1)**	**(38.3)**	**(183.5)**

Housing Revenue Account

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(0.4)	(18.8)	(7.1)	(26.3)
Other contributions	(5.5)	(5.7)	(5.4)	(16.6)
Capital receipts	(5.7)	(0.6)	(9.2)	(15.5)
Total	**(11.6)**	**(25.1)**	**(21.7)**	**(58.4)**

The general fund capital programme (including carry forwards) currently has an estimated budget shortfall of c£28m over three years which includes a fully funded year 1 programme. This shortfall over three years will be balanced through a combination of reducing or reprofiling capital expenditure and maximising capital funding opportunities such as bidding for capital grants.

Supported borrowing is where a direct repayment source has been identified to cover the cost of borrowing, for example invest to save schemes (covered from the future income generation or cost reductions), and many projects under Housing, Local Economy and Regeneration classification. Another example is forward funding developer contributions, where capital expenditure will be repaid from future developer contributions to be received.

The Capital Financing Requirement (CFR)

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from resources (e.g. Capital receipts or grants). Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

A major source of funding for the Council's capital programme is borrowing. This is described in two forms, supported borrowing and general fund borrowing. A significant part of the Council's capital programme is either self-financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services. These are referred to as "supported borrowing". General fund borrowing is funded through existing base budget and supports general investment to maintain Council assets and continue to provide services to customers and residents.

The table below shows the estimated CFR for supported borrowing and general fund borrowing over the next three years.

	Supported Borrowing				General Fund Borrowing			
	22/23	23/24	24/25	25/26	22/23	23/24	24/25	25/26
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	280.9	300.4	309.6	329.2	100.6	103.2	107.7	114.7
Expenditure in year	46.1	42.8	44.8	31.0	6.3	7.9	11.0	7.7
Repayments in year	(26.6)	(33.6)	(25.2)	(28.6)	(3.7)	(3.5)	(4.0)	(4.2)
Closing balance	**300.4**	**309.6**	**329.2**	**331.5**	**103.2**	**107.7**	**114.7**	**118.1**

It is important to note, the "expenditure in year" row is an estimate of actual capital expenditure to be incurred in the financial year based on a detailed analysis of project spend, timing and delivery and includes the impact of carry forwards from the previous year and carry forwards into future years based on historic trends. This ensures a more accurate CFR position which is important when considering investment and borrowing decisions. It will therefore be different to the amount identified as funding earlier in the report in the capital funding tables as these are setting out the permission to allocate capital budget to a project.

As mentioned above, supported borrowing are related to capital projects which are self-financing and / or income generating. For the types of supported borrowing, a breakdown of the CFR is shown below.

	Supported Borrowing		
	23/24	24/25	25/26
	£m	£m	£m
Invest to save	72.9	94.1	102.1
Town centre regeneration	92.1	84.8	81.9
Wokingham housing companies	24.2	22.7	20.8
Developer contributions forward funded	40.3	48.3	47.8
Housing, economy & regeneration	80.0	79.5	78.9
Closing balance	**309.6**	**329.2**	**331.5**

The in-year increase in the borrowing requirement is due to the Council's ambitious Capital Programme which includes invest to schemes (these schemes will be able to create a saving and pay for the financing costs), many are Housing, Local Economy and Regeneration schemes, which will reduce over time when capital receipts are recovered, or loans repaid. To be able to provide the infrastructure such as roads and facilities that the borough needs the council is continuing to forward fund schemes. These will decrease again as developer contributions are received. The CFR is also reduced each year by the minimum revenue provision (MRP) (see section 6). Part of the Councils financial strategy is based on diversifying income streams, by growing revenue generating assets through its housing companies and other strategic investments.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the Capital Programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the Capital Programme and cash flow requirements. The Council does not borrow all of this money externally but uses some of its internal cash reserves to fund this expenditure (this approach saves the council on interest costs). This is referred to as "internal borrowing". This means that the Council's capital financing requirement is higher than its external borrowing figures. External borrowing may be sourced from bodies such as the Public Works Loan Board [PWLB], the money markets and other types of funding (local authorities, bonds etc.).

The CFR is estimated to reduce over the next 25 to 30 years to the pre 2011/12 level of £100m. 2011/12 is used as a benchmark because this was the level of balance before the housing, regeneration and forward funded projects.

As highlighted previously, the Council continue to invest significant amounts into the capital programme generating assets such as roads, schools, housing, regeneration properties and many more. The graph below sets out the expected repayment of this debt.

The graph includes four key parts in reference to debt;

