Public Document Pack

# Audit, Governance & Standards

Committee

Redditch Borough Council
Working together for our communities

Thu 30 Jan 2025
7.00 pm

Oakenshaw Community Centre, Castleditch Lane, Redditch, B98 7YB

**If you have any queries on this Agenda please contact**
**Mat Sliwinski**

**Town Hall, Walter Stranz Square, Redditch, B98 8AH**
**Tel: (01527) 64252 (Ext. 3095)**
**email:** mateusz.sliwinski@bromsgroveandredditch.gov.uk

# ***GUIDANCE ON FACE-TO-FACE MEETINGS***

---

**Please note that this is a public meeting.**

**You are able to access the agenda from the Committee Pages of the Council's website.**

**If you have any questions regarding the agenda or attached papers, please do not hesitate to contact the officer named above.**

**GUIDANCE FOR ELECTED MEMBERS ATTENDING MEETINGS IN PERSON**

Meeting attendees are encouraged not to attend a Committee if they have any of the following common symptoms of flu or covid-19 on the day of the meeting; a high temperature, a new and continuous cough or a loss of smell and / or taste.

**PUBLIC SPEAKING**

The usual process for public speaking at Committee meetings will continue to be followed subject to some adjustments which allow written statements to be read out on behalf of residents and the virtual participation of residents at meetings of Audit, Governance and Standards Committee.

**PUBLIC ATTENDANCE AT MEETINGS**

Members of the public are encouraged not to attend a Committee if they have any of the following common symptoms of flu or covid-19 on the day of the meeting; a high temperature, a new and continuous cough or a loss of smell and / or taste.

**Notes:**

**Although this is a public meeting, there are circumstances when the Committee might have to move into closed session to consider exempt or confidential information. For agenda items that are exempt, the public are excluded.**

Redditch Borough Council
Working together for our communities

# Audit, Governance & Standards

**Thursday, 30th January, 2025**
**7.00 pm**
**Oakenshaw Community Centre**

## Agenda

**Membership:**

Cllrs:

| | |
|---|---|
| Gemma Monaco (Chair) | Andrew Fry |
| Chris Holz (Vice-Chair) | Joanna Kane |
| Juma Begum | David Munro |
| William Boyd | Gary Slim |
| James Fardoe | |

1. **Apologies and Named Substitutes**

2. **Declarations of Interest**

   To invite Councillors to declare any Disclosable Pecuniary Interests and/or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.

3. **Minutes** (Pages 7 - 20)

   The minutes of the meeting of Audit, Governance and Standards Committee held on 10th December 2024 will be considered at this meeting.

4. **Public Speaking**

   Members of the public have an opportunity to speak at meetings of the Audit, Governance and Standards Committee. In order to do so members of the public must register by 12 noon on the day of the meeting. A maximum of 15 minutes will be allocated to public speaking.

5. **Monitoring Officer's Report - Standards Regime** (Pages 21 - 24)

6. **Feckenham Parish Council Representative's Report - Standards Regime**

   To receive a report from the Feckenham Parish Council Representative on any matters relating to the Parish Council standards. (Oral report)

7. **Financial Compliance Report including Statement of Accounts** (Pages 25 - 130)

8. **Capital Strategy 2025-26 including Treasury Management Strategy** (Pages 131 - 172)

9. **Risk Champion Update**

10. **Committee Work Programme**

# Audit, Governance & Standards Committee

**Tuesday, 10th December, 2024**

## MINUTES

**Present:**

Councillor Gemma Monaco (Chair), Councillor Chris Holz (Vice-Chair) and Councillors Juma Begum, Andrew Fry, Joanna Kane, David Munro and Gary Slim
Parish Council Representatives: Cllr Robert Oaten and Cllr Alan Smith

**Also Present:**

Councillor Ian Woodall – Portfolio Holder for Finance
Councillor Jane Spilsbury – Portfolio Holder for Performance
Jackson Murray – Key Audit Partner, Grant Thornton
Chris Green – Head of Worcestershire Internal Audit Shared Service

**Officers:**

Peter Carpenter and Debra Goodall

**Democratic Services Officers:**

M Sliwinski

### 41. APOLOGIES AND NAMED SUBSTITUTES

Apologies for absence were submitted by Councillors Boyd and Fardoe.

### 42. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 43. MINUTES

The minutes of the meeting of Audit, Governance and Standards Committee held on 26th September 2024 were submitted for Members' consideration.

# Audit, Governance & Standards Committee

**Tuesday, 10th December, 2024**

**RESOLVED that**

**the minutes of the Audit, Governance and Standards Committee meeting held on 26th September 2024 be approved as a true and correct record and signed by the Chair.**

**44. PUBLIC SPEAKING**

There were no public speakers who registered to speak at this meeting.

**45. FECKENHAM PARISH COUNCIL REPRESENTATIVE'S REPORT - STANDARDS REGIME**

The Feckenham Parish Council Representatives provided an update and in doing so apologised for the non-attendance at the previous meetings this municipal year – this was due to a communication error internally within the Parish Council. The Representatives took the opportunity to thank all the local elected members, whether parish or borough, for support given to the Parish Council in what was a difficult time, especially in relation to the proposed 13 acres energy storage station surrounding the village of Feckenham which raised significant concerns for the Members of Parish of Feckenham.

**46. GRANT THORNTON - EXTERNAL AUDIT BACKSTOP REPORT**

The Key Audit Partner from Grant Thornton presented the external audit backstop report and in doing so reminded Members that the backstop date for all audit years up to and including 2022-23 financial year was 13th December 2024. The External Auditor reported that the Council's Accounts for 2020-21 and 2021-22 had been published in draft in sufficient time for the statutory public inspection period to be concluded before the 13th December 2024 backstop date. This meant that the External Auditor was able to backstop the draft accounts for the years 2020-21 and 2021-22 and issue opinion on those accounts.

The Council had published its draft Accounts for 2022-23 on 2nd December 2024. The statutory public inspection period would therefore be concluded in January 2025 and the External Auditor would not be able to issue the backstop audit opinion for this set of accounts until after that time. It was stated that, subject to discussion at this meeting, and provided no additional work was required, the opinion on 2022-23 would be issued by the External Auditor in January.

It was summarised that the External Auditor had not been able to complete the audit of the Council's Accounts for years 2020-21 to 2022-23 before the 13th December backstop deadline. To allow the Council to publish the accounts for those years in line with the legislation, the External Auditor would be issuing a backstop disclaimer opinion for 2020-21 and 2021-22 Accounts, and pending the conclusion of the public inspection period, also issue a backstop disclaimer opinion for the Council's 2022-23 Accounts.

It was explained that the backstop disclaimer opinion meant the External Auditor had been unable to complete work and to give assurance over the Council's financial statements for the years 2020-21 to 2022-23, due to time constraints imposed by statute, namely the backstop date of 13th December.

The External Auditor reminded the Committee that Appendix D to the report contained the recapitulation on the Value for Money work for Redditch Council that the External Auditor had undertaken over the last two years.

The Committee received an update regarding the proposed fee set by Public Sector Audit Appointments (PSAA) for work undertaken on the Council's financial statements and other audit work carried out for years 2020-21 to 2022-23. The actual proposed fee for auditing 2022-23 accounts was marked as to be confirmed after the public inspection period for that year's set of accounts had finished.

The other fees associated with work of the External Auditor were also set out in Appendix D to the report. It was noted that due to audits of accounts not being completed, some of the fees charged for the other work including audit of housing benefits grants and housing capital receipts were higher than those for accounts audit work. Normally, this would create a potential independence threat for the External Auditor in that the fee charged for non-accounts based audit was disproportionate to that charged for audit of accounts. Due to the fact that the backstop date was imposed nationally and the audit work on the two grants was administered by the Government and completed under Government instructions, the National Audit Office (NAO) did not consider the work on grant claims to count under the non-audit fee cap. Therefore, the External Auditor was satisfied that this work did not represent a threat to independence.

# Audit, Governance & Standards Committee

**Tuesday, 10th December, 2024**

Members enquired about the definition of 'backstop disclaimer opinion' that the Council was to receive on its statements of accounts for 2020-21 and 2021-22 (and 2022-23 after the public consultation period). The External Auditor explained that disclaimer opinion meant that an auditor had no assurance over financial statements, over figures in the accounts. In this case, because of the backstop date introduced by statute, this was due to the fact that there was insufficient time for the audit of any of the Council's three statements of accounts to take place prior to the backstop date of 13th December – by which date backstop disclaimer opinions had to be issued to audited bodies who could not produce accounts and had them audited by this point in time.

It was further noted that the External Auditor could also issue a qualified 'except for' opinion which meant that auditors had completed and were satisfied with the accounts except for certain areas where the auditor was not able to give assurance. There was finally an unqualified opinion which meant that the auditor was able to give assurance over an entire set of accounts. This was the opinion that the Council received for its last set of audited accounts, for the financial year 2019-20.

It was commented that in normal circumstances, it was rare for auditors to issue disclaimer opinions but due to the situation nationally with the backlog in unaudited local authority statements of accounts, the Government expected that hundreds of backstop disclaimer opinions would be issued to local authorities across England. In response to a question, it was clarified that disclaimer opinions were final and not subject to change.

A question was asked as to when the situation with the auditing of the Council's accounts would be back to normal and the Council up to date with the audits of its accounts. It was responded by the External Auditor that any authority issued with a backstop disclaimer opinion was likely to also receive a certain type of qualified opinion for a further two to three financial years. As the Council had no audited statements of accounts for the years 2020-21, 2021-22 and 2022-23, the incoming auditor for 2023-24 accounts had no source of assurance over the opening position for those accounts; significant work was required on the part of any auditor from 2023-24 financial year to undertake testing of in-year transactions and year end balances to gain limited assurance in the absence of opening position.

**Audit, Governance & Standards** Committee

**Tuesday, 10th December, 2024**

There was also a likelihood of qualified opinion in 2024-25 due to similar question marks over comparative numbers in those accounts. The audit sector guidance issued by the National Audit Office (NAO) and the Financial Reporting Council (FRC) predicted a potential three-year minimum timescale to get back to normal type of audit opinion for audited bodies issued with backstop disclaimer opinion. It was highlighted that to gain audit assurance over the level of usable reserves, all in-year transactions had to be audited and it was not clear at this point how assurance was going to be provided over the non-audited transactions. It was still uncertain what the rules would be for having to go back over previously unaudited accounts. It was highlighted that a further complicating factor for the Council was that during the period for which accounts had not been audited, there was a large amount of Government covid-related grants that affected the Council's reserves position. Questions also remained over the impact of any potential local government sector reorganisation.

A question was asked regarding the implications for the Council of receiving the backstop disclaimer opinions. It was explained that due to backlog across public bodies audit sector, the majority of local authorities had some form of qualified opinion for some of their recent statements of accounts, whereas only a few percent of councils would have been in this position four to five years previously. There was now lack of audit assurance around billions of pounds of expenditure across the public sector, which was concerning in terms of public confidence. It was highlighted, however, that the Council submitted monthly and quarterly returns to the Government for all types of services which meant that there was still continual assurance over most of the Council's operations. The disclaimer opinion was also likely to have reputational impact on the local authority.

It was highlighted in relation to the disclaimer opinions that there was a specific concern for the Council as it operated a trading company, Rubicon Leisure, which was audited under the regular company's act as a private company. Due to the Council's disclaimer opinions, Rubicon Leisure was not able to put assurance over the parent company guarantee which had affected their credit rating.

The Portfolio Holder for Finance was invited to address the Committee and in doing so he commented that the present situation in terms of the backlog across the public body auditing sector could be traced to the abolition of the Audit Commission as this had led to progressive reduction in audit capacity within the local authority sector.

**RECOMMENDED that**

1) **The "Disclaimer Opinion" from the External Auditors for the 2020/21 Accounts is accepted.**

2) **The "Disclaimer Opinion" from the External Auditors for the 2021/22 Accounts is accepted.**

3) **The "Disclaimer Opinion" from the External Auditors for the 2022/23 Accounts is accepted pending the completion of the Public Inspection Period.**

4) **The "Redditch Borough Council: Conclusion of the audit for 2020/21, 2021/22 and 2022/23 – letter to those charged with governance on the application of the local authority backstop" is understood, accepted and approved.**

**47. FINANCIAL COMPLIANCE REPORT INCLUDING STATEMENTS OF ACCOUNTS**

The Financial Compliance Report was presented which detailed the financial deliverables, including the closure of accounts process. As the backstop disclaimer opinions had been agreed under the previous item, the Council's draft Accounts for 2020/21, 2021/22 and 2022/23 financial years were presented to the Committee under this agenda item.