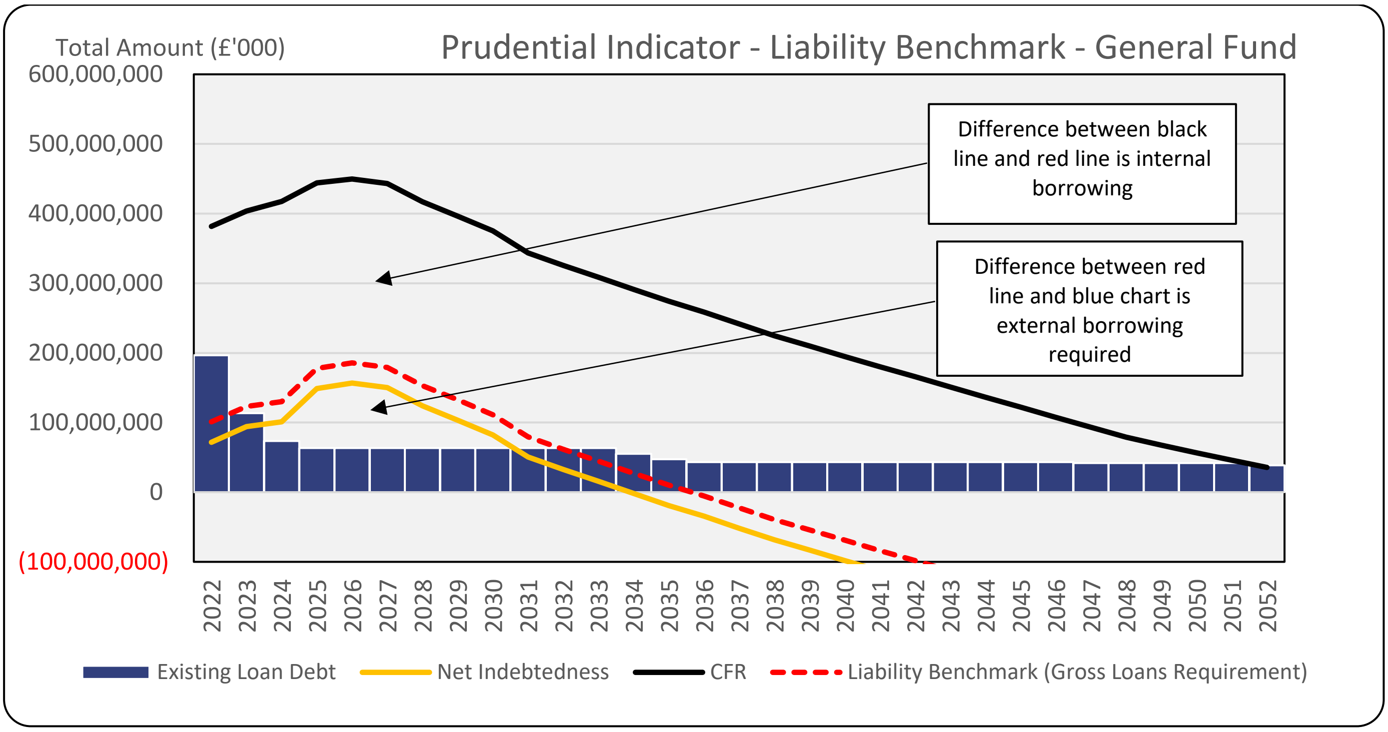
- CFR (Capital financing requirement) - A technical calculation of historic capital expenditure less that already paid for, required to arrive at the annual level of debt repayment.

- Existing Loan Debt – this is the actual amount currently borrowed with third parties.
- Net Indebtedness (Net Loans Requirement) – this is external debt less treasury (i.e. liquid) investment balances. It is important that these are considered together as treasury investments could be used to repay external debt.
- Liability Benchmark – Net loans requirement plus a liquidity buffer held for daily treasury management.

The Council are expecting debt to rise over the next three years in line with the capital programme and then it is expected to reduce over time as income is generated from these projects and cost savings are realised.

CFR and external debt will reduce as borrowings are repaid through income and will reach a point in time when debt is fully repaid and the ongoing income will be transferred to benefit the general fund.

The graph is based on general fund only and excludes HRA as this is ringfenced and shown separately.



The original CFR levels before commercialisation, forward funding and regeneration projects were approximately £100m.

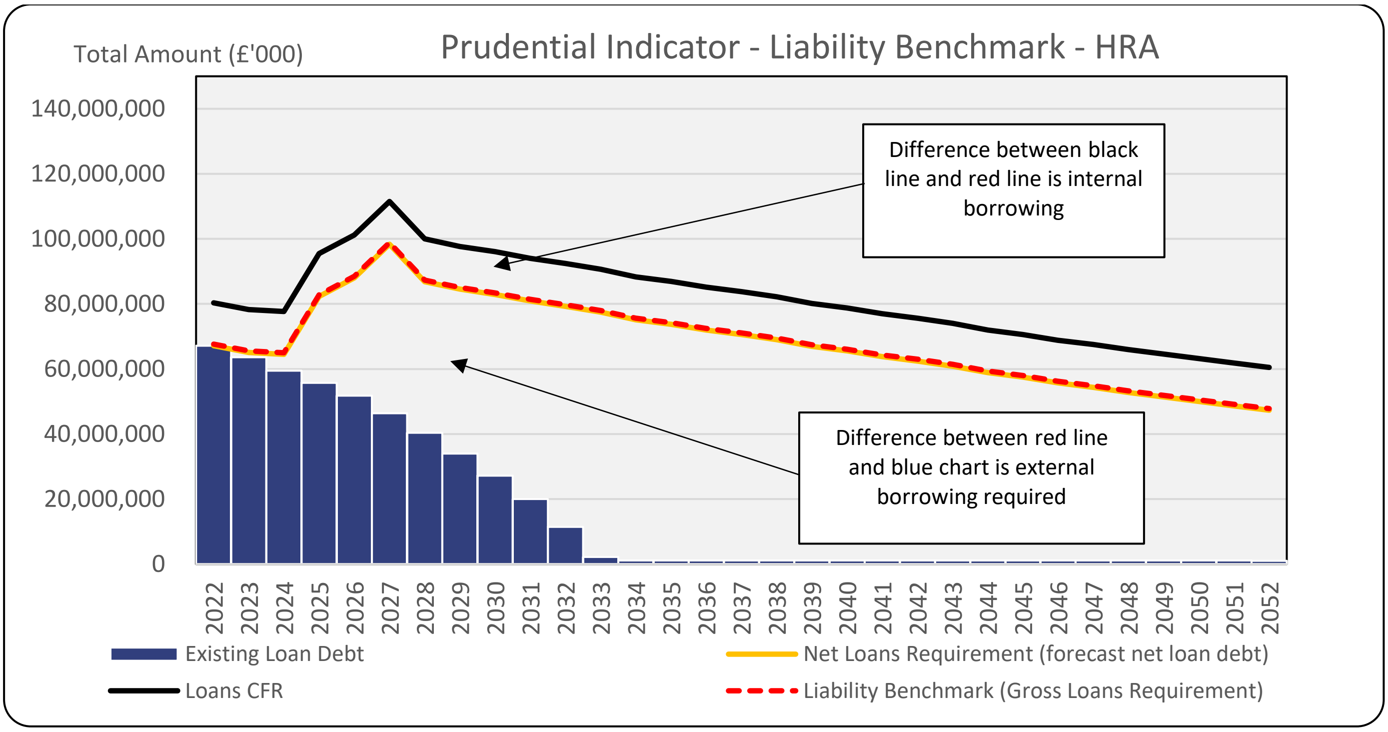
As referenced in section 4, there is a new prudential indicator called ‘the liability benchmark’. This sets out a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the CFR) is offset by other cash flows and balances, which reduce the level of actual debt required. This is shown in graphical format above and due to similarities with the debt graph previously used, this has been replaced.