The draft accounts for 2020/21 and 2021/22 had been subject to the statutory 30 working day public consultation and were now being presented before the 13th December 2024 backstop deadline. The 2022/23 Accounts were published on 2nd December and the authority to approve them would be delegated to the Chair, subject to the Committee's agreement, for these accounts to be signed after the public consultation period had finished.

The Committee was informed that subject to agreement of the Committee, the Council's Letters of Representation submitted under Appendix B, alongside the Accounts for 2020/21 and 2021/22 would be signed by the Chair of the Committee and the Council's Section 151 Officer after the conclusion of this meeting. Following this, the External Auditor would reissue the Council's Value for Money and

# Audit, Governance & Standards Committee

**Tuesday, 10th December, 2024**

other audit opinions as final. It was highlighted that the Council had been taking action on the points within the Value for Money reports which was significant in terms of driving improvement.

There was a question about what would happen concerning the Council's Section 24 Notice once the new External Auditor, Ernst and Young, took over auditing of the Council's accounts. It was noted that the Council had implemented five of the six key recommendations of the Section 24 report, and nine of the thirteen improvement recommendations.

It was noted that there was a change to the Council's future auditor arrangements, with Bishop Fleming resigning as the auditors and Ernst and Young now being confirmed as the Council's next auditors from 2023-24 financial year audit. All Members were reminded to complete the returns of the onboarding questionnaire for the new auditors, Ernst and Young, as soon as possible to comply with the backstop date for 2023-24 accounts auditing.

It was reported that the target to have the Council's 2023-24 Accounts published on the Council's website was 17th January 2025, this would provide time for the 30 working day public consultation before the backstop deadline for the 2023-24 financial year accounts of 28th February 2025.

The Council's budget for 2024/25 was approved at the Council meeting on 26th February 2024. As part of the budget setting for 2025/26, there would be a public consultation on the budget; this addressed one of the requirements of the Value for Money report – to have a better consultation process on the budget.

In terms of legislative requirements and deliverables, the Council was mostly up to date, with the majority of the key returns delivered. The two outstanding returns were the 2021/22 Revenue Outturn and Capital Outturn reports to the Government, as this was the last year that these returns had to be done based on actuals and estimates could not be used. Significant work had been undertaken by the Council's Tax advisors PS Tax in liaison with HMRC in order for the Council to return to normal VAT reporting. The HMRC had acknowledged some delays on their part in finalising this issue.

It was highlighted that the closure of the 2020-21 to 2022-23 Accounts was a positive step, however, lack of audit opinion on these accounts would be a significant issue in terms of sustainability and validation of the Council's overall position. There was uncertainty regarding what steps the Government would take regarding the validation of accounts that received disclaimer opinions. The uncertainty for the Council's future sustainability was exacerbated by the news of potential local government reorganization within the county in the next three years.

In terms of the position on the 2022-23 Accounts, the outturn position was a revenue overspend of £178,000, relating mainly to fleet maintenance and increased fuel costs for the Council's fleet, reduced number income from community housing, and an application of a number of covid grants. There was a £2.4 million deficit movement on the General Fund reserves – the difference between revenue overspends and reserves movement being largely due to capital charges, depreciation and pension funds. There was a capital underspend of £3 million against a budget of £5.4 million and this was due to delayed starts to projects and slower spend than anticipated. There was a small surplus on Housing Revenue Account (HRA) of £11,000.

In terms of the comprehensive income and expenditure statement, it was noted there was a large underspend in finance and customer services due to offset reallocation against the taxation line and also due to repayment of the housing benefit covid grant and lower receipt grants than received in the previous year 2021-22.

In 2022-23 Accounts, there was a large variation on movements in the Housing Revenue Account (HRA), following on from exceptional spend in that area in 2021-22. In planning, there was an exceptional level of planning applications in 2021-22. Financing and investment income and expenditure was skewed against 2021-22 accounts due to the HRA. Property, plant and equipment revaluation was also done in 2022-23 which had not been done in the previous two or three years.

Movement in reserves statement for 2022-23 showed that the Council had just under £9 million in general fund reserves and just under £18 million of earmarked reserves. In terms of the balance sheet, it was remarked that short term debtors and short term creditors decreased in value due to effective cash management on the part of the Council. The short term liabilities had also reduced in 2022-23 which was due to the Council's management of Section 106 (i.e. planning obligations), payroll and changing the presentation of inter-entity transactions in the accounts.

**Audit, Governance & Standards** Committee

**Tuesday, 10th December, 2024**

Group balance sheet reflected the Rubicon Leisure position, and reflected Rubicon's unusable reserves of circa £2.1 million, largely around personal protective equipment (PPE).

The Portfolio Holder for Finance addressed the Committee and stated that even though the Council's reserves position was healthy, the Council could not be complacent due to the situation around disclaimer audit opinions. Therefore, the Portfolio Holder for Finance stated that the Council would continue in its prudent financial approach, which was why the finance department had been asked to find efficiency savings this financial year, to ensure there was a balanced budget.

It was anticipated that the increase in National Insurance contributions that would come into effect from April 2025 would be subsidised by the Government for public bodies. This had not been confirmed to date. It was stated that the increase in National Insurance employer contributions would be a larger issue for Rubicon Leisure as the company would also need to cover increases in salaries from April 2025 in line with increases to the minimum wage. It was predicted that additional cost to Rubicon would be around £200,000.

**RESOLVED that**

1) **Following the receipt of the "Disclaimer Opinion" from the External Auditors for the 2020/21 Accounts that these accounts are approved.**

2) **Following the receipt of the "Disclaimer Opinion" from the External Auditors for the 2021/22 Accounts that these accounts are approved.**

3) **That the Chairman of the Audit, Governance and Standards Committee is delegated authority to approve the 2022/23 Accounts following the completion of the Statutory 30-day Public Consultation.**

4) **The External Auditor's "letter to those charged with governance on the application of the local authority backstop" be noted and outstanding actions followed up in subsequent Audit, Governance and Standards Committee meetings.**

5) **The process for inducting the Council's new External Auditors, Ernst and Young, be noted.**

6) **The process and progress to date on the delivery of the 2023/24 accounts be noted.**

## 48. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Progress Report was presented for Members' consideration. It was reported that since the last report two audit assignments had been completed, and two further assignments were at the fieldwork completion stage, with the aim to issue these reports by Christmas. Work on national non-domestic rates (NNDR) audit was in progress and also anticipated for completion before the new year. The Procurement and Contract Management internal audit report had been finalised and was included at appendix 2 to the report.

It was reported in terms of staffing that the Worcestershire Internal Audit Shared Service (WIASS) was at full capacity at the moment, with a vacant auditor post now having been recruited to and one member of staff back from long-term sickness absence. A trainee would be joining WIASS to support the work of the team over January and February.

It was noted that at the time of report writing 181 productive days had been delivered against the full year plan target of 328 days. It was stated that this amounted to 55 per cent progress against full year plan for 2024/25, which compared favourably against the progress at this time of year in last year's plan, where only a 26 per cent progress was recorded.

Progress against the key performance indicators for internal audit service was provided. It was reported that the service was achieving a productivity figure of 78 per cent against the productivity target of 80 per cent. This was an improvement on the figures from April 2024, 66 per cent, and for summer 2024 of 74 per cent.

The Council received a limited assurance in the Procurement Audit. It was noted that even though some improvements had been noted, there remained areas of non-compliance with procurement regulations within some service areas. A deadline had been set for the end of November for full compliance to be achieved and internal audit would be checking whether the recommendations of the internal audit (at Appendix 2) were being implemented in the new year.

In relation to limited assurance over procurement, it was stated that to ensure full compliance the Council needed to implement the two recommendations detailed in the internal audit review. It was commented that most Council departments were compliant but there were pockets of non-compliance within parts of Environmental Services, including workshops.

Concern was raised about cyber security training for Members not having been arranged yet and Officers responded that this training would be provided before the next meeting of the Committee.

**RESOLVED that**

**the Internal Audit Progress Report be noted.**

**49. RISK MANAGEMENT REPORT (Q2 2024-25)**

The Risk Management report was set out which covered the Council's activity to identify, monitor and mitigate risk. It was noted that this was the ninth cycle of reviewing corporate and departmental risks since the original baselining of risks in April 2022. It was noted that risk was managed centrally through the 4Risk System and there was a quarterly risk board attended by officers, with risks reviewed by Corporate Management Team (CMT) and by Members at Audit, Governance and Standards Committee on a quarterly basis.

There were no new corporate risks since the last meeting of this Committee, with the risk around elections removed due to general and local elections now having taken place. In terms of the departmental risks, there remained forty-seven risks with no red items.

It was reported that the Council's insurers were highlighting two major risks, the first being insurance of Council's assets due to incomplete asset records in some areas, with the Council needing to ensure that assets were valued appropriately and records kept. Also highlighted by insurers was the risk of utilising artificial intelligence (AI) across the sector, with the risk that decisions were being made without human intervention. It was highlighted that the Council used AI for cleansing of data to ensure consistency of records and in creating job descriptions (which were later checked

**Audit, Governance & Standards** Committee

**Tuesday, 10th December, 2024**

through job evaluations). AI was not utilised by the Council for taking decisions.

In terms of corporate risk 10 – decisions made to address financial pressures and implement new projects that are not informed by robust data and evidence – it was highlighted that this risk had moved from green to yellow due to the Government's basing more of its funding on data rather than local authorities' bidding for funding. The Council was currently undertaking a two-year data cleansing project across all of its systems, concentrating on the largest systems in the first instance. Until this project was completed, this risk would remain amber.

**RESOLVED that**

**the present list of Corporate and Departmental Risks be noted.**

**50. FINANCIAL SAVINGS MONITORING REPORT**

The Committee received a report on financial savings monitoring. The Q2 2024-25 position was an anticipated revenue overspend of circa £299,000 on the full year budget. The major items of overspend related mainly to the costs of the Council fleet (fuel and vehicle hire).

In terms of savings items for 2023/24 line, two amber items remained relating to establishment (service) reviews and the capacity grid, recovery of council tax and business rates debt. Red savings items related to the finance vacancies saving not being delivered in 2023/24 due to the additional resource being required in order to work on completing the outstanding prior years' accounts. This item should be removed next year as the Council had now published its draft accounts for years 2020/21 to 2022/23 and was undertaking work on 2023/24 accounts. The red item on Environmental Services should be partly mitigated when the Council had the new refuse vehicles delivered, reducing ongoing hire costs.

It was noted that the largest savings item in recent years had been on pension costs which linked to the 2023 triennial revaluation. The next triennial revaluation was due to take place in 2026-27 financial year. At the moment, the indication was that this saving would remain at the same level this financial year. It was noted that for the Town Hall, savings for 2024-25 were being delivered and the potential issue would be for the following year.

**Audit, Governance & Standards** Committee

**Tuesday, 10th December, 2024**

An anticipated issue was in relation to the implementation of partnership with Wyre Forest to deliver food waste services as this new legislative would be a significant cost to the Council.

**RESOLVED that**

**the Q2 position on the 2024-25 Departmental Savings Programme be noted, including any potential implications for future years.**

**51. RISK CHAMPION UPDATE**

The Council's Risk Champion, Councillor Kane, noted that this update follows a meeting of the Risk Champion with the Council's Section 151 Officer, the Assistant Director for Finance and Customer Services and the Portfolio Holder for Finance at which key risk issues were discussed.

The key uncertainty for the Council was in relation to the local government financial settlement. The Government was due to make an announcement before Christmas on the settlement. A significant risk to the Council was in relation to the implementation of the Government's food waste requirement and this could cost the Council an additional £0.5 million from 2026.

High-level Government announcements that would affect local authorities was discussed. It was noted that the Government was due to provide an additional £4 billion to local government sector in 2025/26 but it appeared that additional funding would be concentrated in housing and social care. In addition, the Government would be giving 40 per cent relief in business rates to retail, hospitality and leisure sector.

**RESOLVED that**

**the Risk Champion be noted.**

**52. COMMITTEE WORK PROGRAMME**

The Committee was advised that the next meeting of the Committee, on 30th January 2025, was due to go ahead, subject to the Council's 2023-24 Accounts being published for public consultation by this date.

It was noted in relation to the above that in line with the recommendation of the Audit Task Group, accepted by Redditch Council, the accounts for outstanding years would then be completed and the Committee could move back to having quarterly rather than bi-monthly meetings. This would be confirmed at the next meeting subject to the above.