The tables on the previous page are referred to as the "general fund" position and exclude the Housing Revenue Account (HRA) CFR because this is ringfenced and funded entirely from tenants rental income.

The HRA CFR for the next three years is estimated below.

	Housing Revenue Account			
	22/23	23/24	24/25	25/26
	£m	£m	£m	£m
Opening balance	80.3	78.2	77.6	95.4
Expenditure in year	0	0.4	18.8	7.0
Repayments in year	(2.1)	(1.0)	(1.0)	(1.4)
Closing balance	**78.2**	**77.6**	**95.4**	**101.0**

The repayments of the Housing Revenue Account CFR are known as Voluntary Revenue Provision (VRP). These are set out as part of the HRA budget setting and form part of the budget setting process. The additional prudential borrowing from year 2 onwards relate primarily to Gorse Ride Redevelopment. Capital receipts and additional rental income will be received once the project is completed and will be used as additional VRP to reduce the HRA CFR balance. This is shown in the HRA liability benchmark prudential indicator set out below.



6. Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated general fund underlying borrowing each year (the 'CFR') through a revenue charge known as the Minimum Revenue Provision (MRP). The Council is also permitted to undertake additional voluntary payments known as Voluntary Revenue Provision (VRP).

The Department for Levelling Up, Housing and Communities, DLUHC regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. The decision on the amount of MRP lies with the Council although a prudent provision must be made. **The Council is recommended to approve the MRP Statement which can be found in Appendix D.**

Principles of the guidance have been reflected in the Council's strategy. However where we identify an alternative prudent and more pertinent MRP policy, we are permitted to follow that instead.

For 2023/24 Wokingham Borough Council's MRP policy will follow the main DLUHC principles, except in some instances. The table below summarises areas where WBC are planning to treat MRP different from the guidance however the approach remains prudent and affordable which are consistent with the principles of the code.

Expenditure type	WBC MRP charging policy
Freehold land	maximum 50 years using asset life as a guide
Bridges	maximum 50 years using asset life as a guide
Housing, Local Economy and Regeneration a) assets that can be disposed of for appreciation	10% of maximum 15 years asset life
Housing, Local Economy and Regeneration b) all other assets	range of 5 to 50 years (depending on life of asset type)
Loan Capital in WBC holdings	no charge – loan secured by company asset
Forward Funding Schemes (Developer funded)	a) no charge – developer contributions are used to repay principle

Housing, Local Economy and Regeneration - a) assets that can be disposed of for appreciation – 10% for a maximum of 15 years asset life. This is a prudent contingency for assets which can be disposed of for appreciation, if they reduce in value when sold, to cover any loss on disposal.

MRP Consultation

On 30th November 2021 a consultation was launched (open until 8th February 2022) in respect of potential changes to the current MRP arrangements. The consultation seeks views on a number of potential changes and should those or other changes be taken forward the Council will review its approach going forward as required.

The Council are awaiting the outcome of the consultation and are expecting further guidance and clarity on MRP, including applicable start date and confirmation changes are not retrospective. If received during the 2023-24 financial year, changes will be assessed and any significant changes reported through the appropriate governance process.

7. Balance Sheet Projections

The balance sheet projection is a financial model used to help understand the current and future levels of external and internal borrowing in relation to the CFR estimates and the underlying cash balances. It is not required in the Prudential Code however is consider best practice to do and helps to ensure our borrowing is prudent, affordable and sustainable.

With support from our financial advisors Link Group, we produce a balance sheet review on a quarterly basis. One of the key performance indicators identified in the strategy is the ratio of internal borrowing to CFR. This ratio is important as it indicates if the Council can take on capital expenditure without the need to secure borrowing at the point of expenditure. This helps ensure borrowing costs are minimised. The balance sheet review will guide the ratio for the current year and future years.

The balance sheet projections can be used to identify timing and quantum of borrowing need based on the capital programme, current borrowing portfolio and internal borrowing capacity of the Council.

The balance sheet review looks at;

- CFR position
- Level of investment balance
- External debt requirement
- Working capital position
- Level of reserves

8. External Borrowing and Compliance with Treasury Limits and Prudential Indicators for Debt

We have looked at the overall Capital Programme (above) but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Further detail on each of these indicators is included in Appendix B.

Authorised limit – Limit beyond which borrowing is prohibited, and needs to be set and revised by Council and should reflect a level of borrowing which, while not desired, could be afforded but may not be sustainable.

Operational boundaries limit – Limit of borrowing which is deemed prudent and affordable whilst allowing the Council to fund it's capital programme plan.

Maturity structure of borrowing – time period when loans borrowed will be required to be repaid.

Capital financing requirement - The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from resources (e.g. Capital receipts, income or grants).

Gross external borrowing – borrowing with external parties which attract an interest charge (e.g. PWLB).

Ratio of financing costs to net revenue stream - The ratio of the financing costs against the net revenue expenditure.

Net income from commercial & service investments to net revenue stream – The ratio of the net income from commercial & service investments to net revenue expenditure.

Liability Benchmark - estimate and measure the liability benchmark for the forthcoming financial year onwards. Comprises of existing debt maturity profile and also how minimum revenue provision (MRP) and other cash flows affect their future debt requirement. The liability benchmark is not a single measure but should be presented as a chart of four balances;

1) existing loan debt outstanding - the authority's existing loans that are still outstanding in future years.
2) CFR – based on historic and future approved prudential borrowing and planned repayments via MRP, capital receipts, etc.
3) net indebtedness – the authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned repayments and any other major cash flows forecast.
4) liability benchmark - net loans requirement plus short-term liquidity allowance.

Further information on the liability benchmark is included in section 5.

<u>The Council is asked to approve the following prudential indicators in the table below;</u>

Prudential Indicators	2023/24 £m	2024/25 £m	2025/26 £m
<u>Limits</u>			
Authorised Limit (Note: CFR*120%)	£594.0m	£647.2m	£661.0m
Operational Boundary (Note: CFR*110%)	£544.5m	£593.2m	£605.9m
Maturity structure of borrowing	See Appendix B		
<u>Performance Indicators</u>			
Capital financing requirement – General Fund (GF)	£417.3m	£443.8m	£449.6m
Capital financing requirement – HRA	£77.7m	£95.5m	£101.2m
Gross external borrowing – General Fund (GF)	£130.1m	£177.7m	£185.7m
Gross external borrowing - HRA	£65.0m	£82.8m	£88.5m
Ratio of financing costs to net revenue stream - GF	(0.57%)	(0.36%)	(0.39%)
Ratio of financing costs to net revenue stream - HRA	20.26%	20.06%	21.61%
Net income from commercial & service investments to net revenue stream - GF	9.44%	9.77%	9.75%
Liability benchmark	See Section 5		

9. Investment Strategy

The treasury management team ensure the cash flow is adequately planned, with surplus monies being invested in suitable low risk counterparties, providing adequate liquidity initially before considering maximising investment return. The return on investments contributes to the Council's budget for both the general fund and housing revenue account.

Annual investment strategy

The CIPFA Prudential Code and the DLUHC guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking a rate of return, or yield. The Council's investment priorities are security first, liquidity second, then return (yield).

The Council will only invest its surplus funds in accordance with its time and monetary limits for institutions on the Council's counterparty list.

Time and monetary limits for institutions on the Council's counterparty list

	*** Minimum credit criteria / colour band***	**Money Limit**	**Max. maturity period**
Debt Management Account Deposit Facility (DMADF) – UK Government	UK sovereign rating	£20M	6 months
UK Government Gilts	UK sovereign rating	£5m	1 year
UK Government Treasury Bills	UK sovereign rating	£5m	1 year
Money Market Funds	AAA	£10m	N/A – held for instant liquidity
Local Authorities	N/A	£10m	5 year
Term Deposits with Banks**	F1 / A	£5m	1 year
Term Deposits with Building Societies	F1 / A	£5m	1 year
Certificate of deposit (CD) or corporate bonds with banks and building societies	AA	£5m	Liquid

Note*: The credit criteria shown here is Fitch credit ratings agencies long term ratings. When using the credit rating the Council will use the lower of the three credit rating agencies.(See appendix C)

Note **for each banking group the following limits will apply, dependent on the rating of the Parent Bank (i.e. Lloyds group)
- AAA : £7m with a maximum average duration of 1 year
- AA- :£5m with a maximum average duration of 6 months

The annual investment strategy can be found in Appendix C.

Changes to investment strategy for 2023/24

It is proposed that the Council change their minimum credit rating for investments from high grade rated investments to upper medium grade rated investments highlighted in the table below. This will give the Council more flexibility with counterparties when investing surplus cash balances. This will allow the treasury team greater resilience around options for investing cash balances whilst maintaining security of investments.

Whilst it is difficult to quantify the impact of the credit rating changes due to the nature of interest rates and ratings changing on a regular basis, working with Link Group, analysis based on 9th January ratings show an additional c0.15% on the interest rate for a 6-month investment.

The minimum investment criteria will be;

Moodys –
Short Term P-1
Long Term A2

S&P
Short Term A-1
Long Term A

Fitch
Short Term F1
Long Term A

Moodys		S&P		Fitch		Description	
LT	ST	LT	ST	LT	ST		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	Investment Grade
Aa1		AA+		AA+		High Grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+	A-1	A+	F1	Upper Medium Grade	
A2		A		A			
A3	P-2	A-	A-2	A-	F2	Lower medium grade	
Baa1		BBB+		BBB+			
Baa2	P-3	BBB	A-3	BBB	F3		
Baa3		BBB-		BBB-			

Treasury investment projections

The Council assesses future investment projections, to maintain an operational cash balance so that it is able to manage its planned future day-to-day cashflow, without the requirement of short-term borrowing. Once planned short term expenditures are covered, the treasury team will look to invest in the longer term (plus 1 year).

The table below shows the Councils treasury investment projections for the next three years.

	2023/24 £m	2024/25 £m	2025/26 £m
Loans to Council owned companies	24	23	21
Loans to local authorities / fund managers	30	30	30
Total	**54**	**53**	**51**

Estimated investment return rates for treasury investments

Investment returns are expected to increase in 2023/24 compared to last year due to the increases in interest rates during 2022. There remains a lot of uncertainty in terms of the global and national economy and the longer terms impact from Covid-19.

Link Group - Latest Interest Forecasts

	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024
Bank rate	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%

Cash flow management

The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short-term investments. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's Medium Term Financial Strategy.

Non-treasury investments

The Council may also make loans and investments for service purposes or where the local authority is setting up local authority owned companies. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this Treasury Management Strategy.