**RESOLVED that**

**the Committee's Work Programme be noted.**

The Meeting commenced at 7.00 pm
and closed at 8.29 pm

Agenda Item 5

**REDDITCH BOROUGH COUNCIL**

**Audit, Governance & Standards Committee** **30th January 2025**

**MONITORING OFFICER'S REPORT**

| | | |
|---|---|---|
| Relevant Portfolio Holder | | Councillor Joe Baker |
| Portfolio Holder Consulted | | - |
| Relevant Head of Service | | Claire Felton |
| Report Author Claire Felton | Job Title: Head of Legal, Democratic and Property Services Contact email: c.felton@bromsgroveandredditch.gov.uk | |
| Wards Affected | | N/A |
| Ward Councillor(s) consulted | | N/A |
| Relevant Strategic Purpose(s) | | An Effective and Sustainable Council |
| Non-Key Decision | | |
| If you have any questions about this report, please contact the report author in advance of the meeting. | | |

## 1. RECOMMENDATIONS

**The Audit, Governance and Standards Committee is asked to RESOLVE that:-**

**1) subject to Members' comments, the report be noted.**

## 2. BACKGROUND

2.1 This report sets out the position in relation to key standards regime matters which are of relevance to the Audit, Governance and Standards Committee since the last update provided at the meeting of the Committee in September 2024.

2.2 It has been proposed that a report of this nature be presented to the Committee on a quarterly basis to ensure that Members are kept updated with any relevant standards matters.

2.3 Any further updates arising after publication of this report, including any relevant standards issues raised by Parish Councils, will be reported on orally by Officers at the meeting.

## 3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising out of this report.

## 4. LEGAL IMPLICATIONS

4.1 Chapter 7 of Part 1 of the Localism Act 2011 (‘the Act’) places a requirement on authorities to promote and maintain high standards of conduct by Members and co-opted (with voting rights) Members of an authority. The Act also requires the authority to have in place arrangements under which allegations that either a district or parish councillor has breached his or her Code of Conduct can be investigated, together with arrangements under which decisions on such allegations can be made.

## 5. STRATEGIC PURPOSES - IMPLICATIONS

### Relevant Strategic Purpose

5.1 It is important to ensure that the Council manages standards regime matters in an appropriate manner. The issues detailed in this report help to ensure that there is an effective and sustainable Council.

### Climate Change Implications

5.2 There are no specific climate change implications.

## 6. OTHER IMPLICATIONS

### Equalities and Diversity Implications

6.1 There are no direct implications arising out of this report. Details of the Council’s arrangements for managing standards complaints under the Localism Act 2011 are available on the Council’s website and from the Monitoring Officer on request.

### Operational Implications

Member Complaints

6.2 The details regarding the Member complaints received will be provided by the officer at the meeting.

Member Support Steering Group

6.3 The Member Support Steering Group (MSSG) is responsible for reviewing Member training, induction and ICT support. Meetings of the MSSG have been taking place throughout the 2024/25 municipal year.

6.4 The latest meeting of the group took place on 27th November 2024. During the meeting, it was noted that Members would be presented with new laptop devices by the ICT Support Team prior to the Council meeting on 27th January 2025. The results of a member survey on the subject of training were also discussed at that meeting, and following from this, it was agreed that there were types of training that should be mandatory for all Councillors within the next two years. This included cyber security, audit, and safeguarding training.

Constitutional Review Working Party

6.5 The Constitutional Review Working Party (CRWP) is responsible for reviewing the Council's constitution and makes recommendations to full Council regarding any proposed changes to the content of the constitution.

6.6. The CRWP holds regular meetings throughout the year and the next scheduled meeting is due to take place on 10th February 2025.

Member Training

6.7 A comprehensive programme of Member training has been put in place for elected Members following the local elections in May 2024. The training sessions that have taken place since the last Monitoring Officer's report was presented to this Committee or which are due to take place include:

- Member Safety Training – Monday 4th November
- Procurement Training – Thursday 9th January 2025
- Responsibilities for Functions Training – Thursday 23rd January

## 7. RISK MANAGEMENT

7.1 The main risks associated with the details included in this report are:

- Risk of challenge to Council decisions; and
- Risk of complaints about elected Members.

**8. APPENDICES and BACKGROUND PAPERS**

No appendices.

Background Papers: Chapter 7 of the Localism Act 2011.

# REDDITCH BOROUGH COUNCIL

## Audit, Governance and Standards Committee 30th January 2025

## Financial Compliance Report

| | |
|---|---|
| Relevant Portfolio Holder | Cllr Ian Woodall<br>Executive Member for Finance |
| Portfolio Holder Consulted | Yes |
| Relevant Head of Service | Debra Goodall |
| Report Author | Job Title: Assistant Director Finance & Customer Services<br>Contact email: debra.goodall@bromsgroveandredditch.gov.uk<br>Contact Tel: |
| Wards Affected | All |
| Ward Councillor(s) consulted | No |
| Relevant Strategic Purpose(s) | All |
| Non-Key Decision | |
| If you have any questions about this report, please contact the report author in advance of the meeting. | |
| Exempt Information – None | |

1. **RECOMMENDATIONS**

**The Audit, Governance and Standards Committee RESOLVE that:**

**1) The Committee note that the 2022/23 Accounts, following delegated approval, have been signed off.**
**2) The Committee note the position in relation to the delivery of the 2023/4 Accounts.**
**3) Following the delivery of receipt of "Disclaimer Opinion's" from the External Auditor for the 2020/21 and 21/22 Accounts, as approved at the Committee meeting on the 10th December, the subsequent "Disclaimer Opinion" of the 22/23 Accounts on the 22nd January and the provision of the 2023/24 Accounts for Public Consultation by the 17th January 2025 as per the backstop regulations, that Audit, Governance And Standards Committee meetings revert to being quarterly in nature.**
**4) The ongoing process for inducting the Council's new External Auditor, Ernst and Young, be noted.**

**To RECOMMEND to Executive**

**5) Any areas of concern within this key compliance report for consideration.**

2. **BACKGROUND**

2.1 From a Governance point of view, the financial framework under which the Council works is set out in the Constitution. In addition to this there are legislative reporting requirements which set out what needs to be done and by when. The Accounting Policies report which was tabled at the Audit, Standards and Governance Committee on the 23rd March 2023 set out the Financial Governance Framework, and associated references to key documentation, that the Council, its Member and Officers work to. These are (in summary):

- **The Budget and Policy Framework Procedure Rules**. These set out: The framework for Executive Decisions, Decisions outside the budget or policy framework, Urgent Decisions outside of the Budget or Policy Framework, Virement rules, in-year changes to policy framework and, call-in of decisions outside the budget or policy framework. These rules set out how decisions can be made, by whom and how they can be challenged.
- **Financial Procedure Rules** which are set out in Part 14 of the Constitution. These "operational policies" run to 36 pages and set out how the organisation financially runs its "day to day" business.
- **Finance Protocols** which set out requirements and expectations of the Finance Team and Services in terms of financial administration and demarcation of duties.

2.2 Audit Committee training was undertaken on the 28th May, and Local Government Finance training was given on the 30th July.

2.3 One of the legislative reporting requirements the Council had not achieved is the delivery of the 2020/21, 2021/22 and 2022/23 Statement of Accounts which resulted in the issuing of a Section 24 Statement for the Council. Bromsgrove District Council (BDC) were also issued with a Section 24 Statement for the same non delivery of these accounts which is understandable given that officers support both Councils via a shared service.

2.4 Following the issuing of the original Section 24 Statements and a review of why this happened, which was undertaken by the Bromsgrove Audit Committee, the decision was taken to increase the frequency of Audit Committee meetings to six times a year until the Council rectified the situation.

2.5 With the Council having provided its accounts as per "backstop legislation" up to the 2023/24 financial year requirements, it is proposed that the frequency of Audit Committee meetings reverts to quarterly. It is important though that the processes that were put in place following the issuing of the Section 24 Statement are continued via this quarterly Financial Compliance Report.

2.6 The 2024/5 budget was approved at Council on the 26th February 2024.

**Legislative Requirements**

2.7 The previous section sets out how the Council works, however equally important are the Central Government Legislative Requirements to which we deliver to and are compared to other Councils across the Council. This section lists those key deliverables.

Agenda Item 7

# REDDITCH BOROUGH COUNCIL

## Audit, Governance and Standards Committee 30th January 2025

| Form | Code | Description | Proposed Dispatch | Deadline | Proposed Publication | Position |
|---|---|---|---|---|---|---|
| Capital Payments & Receipts - Q3 | CPR3 | Cumulative capital expenditure and receipts for Q1, Q2 and Q3 2023-24 | 15-Dec-23 | 19-Jan-24 | 15-Feb-24 | Delivered 26/1/24 |
| Non-Domestic Rates Forecast | NNDR1 | Billing authority forecasts of the amount of non-domestic rates to be collected in the 2024-25 | 15-Dec-23 | 31-Jan-24 | 21-Feb-24 | Delivered 9/2/24 (Civica issue) |
| Council Tax & NDR Collection - Q3 | QRC3 | Quarterly return of how much council tax and non-domestic rates are collected in Q3 2023-24 | 15-Dec-23 | 12-Jan-24 | 14-Feb-24 | Delivered 15/2/24 (Civica issue) |
| Quarterly Borrowing & Lending - Q3 | QB3 | Local authority borrowing and investments from all local authorities to the end of Q3 2023-24 | 15-Dec-23 | 08-Jan-24 | 15-Feb-24 | Delivered 17/1/24 |
| Quarterly Revenue Update - Quarters 3 & 4 | QRU3 | Quarter 1 to 3 2023-24 data and forecast end year local authority revenue expenditure update. | 15-Dec-23 | 26-Jan-24 | 07-Mar-24 | Delivered 19/2/24 |
| Council Tax Requirement/ Parish Council Tax | CTR1/2/3/4 | Information on council tax levels set by local authorities in 2024-25 and Council tax levels for 2024-25 set by parishes. | 02/02/2024 (tbc) | 11-Mar-24 | 21-Mar-24 | Delivered 26/2/24 |
| of which: Parish council tax | - | - | - | 11-Mar-24 | 08-May-24 | Delivered 26/2/24 |
| Revenue Account Budget | RA | Local authority revenue expenditure and financing for 2024-25 Budget | 16-Feb-24 | 05-Apr-24 | 20-Jun-24 | Draft completed. 8/4/24 |
| Capital Estimates Return | CER | Capital forecast for 2024-25 | 23-Feb-24 | 22-Mar-24 | 13-Jun-24 | Delivered 22/3/24 |
| Non-Domestic Rates Outturn-unaudited | NNDR3 | Collects information from all billing authority on the amount of non-domestic rates collected in 2023-24- provisional data | 28-Mar-24 | 30-Apr-24 | 10-Jul-24 | Draft delivered to Pool 14/4/24 |
| Non-Domestic Rates Outturn-audited | NNDR3 | Collects information from all billing authority on the amount of non-domestic rates collected in 2023-24- final data | n/a | 30-Sep-24 | 15-Nov-24 | Delivered 30/09/24 |
| Quarterly Borrowing & Lending - Q4 | QB4 | Local authority borrowing and investments from all local authorities to the end of Q4 2023-24 | 22-Mar-24 | 05-Apr-24 | 13-Jun-24 | Delivered 5/4/24 |

Agenda Item 7

# REDDITCH BOROUGH COUNCIL

## Audit, Governance and Standards Committee 30th January 2025

| | | | | | | |
|---|---|---|---|---|---|---|
| Capital payments & receipts Q4 and provisional outturn | CPR4 | Cumulative capital expenditure and receipts for Q1, Q2, Q3, and Q4 2023-24. Expanded collection, used as provisional outturn. | 22-Mar-24 | 19-Apr-24 | 13-Jun-24 | Delivered 29/4/24 |
| Council Tax & NDR Collection - Q4 | QRC4 | Annual data of levels of council tax and non-domestic rates collected by local authorities in 2023-24 and Q4 2023-24 | 12-Apr-24 | 03-May-24 | 19-Jun-24 | Delivered 7/5/24 |
| Capital Outturn Return | COR | Final capital outturn figures for 2023-24 | 26-Apr-24 | 26-Jul-24 | 10-Oct-24 | Delivered 29/07/24 |
| Revenue Outturn suite - provisional | RO | Local authority revenue expenditure and financing for 2023-24 Outturn (provisional) | 26-Apr-24 | 28-Jun-24 | 29-Aug-24 | Delivered 19/7/24 |
| Revenue Outturn suite - certified | RO | Local authority revenue expenditure and financing for 2023-24 Outturn (final) | n/a | 11-Oct-24 | 12-Dec-24 | Extension agreed with MHCLG |
| Exit payments | - | Local authority exit payments 2023-24 | 03-May-24 | 07-Jun-24 | 18-Jul-24 | Delivered 30/06/2024 |
| Quarterly Borrowing & Lending - Q1 | QB1 | Local authority borrowing and investments from all local authorities to the end of Q1 2024-25 | 24-Jun-24 | 05-Jul-24 | 08-Aug-24 | Delivered 05/07/24 |
| Quarterly Revenue Update - Q1 | QRU1 | Q1 2024-25 data and forecast end year local authority revenue expenditure update | 28-Jun-24 | 02-Aug-24 | 12-Sep-24 | Delivered 2/08/24 |
| Capital Payments & Receipts - Q1 | CPR1 | Cumulative capital expenditure and receipts for Q1 2024-25 | 21-Jun-24 | 19-Jul-24 | 08-Aug-24 | Delivered 19/07/24 |
| Council Tax & NDR Collection - Q1 | QRC1 | Quarterly return of how much council tax and non-domestic rates are collected in Q1 2024-25 | 21-Jun-24 | 12-Jul-24 | 14-Aug-24 | Delivered 01/07/24 |
| Local Government Pension Funds | SF3 | Collect information on income and expenditure on local government pension schemes for 2023-24 | 05-Jul-24 | 13-Sep-24 | 23-Oct-24 | Delivered 21/06/24 |
| Council Tax Base/ Supplementary | CTB | Information about the 2024 council tax base for each billing authority. | 20-Sep-24 | 11-Oct-24 | 06-Nov-24 | Delivered 11/10/24 |
| Quarterly Borrowing & Lending - Q2 | QB2 | Local authority borrowing and investments from all local authorities to the end of Q2 2024-25 | 23-Sep-24 | 04-Oct-24 | 14-Nov-24 | Delivered 02/10/24 |

**REDDITCH BOROUGH COUNCIL**

**Audit, Governance and Standards Committee 30th January 2025**

| | | | | | | |
|---|---|---|---|---|---|---|
| Quarterly Revenue Update - Q2 | QRU2 | Quarter 1 & 2 2024-25 data and forecast end year local authority revenue expenditure update | 20-Sep-24 | 25-Oct-24 | 05-Dec-24 | Delivered 25/10/24 |
| Capital Payments & Receipts - Q2 | CPR2 | Cumulative capital expenditure and receipts for Q1 and Q2 2024-25 | 20-Sep-24 | 20-Oct-24 | 14-Nov-24 | Delivered 21/10/24 |
| Council Tax & NDR Collection - Q2 | QRC2 | Quarterly return of how much council tax and non-domestic rates are collected in Q2 2024-25 | 20-Sep-24 | 04-Oct-24 | 20-Nov-24 | Delivered 11/10/24 |
| Capital Payments & Receipts - Q3 | CPR3 | Cumulative capital expenditure and receipts for Q1, Q2 and Q3 2024-25 | 13-Dec-24 | 24-Jan-25 | 13-Feb-25 | |
| Non-Domestic Rates Forecast | NNDR1 | Billing authority forecasts of the amount of non-domestic rates to be collected in the 2025-26 | 13-Dec-24 | 31-Jan-25 | 19-Feb-25 | |
| Quarterly Revenue Update - Quarters 3 & 4 | QRU3 | Quarter 1 to 3 2024-25 data and forecast end year local authority revenue expenditure update. | 13-Dec-24 | 24-Jan-25 | 06-Mar-25 | |
| Quarterly Borrowing & Lending - Q3 | QB3 | Local authority borrowing and investments from all local authorities to the end of Q3 2024-25 | 13-Dec-24 | 06-Jan-25 | 13-Feb-25 | Delivered 06/01/25 |
| Council Tax & NDR Collection - Q3 | QRC3 | Quarterly return of how much council tax and non-domestic rates are collected in Q3 2024-25 | 13-Dec-24 | 17-Jan-25 | 12-Feb-25 | |
| Council Tax Requirement/ Parish Council Tax | CTR1/2/3/4 | Information on council tax levels set by local authorities in 2025-26. Council tax levels for 2025-26 set by parishes | Early Feb 2025 | 12-Mar-25 | 20-Mar-25 | |
| of which: Parish council tax | - | - | Early Feb 2025 | 12-Mar-25 | 07-May-25 | |
| Revenue Account Budget | RA | Local authority revenue expenditure and financing for 2025-26 Budget | 14-Feb-25 | 04-Apr-25 | 19-Jun-25 | |
| Capital Estimates Return | CER | Capital forecast for 2025-26 | 21-Feb-25 | 21-Mar-25 | 12-Jun-25 | |
| Monthly Borrowing & Lending | MB | Monthly sample used to provide an estimate of the level of net borrowing by local authorities to go into the ONS/HMT monthly publication Public | 5 working days before 1st working day of the month | Day 5 of each month | for quarter months only, see QB1, QB2, QB3, QB4 dates | Delivered to date |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | Sector Finance Statistics | | | | |
| Local Government Finance Statistics | LGFS33 | Annual compilation of finance data collected from local authorities covering out-turn data for 2022-23 | N/A | N/A | Spring 2024 | |

2.8 The following are key legislative deliverables, which were circulated by the Government in December 2023 for the period December 2023, through the 2024/5 financial year. Delivery against these requirements will be set out in the final column of the table.

Pooling of Housing Capital Receipts – ***23/4 Delivered***

2.9 In wider sets of deliverables (outside the 2024/5 DLUHC Listing) we have the following returns that have been delivered:

**Budget**

- Delivered by 11th March in preceding financial year – ***2024/5 Budget and MTFP delivered 26th Feb 2024. Tranche 1 2025/26 Delivered in January 2025.***
- Council Tax Base – Yearly – ***2024/25 delivered on 9th January 2024***
- Council Tax Resolution – ***Yearly 2024/5 delivered on 26th February 2024***
- Council Tax Billing – Yearly – ***Bills distributed in March 2024***

- **Policies**
  - Treasury and Asset Management Strategies
    - 2023/4 Outturn Report ***delivered in September 24.***
    - *2024/5 Strategy* ***Approved 26tht Feb 2024.***
    - *2025/6 Strategy* ***Coming to this committee for approval.***
    - 24/25 Q1 and Q2 reports ***delivered 3rd Sept and 26th Nov 2024.***
  - Council Tax Support Scheme – ***24/5 Approved on 9th January 2024. 25/6 Approved at Executive in January 2025.***
  - Minimum Revenue Provision – yearly – ***Approved as part of the 24/5 MTFP, with 2025/6 included in the 25/26 Treasury and Asset Management Strategy.***
- Financial Monitoring – ***Q1 24/5 in Sept 2024. Q2 in Nov 24.***
- Risk Management – ***Q1 24/5 delivered July 24, Q2 delivered Dec 24***
- Savings Report – ***Q1 24/5 delivered in September, Q2 delivered in December***
- Financial Controls (still in development)
  - Clearance of suspense accounts – now part of the closure of accounts process.
  - Bank Reconciliation - ***linked to above point although a separate stream assessing/clearing 2023/4 and prior year items.***
- Over £500 spending.
  - ***Updated to October 2024.***

The following deliverables, prior to December 2023 are still to be delivered:

- Government Returns
  - VAT – Monthly
    - ***discussions ongoing with HMRC since mid summer 2024, final versions provided to get transactions up to date on the 19th December 2024. Conversations are ongoing.***
  - Revenue Outturn Reports
    - ***Still to be delivered for 21/22.***
  - Whole of Government Accounts Returns
    - ***Still to be delivered***

2.10 The key returns that have still not been delivered are the Revenue and Capital Outturn forms for 2021/22 and the VAT returns. Significant work has been undertaken by the Council's Tax advisors PS Tax in liaison with HMRC in order for the Council to return to normal VAT reporting and final version working papers have been provided to HMRC on the 19th December 2024.

**Update on the Statement of Accounts**

2.11 Following the General Election in July 2024, the New Minister of State for Housing, Communities and Local Government Jim McMahon OBE MP wrote to Councils noting the significant and unacceptable backlog of unaudited accounts. This situation undermines trust and transparency in the way taxpayers' money is being spent and auditors cannot focus on up-to-date accounts, where assurance is most valuable.

2.12 To tackle the backlog, The Minister has laid secondary legislation and this legislation was approved on the 9th September to provide for an initial backstop date of 13 December 2024 for financial years (FYs) up to and including 2022/23 and five subsequent backstop dates: 2015/16 through to 2019/20 must be signed off by the 30th December 2023.

| Financial Year | Backstop date |
|---|---|
| 2023/24 | 28 February 2025 |
| 2024/25 | 27 February 2026 |
| 2025/26 | 31 January 2027 |
| 2026/27 | 30 November 2027 |
| 2027/28 | 30 November 2028 |

2.13 The Council, as set out at the meeting on the 10th December has received "Disclaimer Opinions" for the 2020/21, 2021/22, and 2022/23. The Council will not have an opinion from its new External Auditors until the onboarding process is complete. An update on this is onboarding is given in a later Section of this report.

2.14 The council's position on these key Closure deliverables are as follows:

- Closure 2020/21
    - Reported as per the 10th December Audit Committee and Disclaimer Opinion received and approved.

- Closure 2021/22
    - Reported as per the 10th December Audit Committee and Disclaimer Opinion received and approved.

- Closure 2022/23
    - Reported as per the 10th December Audit Committee and "Disclaimer Opinion" received and approved following the completion of the public consultation period on the 22nd January 2025.

2.15 As per the requirement of the Draft External Auditors Report 21/22 and 22/23 on the 27th November 2023, the External Auditors made a further written recommendation of the Authority under section 24 of the Local Audit and Accountability Act 2014 in relation to its financial systems and governance arrangements. They recommended that the authority should produce "true and fair" draft accounts for 2020/21, 2021/22 and 2022/23 signed off by the S151 Officer and supported by high quality working papers. This has now been complied with although given the instigation by the Government of the backstop date and the requirement of "disclaimer opinion" audits across the Country it is not clear how the new Auditors will frame their 2023/4 External Audit Report in respect of this matter

2.16 As has been reported previously the combined 2021/21 & 2022/23 Draft External Audit Report set out that:
- The S24 Recommendation still in place and extended for 2021/2 and 2022/3 Accounts.
- 5 of the 6 2020/21 Key Recommendations either delivered or now linked to Improvement Recommendations.
- 9 of 13 2020/21 Improvement Recommendations either fully or partially delivered.
- There was one new Key Recommendation – linked to Workforce Strategy.
- There were ten updated Improvement Recommendations.

2.17 In terms of those Draft External Audit Reports the following progress has been made against recommendations (Key and Improvement):
- The Accounting Policies Report goes to every Audit Committee.
- The key closure deliverables for each financial year are clearly set out. The owners of these deliverables are the S151 and Deputy S151 Officers.
- Progress on key financial and compliance indicators are reported monthly to CMT and to both Audit Committees by the S151/Deputy 151 Officers. There is a requirement to report all finance deliverables as per the Recommendations of the Audit Task Group.
- Delivery of Financial training detailed in this document will move staff to right level of skills.
- TechOne has been upgraded to version 23A in July 2023.
- Quarterly combined financial and performance monitoring started in the 2022/23 financial year and has continued in 2024/5 with Q1 and Q2 delivered.
- The 2024/5 MTFP process has been completed in both Councils and the 2025/6 process started.

- Risk workshops are still to be run to assess Risk Appetite of Executive and Audit Committees. This will happen across both Council now the Redditch elections have been completed.
- A Treasury Management strategy, half yearly report, and outturn report are now part of the work programme. 2024/5 Half Yearly Reports have been delivered.
- To address staffing issues, additional posts have been recruited to as the team looks to start to move any from its reliance on external agency/consultants.

In terms of more specific items:

- More Budget Consultation is being addressed in Tranche 1 of the budget through a targeted consultation process which finished in January 2025.
- Wider savings monitoring is being undertaken by this Committee quarterly.
- Capital and its deliverability will be reviewed as part of the 2025/6 Budget Tranche 2.
- Benchmarking is now incorporated into the budget process (using LG Futures data).
- The Internal Audit Service has been externally assessed in early 2024 and passed that assessment.
- The Council is seeking an independent Audit Committee member and ensures the Committee remains apolitical in nature.
- The whistleblowing policy has been updated and is on today's agenda.
- Procurement and contract rules will be updated by the end of the financial year (to reflect changes to legislation happening in February 2025).
- Performance Indicators are being reviewed and updated following the Strategic Priority setting sessions.

2.18 It was confirmed by the PSAA that Ernst and Young would become the Councils External Auditors on the 24th October, and that the onboarding process is now starting but there are still a number of Members who have not made returns. Members who still have returns outstanding will be given returns at Council on the 27th January to complete at the meeting to speed up the process.

2.19 Ernst and Young note that the challenging part of the onboarding process, and where they have had difficulties elsewhere, will be the need to obtain returns from all elected members. The typical time taken to obtain responses from all members elsewhere has ranged from 6-12 months, which we will need to significantly shorten in order to meet the backstop date, and they will appreciate our assistance on this. What has worked elsewhere in shortening these timescales is making completion a step at a physical council meeting when most members would be present.