The council will acquire land and buildings within the borough boundaries for the primary reason of economic development, regeneration or to protect local employment for residents and has to take on external debt to pay for these, the minimum revenue provision and the cost of debt financing is expected to be covered from any income streams generated by the acquisition.

THE COUNCIL WILL NOT BORROW TO ACQUIRE ASSETS PRIMARILY FOR FINANCIAL RETURN.

The previous commercial properties investment made before changes to the PWLB borrowing regulations will be retained until the optimum point for disposal in accordance with the strategy agreed by Council on 23 November 2017. Where these investments have treasury or MRP implications this strategy will be followed.

Investment Performance Benchmarking

Whilst it is difficult to benchmark investment returns on a like for like basis, due to factors such as daily rate changes, credit ratings and the fact returns (yield) are not the primary purpose for investments, the Council will review average returns against Sterling Overnight Index Average (SONIA). SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

Counterparty List

The Council maintain an updated counterparty list on a regular basis using credit updates received on counterparties from Link Group.

10. Borrowing Strategy

In order to fund the capital programme highlighted earlier in the strategy, the Council will be required to borrow. Depending on the cashflow position of the Council at the time, borrowing will vary from short term (due to a requirement for liquidity), or over a longer period so as to fund a major project.

The following factors are to considered when making borrowing decisions;

- Need for short term or long term borrowing.
- Forecast ratio of Internal / External borrowing.
    i) Internal borrowing - is the use of the internal cash reserves of the Council to fund its capital expenditure
    ii) External borrowing - is the use of loans from outside the organisations to fund its capital expenditure
- Maturity Structure - link maturity payments dates to when other income receipts due to be received to match against the repayment of debt (part of the long- term cash-flow).
- View of the interest rate market.

Once a decision is made on the type of borrowing required, the Council will look to borrow from the following places (in no particular order);

- PWLB (Public Works Loans Board)
- Local Authorities.
- Financial Institutions (e.g. banks, pensions funds)
- Municipal Bonds Agency (MBA) borrowing – Local Government Funded Agency, raises funds from selling municipal bonds to lend to local authorities
- Issuance of Local Authority Bonds (from Wokingham Borough Council) – Council issue bonds on bond market

Borrowing in advance of need

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

Interest rate exposure

Interest rates are very volatile at present and have seen an unexpected increase during mid to late 2022. Whilst the Council continually monitor its cashflow, prudential borrowing requirements and interest rate forecasts, the borrowing strategy and use of internal borrowing play an important role in reducing the exposure to interest rate risks.

Working with Link Group, our treasury management advisors the Council assess which borrowing options best align to our future prudential borrowing requirements.

It is estimated that an increase of 1% in interest rates would cost an additional £1.6 per annum in interest costs. As a majority of the Councils planned borrowing is "supported borrowing", any increase in interest rate may have an impact on project's returns on investment, payback periods, future revenue benefits, etc.

Changes to the borrowing strategy for 2023/24

There are no changes proposed for the borrowing strategy for 2023/24.

11. Appendices

- Appendix B – Prudential & Treasury Management Indicators 2023/24 to 2025/26
- Appendix C - Annual Investment Strategy
- Appendix D - MRP Policy

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Prudential & Treasury Management Indicators 2023/24 to 2025/26

These are primary indicators designed to ensure the key objectives of the Prudential Code are met and that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice.

Capital Expenditure

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

The Council's Capital programme is summarised below as the required prudential indicators for capital expenditure.

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Housing, Local Economy & Regeneration – Non HRA	42.9	13.3	8.3	64.5
Children Services and Schools	17.3	27.0	21.0	65.3
Roads and Transport	10.5	9.3	7.9	27.7
Adult Social Care	6.8	3.1	1.8	11.7
Internal Services	6.4	3.7	3.0	13.1
Climate Emergency	5.3	3.1	4.9	13.3
Environment	0.9	0.1	1.1	2.1
Total General Fund Capital Programme	**90.1**	**59.6**	**48.0**	**197.7**
Housing, Local Economy & Regeneration – Housing Revenue Account (HRA)	11.6	25.1	21.7	58.4
Total Capital Programme 2023/24 to 2025/26	**101.7**	**84.7**	**69.7**	**256.1**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources.

General Fund

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(39.0)	(17.5)	(9.3)	(65.8)
Developer contributions (S106 / CIL)	(8.6)	(3.0)	(0.9)	(12.5)
Capital grants	(23.0)	(29.1)	(21.8)	(73.9)
Other contributions	(0.6)	(0.4)	(0.1)	(1.1)
Capital receipts	(5.6)	(1.0)	(1.0)	(7.6)
General fund borrowing	(13.3)	(4.1)	(5.2)	(22.6)
Total	**(90.1)**	**(55.1)**	**(38.3)**	**(183.5)**

Housing Revenue Account

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(0.4)	(18.8)	(7.1)	(26.3)
Other contributions	(5.5)	(5.7)	(5.4)	(16.6)
Capital receipts	(5.7)	(0.6)	(9.2)	(15.5)
Total	**(11.6)**	**(25.1)**	**(21.7)**	**(58.4)**

A major source of funding for the Council's capital programme is borrowing. This is described in two forms, supported borrowing and general fund borrowing. A significant part of the Council's capital programme is either self financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services. These are referred to as "supported borrowing". General fund borrowing is funded through existing base budget and supports general investment to maintain Council assets and continue to provide services to customers and residents.

Capital Financing Requirement

The Capital Financing Requirement (CFR) is any capital expenditure above, which has not been funded (resulting in a borrowing need). The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which reduces the borrowing need in line with our MRP policy. The CFR includes any other long- term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include the financing of the asset and so the Council is not required to separately borrow for these schemes.

The following table shows the total CFR for the general fund and therefore excludes the HRA which is shown separately further below.

CFR : General Fund Total	Total			
	22/23	23/24	24/25	25/26
	£m	£m	£m	£m
Opening balance	381.5	403.6	417.3	443.9
Expenditure in year	52.4	50.7	55.8	38.7
Repayments in year	(30.3)	(37.1)	(29.2)	(32.8)
Closing balance	**403.6**	**417.3**	**443.8**	**449.6**

This can be broken down further into supported and general fund borrowing.

	Supported Borrowing				General Fund Borrowing			
	22/23	23/24	24/25	25/26	22/23	23/24	24/25	25/26
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	280.9	300.4	309.6	329.2	100.6	103.2	107.7	114.7
Expenditure in year	46.1	42.8	44.8	31.0	6.3	7.9	11.0	7.7
Repayments in year	(26.6)	(33.6)	(25.2)	(28.6)	(3.7)	(3.5)	(4.0)	(4.2)
Closing balance	**300.4**	**309.6**	**329.2**	**331.5**	**103.2**	**107.7**	**114.7**	**118.1**

Supported borrowing consists of different types of supported borrowing which are broken down further below. As described earlier, these are either self-financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services.

	Supported Borrowing		
	23/24	24/25	25/26
	£m	£m	£m
Invest to save	72.9	94.1	102.1
Town centre regeneration	92.1	84.8	81.9
Wokingham housing companies	24.2	22.7	20.8
Developer contributions forward funded	40.3	48.3	47.8
Housing, economy & regeneration	80.0	79.5	78.9
Closing balance	**309.6**	**329.2**	**331.5**

The following table shows the CFR balance for the HRA. Due to the ringfenced nature of the HRA, the CFR is considered separately to the general fund.

	Housing Revenue Account			
	22/23	23/24	24/25	25/26
	£m	£m	£m	£m
Opening balance	80.3	78.2	77.6	95.4
Expenditure in year	0	0.4	18.8	7.0
Repayments in year	(2.1)	(1.0)	(1.0)	(1.4)
Closing balance	**78.2**	**77.6**	**95.4**	**101.0**

External Debt

The Operational Boundary

This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be linked to the CFR, but may be lower or higher depending on the levels of actual borrowing and the ability to fund under-borrowing by other cash resources.

	2023/24 £m	2024/25 £m	2025/26 £m
Operational boundary for total debt	545	593	606

Note: calculation CFR (GF + HRA) *110%

A 10% adjustment is added to the CFR balance in order to calculate the operational boundary. This is deemed prudent enough to cover any fluctuations in borrowing levels throughout the year.

Authorised limit

This is the maximum level of borrowing. It represents a limit beyond which external borrowing is prohibited**.**

	2023/24 £m	2024/25 £m	2025/26 £m
Authorised limit for total debt	594	647	661

Note: calculation CFR (GF + HRA) *120%

A 20% adjustment is added to the CFR balance in order to calculate the authorised limit. This is deemed prudent enough to cover any fluctuations in borrowing levels throughout the year.

Affordability

To assess the affordability of a council's capital programme, the following indicators provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of income generated to repay capital costs), against the net revenue stream;

General Fund

	2023/24	2024/25	2025/26
net cost / (income) of financing costs (£m)	(£0.9m)	(£0.5m)	(£0.6m)
Net revenue stream	£153.9m	£148.8m	£154.2m
Percentage of Financing Costs to Net Revenue Stream	(0.57%)	(0.36%)	(0.39%)

The net cost / (income) of financing costs includes the interest costs, minimum revenue provision, treasury investment income and contributions from supported borrowing projects towards there funding costs.

This indicator is estimated to remain in line with the CFR for general fund borrowing highlighted in the earlier table. Increases in the CFR are related to supported borrowing which have an identified repayment stream to offset the financing costs and therefore has no impact on the ratio percentage above.

Housing Revenue Account (HRA)

	2023/24	2024/25	2025/26
net cost of financing costs (£m)	£3.6m	£3.6m	£4.0m
Net revenue stream	£17.6m	£18.1m	£18.6m
Percentage of Financing Costs to Net Revenue Stream	20.26%	20.06%	21.61%

The percentage remains consistent over the three years which a small increase reflecting the additional borrowing for the HRA capital programme. The net cost of financing for the HRA is funded from the rental income generated through the HRA.

Net income from commercial & service investments to net revenue stream - GF

This indicator comprises interest and investment income (other than from investments held for treasury management purposes), together with net income from other assets held primarily for financial return, such as commercial property. The intention of this indicator is to show the net financial impact on the authority of its entire non treasury investment income.

	2023/24	2024/25	2025/26
net income from commercial & service investments (£m)	£14.5m	£14.5m	£15m
Net revenue stream	£153.9m	£148.8m	£154.2m
Percentage of net income from commercial & service investments to net revenue stream	9.44%	9.77%	9.75%

Maturity structure of borrowing

The table below shows the current maturity structure of borrowing forecast as at 31 March 2023. The Council will aim to match the maturity structure of borrowing with the expected profile of when income will come in to repay borrowing.

Long Term Borrowing	31st March 2023 £m
Less than 1 year	£54.2m
Between 1 and 2 years	£14.7m
Between 2 and 5 years	£15.4m
Between 5 and 10 years	£38.2m
Between 10 and 15 years	£21.4m
Between 15 and 20 years	£0.0m
Between 20 and 25 years	£1.5m
Between 25 and 30 years	£8.7m
More than 30 years	£34.0m
Total	**£188.1m**

Note: Less than a year borrowing will be replaced with a mixture of new external debt and internal borrowing if possible. Due to current high interest rates and expectations rates will reduce towards the end of 2023, any new borrowing will be taken on a short term basis (i.e. less than 2 years). The treasury service through the use of its cashflow constantly review its debt and will endeavour to get the best rates available while looking at the long and short term picture of anticipated receipts and payments.