2.23 In terms of the 2023/4 Closure position, discussions are still to be held with Ernst and Young on the actual programme, pending onboarding, but all parties are aware of the backstop date of the 28th February 2025 by what time public consultation will have to have been completed. Accounts were provided for Public Consultation on the 17th January. This was one day later than the "backstop date" requirement. The new External Auditors have confirmed that, due to onboarding checks still not being complete, they will not be able to submit an Opinion before the 28th February "backstop date".

**2023/24 Accounts are provided in Appendix A**

Closure 2023/24 high level deliverables:

- Draft provisional Outturn Report presented to Executive in July 2024.
- RO/CO Returns have been provided to Government.
- Draft Accounts have been available for public consultation since the 17th January.

**Update on the Budget and ongoing Monitoring.**

2.24 The Councils 2024/25 Budget was approved on the 26th February 2024 at Council. Budgets and are loaded onto TechOne. The 2025/26 budget process is again being delivered as a two Tranche process. Tranche 1 will go to Council for approval on the 27th January.

2.25 Quarter One and Two 2024/5 Financial and Performance monitoring reports went to Executive in September and November 2024.

**Compliance Items**

2.26 There are a number of areas where compliance will be measured going forwards. Compliance to process and timetable is a key underlying theme of both the Draft External Audit Report 2020/21 and the Combined 2021/22 & 2022/23. These items are being measured to improve how we work and change behaviours. This will lead to an improved financial health/knowledge across both Councils. Not all these measures can be put in place instantly but there should be the full suite by the middle of the summer (Debt indicators depend on the clearing of suspense and the updating of the bank reconciliations).

**Training:**

- Closure Training took place in March with 83 attending.
- Mandatory Budget Manager Training (including the use of TechOne) took place in September 2023 – upskilling budget managers with the tools to input their forecasts directly onto TechOne.
- Mandatory Financial Awareness Training for managers took place in August and September.
- Payments Purchase Order Training takes place monthly.

New tranches of training are being organised

**Treasury Management**

- The 2023/4 Outturn Report was approved by Council in September.
- The 2024/5 Strategies were approved by Council in February.
- The 2025/6 Draft Strategies are on today's agenda for approval.
- The Q1 and Q2 2024/5 positions have been reported in the Finance and Performance Reports.

**Errors:**

- Non delivery of GPC Card Data (monthly basis) – still to be started.
- Mis-coding on TechOne per month – by Service Area – work is ongoing to clear the mis-codings on a monthly basis in conjunction with work going on to reconcile previous years.

**Procurement:**

- The new 'No Compliance No Order' process has been live since April 2023.
- The number of contracts in place is growing regularly. We hope that eventually we get to the place where the number of orders coming to procurement for approval as contracts are not in place are minimal.
- Council approved an increase of the Key Decision Level from £50k to £200k. Finance and Performance Monitoring Reports now set out:
  - All contracts requiring renewal over the next year that are over the present £200k threshold and these are placed on the forward plan.
  - All contracts requiring renewal over the next year that are between £50k and £200k for reference.
  - All contracts that are being procured by Bromsgrove over this period that relate to Redditch Services.

2.27 The issues with cash receipting Work is ongoing but the closure of 2020/21 through to 2023/4 has reallocated over £125m of income wrongly allocated to suspense accounts.

**Summary**

2.28 This report sets out the policies (local and national) that underpins the Council finances and the key deliverables. The 2020/21 to 2023/24 draft Accounts have now been submitted for Public Inspection and Audit and the report sets out the Plan for the delivery of other years accounts. This report is now up to date as at the middle of January 2025 and delivered to each Audit, Governance and Standards Committee at Redditch to update it on progress against targets and also alert them to any issues and risks

## 3. FINANCIAL IMPLICATIONS

3.1 This paper sets out the financial frameworks within which the Council works. The Closure of accounts process and the associated audit process confirms the overall financial position of the Council

## 4. LEGAL IMPLICATIONS

4.1 There are no direct legal implications arising as a result of this report, however the frameworks are generally linked to statute or the Council's Constitution.

**5. STRATEGIC PURPOSES - IMPLICATIONS**

**Relevant Strategic Purpose**

5.1 The Strategic purposes are included in the Council's Corporate Plan and guides the Council's approach to budget making ensuring we focus on the issues and what are most important for the Borough and our communities. Our Financial monitoring and strategies are integrated within all our Strategic Purposes.

**Climate Change Implications**

5.2 There are no direct climate change implications arising as a result of this report.

**6. OTHER IMPLICATIONS**

**Equalities and Diversity Implications**

6.1 There are no direct equalities implications arising as a result of this report.

**Operational Implications**

6.2 Operational implications have been dealt with as part of the 2024/25 MTFP, quarterly monitoring and the Closedown process.

**7. RISK MANAGEMENT**

7.1 The financial stability and sustainability of the Council is a core underlying theme of the Council's Risk Management Strategy.

7.2 The Impact of the government imposed "backstop position", which has led to "disclaimer opinions here and also at numerous other Councils is still to be understood and remains a significant risk.

7.3 Deliver of financial data to government is important in their allocation of resources process. It is key that the Council deliver this information to timetable and the required standards

**8. BACKGROUND PAPERS**

Interim Auditors Annual Report on Redditch Borough Council 2021/22 & 2/22/23 – Audit Governance and Standards Committee November 2023, Council December 2023.
Section 24 Report to Audit and Council – November 2022, November 2023.
Accounting Policies Report – March, June, July, September, November 2023 and January, March, May, July and December 2024 Audit, Governance and Standards Committee.
Finance Recovery Report – June 2023 and October 2023, January and September 2024 – Executive
Programme Management Office Requirements – July 2023 – Executive
Approvals to Spend Report - July 2023 – Executive

**9. Appendices**

**Appendix A – Statement of Accounts 2023/24**

# DRAFT

# STATEMENT OF ACCOUNTS

# 2023/24

**Town Hall, Walter Stranz Square, Redditch, Worcestershire B98 8AH**
**tel: (01527) 64252**

# CONTENTS

## TABLE OF CONTENTS

Agenda Item 7

## CONTENTS

## Introduction

Local Authority accounts, like those of any organisation, are prepared to comply with a series of rules and conventions set by the accounting profession. However, for Local Authorities there are many types of transaction where the law, which takes precedence, requires a different treatment from the accounting rules. This effectively means that local authorities are trying to simultaneously fulfil two conflicting sets of rules when preparing their accounts.

This conflict is addressed by having authorities present a set of financial statements which comply with the accounting rules, followed by a reconciliation of those statements to the accounts as prepared under the legal rules. This reconciliation essentially takes the form of a list of adjustments for items which must be in the accounts per the accounting rules but are not allowed in them under law, and vice versa. It is the legal rules that must be used when calculating budget requirements, council tax and housing rents.

As a result, all the Council's internal reporting and decision-making is based purely on accounts prepared under the legal rules. The only time it prepares accounts that comply with the accounting rules is when it prepares this document. It is crucial to bear this in mind when reading the statements.

The Statement of Accounts brings together the major financial statements for the financial year 2023/24. The statements and the notes that accompany them give a full and clear picture of the financial position of Redditch Borough Council.

The sections are:

- **Narrative Report** – An overview of the Council's financial and operational performance, main objectives, Governance, key risks, and strategies for future service delivery
- **Statement of Responsibilities** – The responsibilities of the Council and its Chief Financial Officer in respect of the Statement of Accounts
- **Movement in Reserves Statement** – The movement in the year on the different reserves held by the Council
- **Comprehensive Income and Expenditure Statement** – This shows the accounting cost in the year of providing services. It is prepared in accordance with generally accepted accounting practices. This is different from the amount to be funded from taxation
- **Balance Sheet** – The value of the assets and liabilities recognised by the Council and the Group as at 31 March 2024
- **Cash Flow Statement** – Inflows and outflows of cash or cash equivalents. The flows are revenue and capital transactions with third parties
- **Statement of Accounting Policies** – Outlines the significant accounting policies adopted by the Council
- **Notes to the Financial Accounts** – The Statements are supported by technical notes
- **The Collection Fund and Notes** – Shows the transactions of the separate fund used for the collection of Council Tax and Non-Domestic Rates (NNDR) and its distribution to local government bodies and the government
- **Group Accounts** - Sets out the income and expenditure for the year and financial position at the balance sheet date of the Council and any companies or other organisations, which the Council either controls or significantly influences
- **Housing Revenue Account** - The housing revenue account is a ring-fenced account used to manage our (council owned) housing stock of some 5,600 properties. The costs of managing and maintaining the properties, collecting rents, and meeting the interest cost of monies borrowed to pay for investment in the housing stock are all charged to the housing revenue account
- **Governance Statement -** The Annual Governance Statement is a statutory document, which explains the processes and procedures in place to enable the council to conduct its functions effectively
- **Internal Auditors Report –** Local government audit provides transparency and accountability to both taxpayers and their local elected representatives. It provides authorities with accurate and reliable financial information with which to plan and manage their services, and finances, effectively. It also provides assurance to the wider public sector, supporting the audit of certain central government departments and the Whole of Government Accounts
- **Glossary**

# NARRATIVE REPORT

These financial statements have been prepared in line with the Code of Practice on Local Authority in Accounting the United Kingdom 2023/24 (the Code). It is the purpose of this report to explain, in an easily understandable way, the financial facts and performance in relation to Redditch Borough Council.

## Our District

Redditch Borough Council sits within the West Midlands. It has a population of 84,000 over an area of 21 square miles. It has 41,000 homes and businesses and 29 Councillors over 12 Wards (the present boundary review will reduce this to nine wards and 27 Councillors in May 2024).

The Borough has an above-average number of young families; is densely populated other than outlying areas such as Feckenham; has major employment in 'traditional' manufacturing; has areas of significant deprivation; and average median incomes.

Local Councillors are elected by the community to decide how the Council should carry out its various activities. Elections are held every year for three years, with up to 10 seats contested at a time with no election in fourth year. All out elections will be held in May 2024. The council has a 'leader and cabinet' form of governance, which means the Council delegates authority to decide some matters to a 'cabinet' called the executive committee, which is chaired by the Leader of the Council. The executive committee manages much of the ordinary business of the Council, with the full council having the final say on matters of strategic policy, budget, and council tax.

The Council, along with Bromsgrove District Council, were one of the first councils in the country to form a shared service in 2008. This means we have a single team serving both Councils. Bromsgrove also host services such as Worcestershire Regulatory Services which is pan Worcestershire.

The Council's vision is "To enrich the lives and aspirations of all our residents, businesses and visitors through the provision of efficiently-run, high quality services that ensure those most in need receive the appropriate help, support and opportunities."

## Strategic Purpose

Redditch Borough Council is committed to providing residents with effective and efficient services that not only meet their needs but understand them too. We have listened to demand from our customers to understand what goes on in our communities and have considered how we collaborate with partners to support the issues within those communities.

Taking into account what really matters to our residents it produced a set of six strategic purposes; they are based on customer demands and data and evidence about the needs of and issues affecting the people of Redditch Borough Council.


## National Position

The impact of both Covid-19 and Brexit are still amongst the most significant economic events which are currently facing the UK. The Council is now moving out of the Global Covid-19 Pandemic however this recovery period and the impact of funding the pandemic itself has had a significant impact on the Country's economy and Council services.
.
The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, has been major influences on both the Country and Council services.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November

The UK formally left the European Union on 31 January 2020. It is still currently difficult to quantify what the full impact has been on the council, but the most obvious implications are to importing goods.

The uncertainties about future economic conditions make medium term financial planning even more challenging for the Council. The Council will continue to monitor the impact and provide updates.

**Financial Performance**

The following items have had an impact on the 2023/24 Financial Statements.

**Organisational Performance**

The Council implemented a new financial system on the 8 February 2021. This severely impacted the Council's ability to report financially during the 2021/22 financial year with the only reported financial monitoring being for Period 11. Because of this, and the impact this has had on the delivery of the 2020/21 accounts, in October 2022 the External Auditors issued a S24 Statement linked to the late delivery of the 2020/21 Accounts in November 2022 and the associated impact this had on the robustness of financial information.

This S24 Statement was updated in October 2023 to include delivery of the audited 2020/21, 2021/22 and 2022/23 accounts. Since April 2022 the Council, with Bromsgrove, have been operating a financial recovery plan to rectify this situation. This has included the correction of the underlying issue in the financial system in November 2022. This is reflected in the Governance Statement.

In September 2024, due to the number of Councils across England with unaudited accounts, the new Government implemented “backstop legislation”. This meant that Council Accounts up to the 2022/23 financial year had to be presented, and the 30-day public consultation period completed by the 13 December 2024. The Council hit this timescale for the 2020/21 and 2021/22 Accounts but only achieved this on the 22 January 2025 for the 2022/23 Accounts.

These 2023/24 Accounts also have a “backstop date” imposed by the Government of the 28 February 2025 to be presented and have completed the 30-day public consultation period.