The following table sets out the current loans the Council have in place, including maturity dates and interest rates.

Loan Number	Counterparty	Start Date	Maturity Date	Loan Principal	Interest Rate
L1089	Local Authority	25/03/2020	24/04/2023	15,000,000	1.60%
L1167	Local Authority	23/03/2023	21/03/2024	10,000,000	2.50%
L1168	Local Authority	28/03/2023	26/03/2024	10,000,000	2.50%
L1169	Local Authority	31/10/2022	05/10/2023	15,000,000	4.10%
488876	Public Works Loan Board	16/07/2004	01/02/2034	2,400,000	4.95%
491320	Public Works Loan Board	15/02/2006	01/08/2051	3,000,000	3.85%
491456	Public Works Loan Board	26/04/2006	30/09/2046	1,465,490	4.35%
491474	Public Works Loan Board	28/04/2006	01/08/2052	5,722,574	4.40%
493309	Public Works Loan Board	24/05/2007	31/03/2054	10,000,000	4.60%
501035	Public Works Loan Board	28/03/2012	28/03/2032	8,516,000	3.30%
501037	Public Works Loan Board	28/03/2012	28/03/2031	7,231,000	3.26%
501039	Public Works Loan Board	28/03/2012	28/03/2029	6,378,000	3.15%
501040	Public Works Loan Board	28/03/2012	28/03/2027	5,415,000	3.01%
501043	Public Works Loan Board	28/03/2012	28/03/2033	9,276,247	3.34%
501044	Public Works Loan Board	28/03/2012	28/03/2034	1,000,000	3.37%
501045	Public Works Loan Board	28/03/2012	28/03/2025	3,744,000	2.82%
501046	Public Works Loan Board	28/03/2012	28/03/2028	5,981,000	3.08%
501047	Public Works Loan Board	28/03/2012	28/03/2030	6,789,000	3.21%
501048	Public Works Loan Board	28/03/2012	28/03/2026	3,971,000	2.92%
501049	Public Works Loan Board	28/03/2012	28/03/2024	4,116,000	2.70%
505948	Public Works Loan Board	31/03/2017	31/03/2034	6,000,000	2.30%
505949	Public Works Loan Board	31/03/2017	31/03/2035	8,000,000	2.34%
505950	Public Works Loan Board	31/03/2017	31/03/2036	4,000,000	2.37%
3b	Barclays	24/02/2007	24/02/2077	5,000,000	4.35%
2c	Barclays	11/01/2007	11/01/2077	5,000,000	4.60%
1c	Just retirement	06/02/2006	06/02/2066	5,000,000	4.88%
4	Barclays	16/02/2006	16/02/2066	2,000,000	3.68%
5	Barclays	19/10/2006	19/10/2076	5,000,000	3.73%
6	Barclays	19/10/2006	19/10/2076	2,000,000	3.77%

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ANNUAL INVESTMENT STRATEGY

The CIPFA Prudential Code and DLUHC guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's investment priorities will be security first, liquidity second, then return.

The council may invest its surplus funds in accordance with its time and monetary limits for institutions on the Council's counterparty list, as shown below.

	Fitch		Moodys		Standard & Poors			
	Short Term Rating	Long Term Rating	Short Term Rating	Long Term Rating	Short Term Rating	Long Term Rating	Money Limit	Time Limit
Banks - higher grade	F1+	AA-	P-1	Aa3	A-1+	AA-	£5m	1 year
Banks - medium grade	F1	A	P-1	A2	A-1	A	£3m	1 year
Building Societies	-	-	-	-	-	-	£2m	1 year
Debt Management Office Account (DMADF)	-	-	-	-	-	-	£20m	6 Months
Guaranteed Organisations	-	-	-	-	-	-	£2m	3 Months
Other local authorities	-	-	-	-	-	-	£10m	5 years
Other Institution Limits (Money Market Funds, Gilts and Supranational investments)	-	-	-	-	-	-	£10m	1 year

Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Deputy Chief Executive (S151 Officer) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

Credit Rating criteria:

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

- Banks a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
    - i. Short term – F1 (Fitch), P-1 (Moody's), A-1 (Standard and Poor's)
    - ii.Long term – A (Fitch), A2 (Moody's) , A (Standard and Poor's)
- Building societies. Subject to a minimum asset size of £5bn and meeting a minimum credit rating similar to the bank criteria used
- UK Government: including Money market funds – the Council and its Fund Managers will use AAA rated funds.

Bank criteria

The Council will only use good credit quality banks which:

- are UK banks; and/or
- are non-UK and domiciled in a country which has a minimum sovereign long- term rating of AAA.

• Group Limits – For each banking group the following limits will apply, dependent on the rating of the Parent Bank

- AAA : £7m with a maximum average duration of 1 year
- AA- :£5m with a maximum average duration of 6 months

Other institutions

- Gilts and the Debt Management Account Deposit Facility (DMADF)
- Local authorities, parish councils etc.
- Supranational institutions – multilateral investment organisations such as the World Bank or European Investment Bank (sometimes used by the Fund Managers)

Note: investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

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

DLUHC issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council applies its principles to all investment activity. In accordance with the Code, the Director of Resources and Assets has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained above in this Appendix and in the body of the treasury strategy statement found in Appendix A.