The Council has “**Disclaimer Opinions**” for the 2020/21 through to 2022/23 Accounts. This Opinion, linked to the “Backstop Legislation,” has been issued to multiple Councils across the Country. It is not clear how these multiple “Disclaimer Opinions” for Councils will affect the sector and how they might impact how the Council’s new Auditors workplans for their 2023/24 External Audits Report and ongoing Audit Opinions for the Council.

For the whole of the 2023/24 financial year the Council have reported on joint finance and organisational performance through a quarterly finance and performance report to Cabinet.

## Governance

Redditch Borough Council recognises that it is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively.

Governance is about how the Council ensures that it is doing the right things, in the right way.

- A Council Constitution which clearly sets out the roles and responsibilities for Councillors
- A transparent decision-making process through Council, Executive and Regulatory Committees
- Review and scrutiny of decisions through the Overview and Scrutiny Committee
- Behaving with integrity supported through a Code of Conduct
- Managing risk through the Corporate Management Team and Audit Governance & Standards Committee
- Clear strategic priorities linked to the needs of our communities and customers
- Regular performance management linked to strategic priorities and managed through a dashboard which is easily accessed and updated
- Having robust and regular financial management
- Having good communication with Councillors, employees, and the Community

The Council undertakes an annual review of its governance arrangements, and this is summarised in the Annual Governance Statement.

## Reserves, Financial Performance and Financial Position

### Financial Outlook

The Medium-Term Financial Plan 2023/24 – 2025/26 was approved by Council on 27 February 2023 and provides the framework within which spending decisions can be made. The plan addresses how the Council will provide financial funding to the Strategic Priorities and ensure residents receive quality services to meet their needs in the future.

When reviewing the budget projections consideration is made of the impact of demand on service and the costs associated with this demand. This may result in additional costs, associated with maintaining current service delivery, or reductions in anticipated income revenue over the next three years. This has been exacerbated by the move back to “normal working” in 2023/24 as we move out of the Covid-19 pandemic and the significant impact that the war in Ukraine is having on the national and local economy.

We have continued to see the significant drops of income seen in previous years as one-off Government Grant funding to support for the most vulnerable in our community, both individuals and businesses, due to the Covid-19 pandemic stopping. In addition, due to the upcoming General Election, the 2023/4 Local Government Financial Settlement was only a single year in length which makes medium term planning difficult to achieve.

There continues to be considerable pressure facing the Council over the next three years as a result of a number of issues including:

- A significant nationally negotiated Pay Award of circa 5% for which there is no central funding which impacts the Council by £928k a year.
- Reprofiling the fleet replacement, as there is still no final Environment Green Paper at a cost of £258k

However, to partially offset this two significant factors bring the Council back to an almost a break even ongoing budget position. These are:

- Implementation of the 2023/24 to 2025/26 triennial Pension revaluation, at an ongoing savings of £801k a year.
- The Conversion of 50% of the Utilities increase established in Tranche 1 of the 2023/24 budget as actual increases have not been of the magnitude of the additional budget established £570k.

The main source of income continues to be Council tax. The Chancellors' November 2023 update still allows Councils to increase Council Tax by 1.99% or £5 per annum without a referendum. The medium-term financial plan assumes a further 1.99% increase per annum in future years.

A summary of the approved Medium Term Financial Plan is provided below and shows that the Council has a deficit in 2023/24 of £311k which then reduces to a deficit of £67k in 2024/25 and a surplus of £63k in 2025/26.

| | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
|---|---|---|---|
| **Base Budget Position 22/23 MTFP** | | | |
| Expenditure | 10,290 | 10,428 | 10,661 |
| Funding | -9,341 | -9,595 | -9,621 |
| **Net** | **949** | **833** | **1,040** |
| **Revised Gap** | **949** | **833** | **1,040** |
| **Pressures** | | | |
| 50% Funding for Climate Change Officer | **30** | **30** | **30** |
| **Savings Options** | | | |
| Environmental Services Partnership | 0 | -25 | -50 |
| Service Reviews | -140 | -330 | -405 |
| Move to All Out Elections | 0 | 0 | -170 |
| Town Hall | 0 | 0 | -400 |
| Finance Vacancies | -100 | -100 | -100 |
| MRP | -100 | -100 | -100 |
| Pension Fund | -580 | -580 | -580 |
| Engage Capacity Grid (One Off) | -300 | -300 | 0 |
| 10% Increase in Fees and Charges | -339 | -340 | -342 |
| Council Tax Increase | 0 | -104 | -104 |
| | | | |
| **Total Savings** | **-1,529** | **-1,849** | **-2,221** |
| **Revised Position** | **-580** | **-1,016** | **-1,181** |
| **Pressures** | | | |
| Pay Pressure Year 1 | 928 | 928 | 928 |
| Pay Pressure Future Years (1%) | 0 | 0 | 117 |
| Transport Pressure | 21 | 21 | 21 |
| Contracts Pressures | 230 | 235 | 240 |
| **Core Pressures** | **1,179** | **1,184** | **1,306** |
| **Updated Position** | **599** | **168** | **125** |
| Utilties Inflation | 1,140 | 1,140 | 1,140 |
| **Tranche 1 Final Draft Position** | **1,739** | **1,308** | **1,265** |
| | | | |
| **Draft Local Government Financial Settlement** | | | |
| New Homes Bonus | -19 | | |
| Services Grant | -86 | | |
| Funding Guarantee | -493 | | |
| C Tax Base Reduction | 130 | | |
| Business Rates/Investment Inc Rebaseline | -466 | -250 | -250 |
| Future Years Settlements - assumption | | -450 | -450 |
| **Settlement Draft Amounts** | -934 | -700 | -700 |
| 1% more on Councils Tax | -69 | -69 | -69 |
| Conversion of 50% of Utilities to a Reserve | -570 | -570 | -570 |
| Correction of Salary £1,925 amount | -200 | -200 | -200 |
| Additional Pensions Savings | -221 | -221 | -221 |
| **Revised Deficit** | **-255** | **-452** | **-495** |
| | | | |
| **New Pressures (Known/Ongoing)** | | | |
| Fleet Refurbishment | 129 | 258 | 258 |
| Apprenticeship Scheme | 50 | 50 | 50 |
| Data Analyst | 25 | 25 | 25 |
| Planning Enforcement | 25 | 25 | 25 |
| WRS Increase | 47 | 61 | 74 |
| Under Recovery of 22/23 Council Tax | 190 | | |
| Increased pay award - so 2% | 100 | 100 | 0 |
| Total | **566** | **519** | **432** |
| **Revised Draft Position** | **311** | **67** | **-63** |

**Risks and Opportunities**

The Council recognises that it has a responsibility to manage risks effectively in order to control its assets and liabilities, protect its employees and community against potential losses, minimise uncertainty in achieving its goals and objectives, and to maximise the opportunities to achieve its vision.

Risk management is managed through the Corporate Management Team and Audit Governance & Standards Committee. Its key corporate risks at the end of the 2023/24 financial year classified as highest priority, as reported to this Committee were:

- Non-adherence with Statutory Inspection Policies.
- Protection from Cyber Attack.
- Financial Position Rectification.
- Delivery of Levelling Up Initiative
- The New Customer Facing Interface
- The impact of the new Environment Bill.

Six other “Corporate Risks” were classified as Amber.

The most significant financial risk the Council faces is the correction of issues with its new financial system. As set out in “Organisation Performance” section above, with the implementation of “backstop legislation” for English Councils Accounts and the issuing of “Disclaimer Opinions” for significant numbers of Councils, including Bromsgrove, the impact of this decision locally and nationally is yet to be fully understood.

Internal Audit issued a report in June 2021 with the purpose of identifying what progress had been made against the Risk Management Strategies. At that time there was a lack of evidence that the actions within the Risk Management Strategies had been fully completed and embedded within the Councils and therefore no assurance could be given. The Council acknowledged that there was a risk management system in place, and there were areas of good practice. However, this was not uniform across the Council. The embedding of effective risk management needed to be driven and led by senior management and cascaded down throughout the Councils. Therefore, an action plan was put in place that:

- Set up a quarterly officer Risk Board, with representatives of each service area.
- That the 4Risk system (used for logging and mitigating risks) be fully updated and reviewed at these quarterly meetings.
- Ensured that the Corporate Management Team (CMT) and the Audit Committee, be updated by way of a quarterly report on progress and review the Council’s Corporate and Departmental Risks.

Risk is reported to this Committee on a quarterly basis.

**Expenditure and Funding Analysis**

The Expenditure and Funding Analysis is set out on page 19. This demonstrates to Council taxpayers and housing rent payers how the funding available to the Authority (i.e., Government grants, Council tax, rents, and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision-making purposes between the Council’s strategic purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. A summary of the net expenditure as reported through the management accounts compared with the budget for 2023/24 is shown below:

| | 2023/24 Full Year Budget | 2023/24 Outturn | 2023/24 Outturn Variance |
|---|---|---|---|
| Regulatory Client | 451,038 | 449,798 | (1,240) |
| Business Transformation & Organisational Development | 1,767,562 | 1,701,543 | (66,019) |
| Corporate Budgets & Services | (1,558,136) | (2,802,363) | (1,244,227) |
| Community & Housing GF Services | 1,576,893 | 1,827,032 | 250,139 |
| Environmental Services | 2,615,992 | 4,801,569 | 2,185,577 |
| Financial & Customer Services | 1,777,749 | 2,407,097 | 629,348 |
| Legal, Democratic & Property Services | 2,071,581 | 2,224,407 | 152,826 |
| Planning, Regeneration & Leisure Services | 1,282,538 | 1,533,062 | 250,524 |
| RBC Rubicon Client | 764,746 | 972,415 | 207,669 |
| Starting Well | 85,315 | 101,994 | 16,679 |
| | | | |
| **Overall Total** | **10,835,278** | **13,216,554** | **2,381,276** |

The actuals reported above are based on the management accounts for the Authority. The management accounts are prepared on controllable budgets and there is a difference to the definitions used in the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis. As an example, the management accounts would record and manage any direct revenue financing of capital expenditure within the strategic priority, but this would be recorded as other income and expenditure in the Expenditure and Funding Analysis.

The main variances to budget in each strategic area are as below. Greater detail is available in the year-end outturn report.

**Business Transformation & Organisational Development – £66k underspend**
Within Business Transformation & Organisational Development there are increased phone costs of £60k together with increased HR costs of £60k offset by savings within Corporate Staff costs due to vacancies within Training amounting to £110k and additional Name & Numbering income of £30k. There are a number of smaller unders/overs within the service.

The overall underspend for the service is after the absorption of £76k cross cutting efficiency savings targets based upon forecast underspends within Human Resources at quarter 1 due to vacancies within the service.

**Corporate Services – £1,244k underspend**
Within Corporate Services, there is a large underspend due to the necessary reallocation of corporate provisions on salaries, inflation and utilities. The Council is currently undergoing an establishment exercise which will ensure the correct allocation of these provisions across all services in future years.

**Community and Housing General Fund Services – £250k overspend**
Within the Community and Housing General Fund Services the overspend is due to a number of factors. Most significantly these are: increased Bed & Breakfast (£74k) and Homelessness costs (£174k) arising from the national impact of increased demand for social housing (new legislation in respect of domestic abuse and private landlords ending tenancies/selling properties has impacted); income from Dial A Ride and Shopmobility being less than anticipated; and the requirement to undertake a stock condition survey report of the private rented sector.

**Environmental Services – £2,186k overspend**
Within Environmental Services there are two key areas that impact on budgets, fleet costs and salaries. As

per the Corporate Services section, salaries overspends have been offset by allocation of the Corporate Salaries provision. Within fleet costs there is a £390k overspend due to maintenance, fuel and Insurance costs. The fleet used across the service area is generally beyond its life cycle, especially within the waste service. A revised fleet replacement programme is designed to ensure we have a more reliable fleet across the service which will result in lower maintenance costs and associated hire costs in order to deliver statutory responsibilities. There have also been additional costs relating to shared services costs on the waste service.

Within Bereavement Services there has been a reduction of £170k in anticipated burial and cremation fees. There has also been a £25k reduction in bulky waste income.

Within the service area as a whole and in particular the Tree Team there have been a number of insurance claims which have cost the Council £70k within the financial year.

There were a number of smaller underspends amounting to £90k within the service.

There are £1m of additional costs relating to stock costs for the depot at Crossgates. This relates to the period 2020/21 – 2023/24.

**Financial & Customer Services - £629k overspend**
Within Financial & Customer Services, there is an overspend of £629k within Finance due to agency staff covering vacant posts. This spend is required to close the backlog of Accounts work and comply with Recommendations in the External Auditors Annual Report.

**Legal, Democratic and Property Services – £153k overspend**
Within Legal, Democratic and Property Services there was an overspend on agency fees and an overspend on the Market and on Legal Services. These were offset by an increase in income for property rental income.

**Planning, Regeneration and Leisure Services – £250k overspend**
Within Planning, Regeneration and Leisure Services there is an overspend in the region of £250k. This is predominately due to an overspend within Economic Development and Development Management due to costs of temporary support and professional fees. Planning income has been lower than anticipated.

**Rubicon Client – £208k overspend**
The original base budget of £765k was exceeded due to high maintenance costs particularly on the Abbey Stadium, Forge Mill Museum and the Palace Theatre. Additional costs were incurred due to an increased management fee.

**Reserves**

The position has resulted in the Council's General Fund position decreasing from an opening position of £8.924m to a closing balance of £7.221m. There was an overspend of £2.381m and the balance relates to statutory adjustments.

Earmarked reserves have reduced from an opening position of £17.818m to a closing position of £17.186m.

**Capital**

The outturn report set out that expenditure was £3.2m against capital budgets of £10.9m approved for the year. This is an £7.7m underspend.

**Housing Revenue Account (HRA)**

The Housing Revenue Account for 2023/24 is showing break-even position.

The major variances as follows:

- Repairs & Maintenance – Overspend mainly on agency staff but offset by underspend in other areas (staffing vacancies).
- Supervision & Management – Variance is mainly due to vacancies, posts left vacant due to the ongoing review of the Housing Services function.

- Rent, Rates, Taxes & Other Charges – Increase in insurance premiums, disrepair claims by tenants have increased.
- Provision for Bad Debts – Arrears did not increase year on year as anticipated. Minimal increase in total from 22-23.
- Depreciation & Impairment of Fixed Assets – Increase in the average price of key components of HRA dwellings.

## Explanation of the Accounting Statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2024. It comprises core and supplementary statements, together with supporting notes. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, which in turn is underpinned by International Financial Reporting Standards. A glossary of key terms and abbreviations can be found at the end of this publication.

<u>The Core Statements are:</u>

The **Comprehensive Income and Expenditure Statement** – this records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area / directorate. The bottom half of the statement deals with corporate transactions and funding.

The **Movement in Reserves Statement** is a summary of the changes that have taken place in the bottom-half of the Balance Sheet over the financial year.

Reserves are divided into "usable", which can be invested in service improvements or capital investment or reduce local taxation, and "unusable" which must be set aside for specific purposes. This includes those that hold unrealised gains and losses (for example the revaluation reserve), where amounts become available to provide services if the assets are sold, and those that hold timing differences which are shown in the Movement in Reserves Statement Line 'Adjustments between accounting basis and funding basis under the regulations.

The statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to council tax for the year. The net increase or decrease line shows the statutory general fund balance movements in the year following those adjustments.

The **Balance Sheet** is a 'snapshot' of the Council's assets, liabilities, cash balances and reserves as at the year-end, 31 March 2024.

The **Cash Flow Statement** shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment or financing activities (such as borrowing or other long-term liabilities).

<u>The Supplementary Statements are</u>:

The **Collection Fund** summarises the transactions relating to council tax and business rates collection, and the redistribution of that money. Business Rates is distributed to Central Government, Worcestershire County Council and Redditch Borough Council. Council Tax is distributed between Gloucestershire County Council, the Police & Crime Commissioner, Redditch Borough Council and the Town & Parish Councils within the Redditch district. The Annual Governance Statement which sets out the governance structures of the Council and its key internal controls.

The **Housing Revenue Account**

The **Annual Governance Statement** which sets out the governance structures of the Council and its key internal controls.

## Statement of Responsibilities

The Authority's responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority. In this Authority, that officer is the Chief Finance Officer
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts

The Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.

The Chief Finance Officer has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

**CERTIFICATE**

I certify that the Statement of Accounts presented here gives a true and fair view of the financial position of the Authority at the accounting date and of its income and expenditure for the year ended 31st March 2024
.

…………………………………………………………………… **Date:**

**Director of Finance and Resources (Chief Finance Officer)**

In accordance with regulation 10(3) Accounts and Audit Regulations 2016, the statement of accounts is approved by the Chair of the Audit, Governance and Standards Committee.

…………………………………………………………………… **Date:**
**Chair**

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

## Comprehensive Income and Expenditure Statement for the year ended 31 March 2024

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| | Notes | 2023/24 £000 Expenditure | 2023/24 £000 Income | 2023/24 £000 Net | 2022/23 £000 Expenditure | 2022/23 £000 Income | 2022/23 £000 Net |
|---|---|---|---|---|---|---|---|
| Business Transformation and Organisational Development | | 2,257 | (426) | 1,831 | 2,128 | (454) | 1,674 |
| Community and Housing GF Services | | 6,026 | (2,287) | 3,739 | 5,153 | (2,715) | 2,438 |
| Corporate Services | | 747 | (5,153) | (4,407) | 1,444 | (5,078) | (3,634) |
| Environmental Services | | 7,407 | (2,768) | 4,639 | 6,809 | (2,476) | 4,332 |
| Financial and Customer Services | | 20,148 | (16,896) | 3,252 | 18,566 | (5,165) | 13,401 |
| Housing Revenue Account | | 24,469 | (27,880) | (3,411) | 21,939 | (25,965) | (4,026) |
| Legal, Democratic and Property Services | | 4,655 | (1,489) | 3,165 | 3,945 | (1,307) | 2,638 |
| Planning, Regeneration and Leisure Services | | 3,942 | (1,355) | 2,587 | 3,330 | (1,288) | 2,042 |
| Regulatory Client | | 681 | (231) | 450 | 634 | (253) | 381 |
| Rubicon Client | | 2,041 | (0) | 2,041 | 2,114 | (5) | 2,108 |
| Starting Well | | 1,013 | (720) | 292 | 766 | (842) | (76) |
| **Cost of Services** | | **73,385** | **(59,207)** | **14,178** | **66,827** | **(45,549)** | **21,278** |
| Other Operating Expenditure | **B4** | 40 | (308) | (268) | 18 | (515) | (497) |
| Financing and Investment Income and Expenditure | **B5** | 6,641 | (7,184) | (543) | 9,283 | (4,607) | 4,676 |
| Taxation and Non-Specific Grant Income and Expenditure | **B6** | 12,375 | (24,293) | (11,918) | 11,364 | (33,180) | (21,816) |
| **(Surplus) or Deficit on Provision of Services** | | | | **1,449** | | | **3,640** |
| (Surplus) or deficit on revaluation of Property, Plant and Equipment | **D1** | | | 0 | | | (25,065) |
| Remeasurement of the net defined benefit liability/(asset) | **E1** | | | (2,349) | | | (4,025) |
| **Other Comprehensive Income and Expenditure** | | | | **(2,349)** | | | **(29,090)** |
| **Total Comprehensive Income and Expenditure** | | | | **(900)** | | | **(25,450)** |

Page 51

Agenda Item 7

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

## Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2024

| | | 2023/24 | | | 2022/23 | | |
|---|---|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 | £000 | £000 |
| | **Notes** | **Expenditure** | **Income** | **Net** | **Expenditure** | **Income** | **Net** |
| Business Transformation and Organisational Development | | 2,257 | (426) | 1,831 | 2,128 | (454) | 1,674 |
| Community and Housing GF Services | | 6,026 | (2,287) | 3,739 | 5,153 | (2,715) | 2,438 |
| Corporate Services | | 747 | (5,153) | (4,407) | 1,444 | (5,078) | (3,634) |
| Environmental Services | | 7,407 | (2,768) | 4,639 | 6,809 | (2,476) | 4,332 |
| Financial and Customer Services | | 20,148 | (16,896) | 3,252 | 18,566 | (5,165) | 13,401 |
| Housing Revenue Account | | 24,469 | (27,880) | (3,411) | 21,939 | (25,965) | (4,026) |
| Legal, Democratic and Property Services | | 4,655 | (1,489) | 3,165 | 3,945 | (1,307) | 2,638 |
| Planning, Regeneration and Leisure Services | | 3,942 | (1,355) | 2,587 | 3,330 | (1,288) | 2,042 |
| Regulatory Client | | 681 | (231) | 450 | 634 | (253) | 381 |
| Rubicon Client | | 6,029 | (3,532) | 2,496 | 3,667 | (2,692) | 974 |
| Starting Well | | 1,012 | (719) | 292 | 766 | (842) | (76) |
| **Cost of Services** | | **77,371** | **(62,738)** | **14,634** | 68,380 | (48,236) | **20,144** |
| Other Operating Expenditure | **B4** | 40 | (308) | (268) | 18 | (515) | (497) |
| Financing and Investment Income and Expenditure | **B5** | 6,641 | (7,184) | (543) | 9,283 | (4,607) | 4,676 |
| Taxation and Non-Specific Grant Income and Expenditure | **B6** | 12,375 | (24,263) | (11,888) | 11,364 | (33,180) | (21,816) |
| **(Surplus) or Deficit on Provision of Services** | | | | **1,935** | | | **2,507** |
| (Surplus) or deficit on revaluation of Property, Plant and Equipment | **D1** | | | 0 | | | (25,065) |
| Remeasurement of the net defined benefit liability/(asset) | **E1** | | | (2,349) | | | (4,025) |
| **Other Comprehensive Income and Expenditure** | | | | **(2,349)** | | | **(29,090)** |
| **Total Comprehensive Income and Expenditure** | | | | **(414)** | | | **(26,583)** |

# MOVEMENT IN RESERVES STATEMENT

## Movement in Reserves Statement for Council and Group for the year ended 31 March 2024

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The Net Increase / (Decrease) before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or (from) earmarked reserves undertaken by the Council.

| | General Fund Balance | Earmarked General Fund Reserves | Total General Fund Balance | HRA Balance | Earmarked HRA Reserves | Total HRA Balance | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Total Usable Reserves | Total Unusable Reserves | Total Authority Reserves | Rubicon Leisure Limited | Total Group Reserves |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance as at 31 March 2022** | **11,526** | **17,769** | **29,294** | **2,057** | **12,557** | **14,614** | **12,150** | **13,394** | **2,779** | **72,230** | **136,070** | **210,101** | **1,108** | **211,209** |
| **<u>Movement in reserves during the year</u>** | | | | | | | | | | | | | | |
| **Total Comprehensive Income and Expenditure** | 3,321 | 0 | **3,321** | 319 | 0 | **319** | 0 | 0 | 0 | **3,640** | **29,090** | **32,730** | **978** | **33,708** |
| Adjustments between accounting basis & funding basis under regulations | (5,873) | 0 | **(5,873)** | (1,186) | 0 | **(1,186)** | 1,888 | (153) | 375 | **(4,949)** | **58,671** | **68,085** | **0** | **68,085** |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(2,552)** | **0** | **(2,552)** | **(867)** | **0** | **(867)** | **1,888** | **(153)** | **375** | **(1,310)** | **87,761** | **86,452** | **978** | **87,430** |
| Transfers to or from earmarked reserves | (49) | 49 | **0** | 785 | (785) | **0** | 0 | 0 | 0 | **0** | **0** | **0** | **0** | **0** |
| **(Increase)/Decrease in Year** | **(2,601)** | **49** | **(2,552)** | **(82)** | **(785)** | **(867)** | **1,888** | **(153)** | **375** | **(1,310)** | **87,761** | **86,452** | **978** | **87,430** |
| **Balance as at 31 March 2023** | **8,924** | **17,818** | **26,743** | **1,976** | **11,771** | **13,747** | **14,038** | **13,241** | **3,154** | **70,922** | **223,831** | **294,754** | **2,086** | **296,839** |
| **<u>Movement in reserves during the year</u>** | | | | | | | | | | | | | | |
| **Total Comprehensive Income and Expenditure** | 823 | 0 | **823** | 626 | 0 | **626** | 0 | 0 | 0 | **1,449** | **(2,349)** | **(900)** | **486** | **(414)** |
| Adjustments between accounting basis & funding basis under regulations | (1,550) | 0 | **(1,550)** | (2,387) | 0 | **(2,387)** | 177 | (2,767) | (3,154) | **(9,681)** | **24,945** | **15,263** | **(3,600)** | **11,664** |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(727)** | **0** | **(727)** | **(1,761)** | **0** | **(1,761)** | **177** | **(2,767)** | **(3,154)** | **(8,232)** | **22,596** | **14,363** | **(3,114)** | **11,250** |
| Transfers to or from earmarked reserves | (976) | (632) | **(1,608)** | 870 | (870) | **0** | 0 | 0 | 0 | **(1,608)** | **0** | **0** | **1,608** | **0** |
| **(Increase)/Decrease in Year** | **(1,703)** | **(632)** | **(2,335)** | **(891)** | **(870)** | **(1,761)** | **177** | **(2,767)** | **(3,154)** | **(9,840)** | **22,596** | **14,363** | **(1,506)** | **11,250** |
| **Balance as at 31 March 2024** | **7,221** | **17,186** | **24,408** | **1,085** | **10,901** | **11,986** | **14,215** | **10,474** | **0** | **61,082** | **246,427** | **309,117** | **580** | **308,089** |