SPECIFIED INVESTMENTS:

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is very low. These would include sterling investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or a gilt with less than one year to maturity).
- Supranational bonds with less than one year to maturity.
- A local authority, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers a money market fund rated AAA by Standard and Poor's, Moody's or Fitch rating agencies
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society) this covers bodies with a minimum short term rating of F1+ (or equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

NON-SPECIFIED INVESTMENTS:

Non-specified investments are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

a.	Supranational Bonds greater than 1 year to maturity (a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). (b) A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
b.	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
c.	Building societies which are subject to a minimum asset size of £5billion and meeting a minimum credit rating of A-. These investments will be restricted to a maximum period of 6 months and £2m per institution.
d.	NatWest Bank for the provision of Banking Services. The Council is limited to daylight exposure only (i.e. the flow of funds in and out during the day), with a maximum limit of 1 working day.

e.	A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has a AAA sovereign long term rating these institutions will be included within the Council's criteria, temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee. In addition to this, a maximum limit of £2m with a maximum duration of 3 months is also set.
f.	Eligible Institutions for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary ratings required. These institutions have been subject to suitability checks before inclusion and have access to HM Treasury liquidity if needed.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.
The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	*** Minimum credit criteria / colour band**	**Money Limit**	**Max. maturity period**
DMADF – UK Government	UK sovereign rating	£20M	3 months
UK Government gilts	UK sovereign rating	£5m	1 year
UK Government Treasury bills	UK sovereign rating	£5m	1 year
Money market funds	AAA	£10m	N/A – held for instant liquidity
Local authorities	N/A	£10m	5 years
Term deposits with banks and building societies	AA	£5m	Liquid
CDs or corporate bonds with banks and building societies	A-	£5m	Liquid
Corporate bond funds	AA	£5m	Liquid

Other investment categories:

a.	**Share capital** in a corporate body – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.
b.	**Loan capital** in a corporate body.
c.	**Property funds** – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.

Accounting treatment of investments

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

The monitoring of investment counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded after an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Resources and Assets, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers

It is the Council’s policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Council’s investment strategy, which will be defined in an updated Treasury Management Strategy post fund manager’s appointment. The performance of each manager is reviewed at least quarterly by the Director of Resources and Assets.

2023/24 Wokingham Borough Council MRP Policy

The Council is required to pay off an element of the accumulated general fund capital spend each year (the Capital Financing Requirement (CFR) through a revenue charge (the minimum revenue provision - MRP), and it is also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. The decision on the level of MRP lies with the Council although a prudent provision must be made. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008, the MRP policy will be:

- an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all borrowing (including PFI and finance leases) the MRP policy will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over approximately the asset's life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made. The HRA may make a VRP (Voluntary Revenue Provision) to debt repayment which will be agreed through the HRA budget setting process.

Repayments included in annual PFI or finance leases are applied as MRP.

Wokingham continues to ensure it is fully consistent with the statutory duty to make prudent revenue provision. It also follows the statutory guidance, except in some instances, as disclosed below. Guidance was issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to “have regard” to this guidance.

For some investment assets WBC believes it would be overly prudent to charge MRP in line with the draft guidance, as it would stop the Council making an investment which could otherwise strengthen its financial position, due to an artificial self-implemented restriction.

For assets which WBC or one of its subsidiary companies own that can be disposed of for appreciation, we will make a 10% charge for MRP over 15 years.

Alternative prudent assumptions will be used in the following circumstances.

Expenditure type	WBC MRP charging policy
Freehold land	maximum 50 years using asset life as a guide
Bridges	maximum 50 years using asset life as a guide
Housing, Local Economy and Regeneration a) assets that can be disposed of for appreciation	10% of maximum 15 years asset life
Housing, Local Economy and Regeneration b) all other assets	range of 5 to 50 years (depending on life of asset type)
Loan Capital in WBC holdings	no charge – loan secured by company asset
Forward Funding Schemes (Developer funded)	a) no charge – developer contributions are used to repay principle

For freehold land and bridges, the MRP charge will be over a maximum of 50 years asset life, as required by the MRP guidance.

Housing, Local Economy and Regeneration - a) assets that can be disposed of for appreciation – 10% for a maximum of 15 years asset life. This is a prudent contingency for assets which can be disposed of for appreciation, if they reduce in value when sold, to cover any loss on disposal.

Based on the Council' latest estimates of its Capital financing of its CFR on 31st March 2023 the budget for MRP and voluntary overpayments (VRP) has been set as follows:

Estimated MRP/VRP	2023/24 £m	2024/25 £m	2025/26 £m
MRP (minimum repayment provision)	£14.0m	£15.1	£15.9m
PFI principal charge	£0.4m	£0.3	£0.3m
HRA VRP	£1.0m	£1.0	£1.4m
Contribution from invest to save schemes	(£5.3m)	(£6.0)	(£6.4m)
Contribution from housing, economy & regeneration	(£5.3m)	(£5.1)	(£5.3m)
	£4.8m	**£5.3m**	**£5.9m**

Impact of IFRS 16 Changes

The MRP Policy above covers the treatment for finance leases. The accounting changes from IFRS 16 – Leases, which apply from 1st April 2024 will not change how the current MRP policy accounts for lease payments. The potential change will be for material operating leases being restated as finance leases which will affect the CFR balance and the estimated MRP payments. Any new leases undertaken from 1st April 2024 may also have an impact on the estimated balances above. The Council are currently reviewing all leases to ensure correct accounting treatment for 2024/25.

MRP Consultation

On 30th November 2021 a consultation was launched (open until 8th February 2022) in respect of potential changes to the current MRP arrangements. The consultation seeks views on a number of potential changes and should those or other changes be taken forward the Council will review its approach going forward as required.

The Council are awaiting the outcome of the consultation and are expecting further guidance and clarity on MRP, including applicable start date and confirmation changes are not retrospective. If received during the 2023-24 financial year, changes will be assessed and any significant changes reported through the appropriate governance process.

Changes to 2023-2024 Policy

- Maximum asset life will be 50 years unless supported by a professional valuer. Previously, the MRP policy had 60 years as the maximum. Under the MRP guidance, asset lives greater than 50 years can only be used subject to advice from a professional valuer.

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