# BALANCE SHEET

## Balance Sheet as at 31 March 2024

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide service. This category of reserves includes reserves that hold unrealised gains and losses (for example, the Revaluation Reserve), where amounts would only become available to provide services if the assets ae sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.

| | Notes | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|---|
| Property, Plant & Equipment | **D1** | 397,140 | 382,004 |
| Investment Property | **D2** | 899 | 899 |
| Intangible Assets | **D3** | 1,243 | 1,046 |
| Long Term Debtors | **E2** | 906 | 906 |
| **Long Term Assets** | | **400,188** | **384,855** |
| | | | |
| Short Term Investments | **F1** | 10,912 | 41,850 |
| Inventories | **D9** | 1,575 | 2,374 |
| Short Term Debtors | **D4** | 23,318 | 13,265 |
| Cash and Cash Equivalents | **F1** | 16,707 | 15,620 |
| **Current Assets** | | **52,512** | **73,108** |
| | | | |
| Other Short Term Liabilities | **E2** | (9,000) | (9,000) |
| Short Term Creditors | **D5** | (8,555) | (39,004) |
| Provisions | **D6** | (1,242) | (1,798) |
| Revenue Grants received in advance | | (16,172) | (3,759) |
| **Current Liabilities** | | **(34,969)** | **(53,561)** |
| | | | |
| Long Term Borrowing | **F5** | (104,063) | (104,064) |
| Other Long Term Liabilities | **E2** | (5,311) | (2,791) |
| Capital Grants received in advance | | (848) | (2,793) |
| **Long Term Liabilities** | | **(110,222)** | **(109,648)** |
| | | | |
| **Net Assets** | | **307,509** | **294,754** |
| | | | |
| Usable reserves | **C3** | 61,082 | 70,922 |
| Unusable Reserves | **C4** | 246,427 | 223,832 |
| **Total Reserves** | | **307,509** | **294,754** |

# BALANCE SHEET

## Group Balance Sheet as at 31 March 2024

| | Notes | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|---|
| Property, Plant & Equipment | D1 | 397,386 | 382,250 |
| Investment Property | D2 | 899 | 899 |
| Intangible Assets | D3 | 1,243 | 1,046 |
| Long Term Debtors | E2 | 906 | 906 |
| **Long Term Assets** | | **400,434** | **385,101** |
| | | | |
| Short Term Investments | F1 | 10,912 | 41,850 |
| Inventories | D9 | 1,594 | 2,393 |
| Short Term Debtors | D4 | 23,594 | 13,318 |
| Cash and Cash Equivalents | F1 | 15,658 | 18,602 |
| **Current Assets** | | **51,757** | **76,163** |
| | | | |
| Short Term Creditors | E2 | (9,073) | (9,000) |
| Other Short Term Liabilities | D5 | (9,000) | (40,220) |
| Provisions | D6 | (1,242) | (1,798) |
| Revenue Grants received in advance | | (16,172) | (3,759) |
| **Current Liabilities** | | **(35,487)** | **(54,778)** |
| | | | |
| Other Long Term Liabilities | E2 | (3,703) | (2,791) |
| Capital Grants Received in advance | | (848) | (2,793) |
| Long Term Borrowing | E2 | (104,063) | (104,064) |
| **Long Term Liabilities** | | **(108,614)** | **(109,648)** |
| | | | |
| **Net Assets** | | **308,089** | **296,838** |
| | | | |
| Usable reserves | C3 | 61,662 | 73,006 |
| Unusable Reserves | C4 | 246,427 | 223,832 |
| | | | |
| **Total Reserves** | | **308,089** | **296,838** |

# CASH FLOW STATEMENT

## Cash Flow Statement at 31 March 2024

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

| | Notes | 2023/24 £000 | 2022/23 £000 |
|---|---|---|---|
| **Net surplus or (deficit) on the provision of services** | | (1,449) | (3,640) |
| Adjustment to surplus or deficit on the provision of services for non-cash movements | **F2** | 12,440 | 44,610 |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | **F3** | 0 | (5,654) |
| **Net cash flows from Operating Activities** | | **10,991** | **35,316** |
| **Investing Activities** | **F4** | (17,369) | (59,022) |
| **Financing Activities** | **F5** | 7,465 | 12,617 |
| **Net increase or (decrease) in cash and cash equivalents** | | **1,087** | **(11,089)** |
| Cash and cash equivalents at the beginning of the reporting period | | **15,620** | **26,709** |
| **Cash Balance at End of Period** | | **16,707** | **15,620** |

# CASH FLOW STATEMENT

## Group Cash Flow Statement as at 31 March 2024

| | Notes | 2023/24 £000 | 2022/23 £000 |
|---|---|---|---|
| **Net surplus or (deficit) on the provision of services** | | (1,935) | (20,433) |
| Adjustment to surplus or deficit on the provision of services for non-cash movements | **F2** | 8,865 | 63,442 |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | **F3** | 0 | (5,654) |
| **Net cash flows from Operating Activities** | | **6,930** | **37,355** |
| **Investing Activities** | **F4** | (17,369) | (59,022) |
| **Financing Activities** | **F5** | 7,465 | 12,617 |
| **Net increase or (decrease) in cash and cash equivalents** | | **(2,974)** | **(9,050)** |
| Cash and cash equivalents at the beginning of the reporting period | | **18,602** | **27,652** |
| **Cash Balance at End of Period** | | **15,628** | **18,602** |

## B1. Expenditure and Funding Analysis

| 2023/24 | | | | 2022/23 | | |
|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to the General Fund | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement | Strategic Purpose | Net Expenditure Chargeable to the General Fund Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| 2,022 | 191 | 1,831 | Business Transformation and Organisational Development | 1,513 | (162) | 1,674 |
| 4,433 | 694 | 3,739 | Community and Housing GF Services | 1,779 | (658) | 2,438 |
| (4,286) | 120 | (4,407) | Corporate Services | (3,760) | (127) | (3,634) |
| 5,429 | 790 | 4,639 | Environmental Services | 3,507 | (825) | 4,332 |
| 4,259 | 1,007 | 3,252 | Financial and Customer Services | 12,397 | (1,004) | 13,401 |
| 4,673 | 8,084 | (3,411) | Housing Revenue Account | (11,686) | (7,659) | (4,026) |
| 4,198 | 1,033 | 3,165 | Legal, Democratic and Property Services | 1,603 | (1,034) | 2,638 |
| 3,210 | 623 | 2,587 | Planning, Regeneration and Leisure Services | 1,438 | (604) | 2,042 |
| 450 | 0 | 450 | Regulatory Client | 381 | 0 | 381 |
| 3,109 | 1,068 | 2,041 | Rubicon Client | 917 | (1,191) | 2,108 |
| 579 | 287 | 292 | Starting Well | (344) | (268) | (76) |
| 28,076 | 13,898 | 14,178 | **Net Cost of Services** | 7,745 | (13,533) | 21,278 |
| | | | | | | |
| (29,779) | (17,050) | (12,729) | Other Income and Expenditure | 4,522 | 22,159 | (17,638) |
| | | | | | | |
| (1,703) | (3,152) | 1,449 | **Surplus or Deficit** | 12,267 | 8,626 | 3,640 |

| | | |
|---|---|---|
| 8,924 | Opening General Fund Balance | (3,343) |
| (1,703) | Less/Plus Surplus or (Deficit) on General Fund Balance in Year | 12,267 |
| 7,221 | Closing General Fund Balance at 31 March | 8,924 |

# NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

## B2. Adjustments between Funding and Accounting Basis

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes | Net change for the Pensions Adjustments | Other Statutory Adjustments | Other Differences | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Business Transformation and Organisational Development | 43 | 147 | 0 | 0 | 191 |
| Community and Housing GF Services | 41 | 653 | 0 | 0 | 694 |
| Corporate Services | 0 | 120 | 0 | 0 | 120 |
| Environmental Services | 756 | 34 | 0 | 0 | 790 |
| Financial and Customer Services | 0 | 1,007 | 0 | 0 | 1,007 |
| Housing Revenue Account | 6,775 | 1,309 | 0 | 0 | 8,084 |
| Legal, Democratic and Property Services | 729 | 304 | 0 | 0 | 1,033 |
| Planning, Regeneration and Leisure Services | 406 | 218 | 0 | 0 | 623 |
| Regulatory Client | 0 | 0 | 0 | 0 | 0 |
| Rubicon Client | 1,068 | 0 | 0 | 0 | 1,068 |
| Starting Well | 78 | 209 | 0 | 0 | 287 |
| **Net Cost of Services** | **9,895** | **4,003** | **0** | **0** | **13,898** |
| Other Income and Expenditure from the Expenditure and Funding Analysis | 0 | 0 | 0 | 0 | **0** |
| **Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services** | **9,895** | **4,003** | **0** | **0** | **13,898** |

## B3. Expenditure and Income Analysed by Nature

Revenue from contracts with Service Recipients

The policy on fees and charges is that all services should be charged where it is appropriate to do so unless there are conflicting policies for legal reasons not to do so. The charge should (subject to market conditions) aim to maximise income from fees and charges by ensuring that the full cost of provision and enforcement is recovered, unless there are contrary policies, legal or contractual reasons.

Where the Council continues to subsidise the cost of services provided to customers, the level of subsidy should be clearly understood by the service. Charges must be linked to both service and strategic objectives and be clearly understood.

The direct implications of charging for residents, and the indirect implications for public, private and voluntary sector partners should be clearly understood. Any concessionary scheme should be based on ability to pay and be applied in a consistent and transparent approach across all Council services. Where appropriate, annual inflationary uplifts will be applied by the Council and approved through the budget setting process.

# NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| Expenditure: | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Employee Benefits Expenses | 18,467 | 13,623 |
| Other Expenditure | 58,554 | 59,230 |
| Depreciation, Amortisation, Impairment | 9,895 | 9,459 |
| Interest Payments | 6,649 | 6,426 |
| Precepts and Levies | 1,356 | 18 |

| Income: | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Fees, Charges and other service Income | (36,966) | (41,516) |
| Interest and Investment Income | (7,184) | (2,787) |
| Income for Council tax, non-domestic rates, district rate income | (20,649) | (14,660) |
| Government grants and Contributions | (23,516) | (26,153) |
| Gain on Disposal of Assets | (308) | 0 |
| Internal Recharges | (4,850) | 0 |
| **(Surplus) or Deficit on the Provision of Services** | **1,449** | **3,640** |

## B4. Other Operating Income and Expenditure

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Parish council precepts | 40 | 18 |
| (Gains)/losses on the disposal of non-current assets | (308) | 0 |
| Other | 0 | (515) |
| **Total** | **(268)** | **(497)** |

## B5. Financing and Investment Income and Expenditure

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Interest payable and similar charges | 6,641 | 9,283 |
| Interest receivable and similar income | (7,184) | (4,607) |
| **Total** | **(543)** | **4,676** |

## B6. Taxation and Non-Specific Grant Income and Expenditure

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| **Income** | | |
| Council Tax Income | (6,929) | (6,724) |
| Non Domestic Rates Income and Expenditure | (1,345) | 3,406 |
| Non-ring-fenced government grants | (3,644) | (17,170) |
| Capital Grants and Contributions | 0 | (1,328) |
| **Total** | **(11,918)** | **(21,816)** |

# NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

## B7. Members Allowances

| | 2023/24<br>£000 | 2022/23<br>£000 |
|---|---|---|
| Basic Allowances | 136 | 135 |
| Special Allowances | 99 | 98 |
| Expenses Inc. Car Allowances | 5 | 1 |
| **Total** | **240** | **234** |

## B8. External Audit Costs

The Council has incurred the following costs relating to the annual audit of the statement of accounts, certification of grant claims and other services provided by the Council's external auditors.

| | 2023/24<br>£000 | 2022/23<br>£000 |
|---|---|---|
| Fee Variations agreed for External Audit | 31 | 55 |
| Housing Benefit Audit (relates to previous years) | 0 | 1 |
| Housing Benefit Audit | 36 | 33 |
| Fees payable with regard to external audit services carried out by the appointed auditor for the year | 171 | 54 |
| **Total** | **238** | **143** |

## B9. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2023/24.

| **Credited to Taxation and Non-Specific Grant Income** | 2023/24<br>£000 | 2022/23<br>£000 |
|---|---|---|
| Revenue Support Grant | 0 | 446 |
| New Homes Bonus | (335) | (330) |
| Section 31 | (627) | 10,587 |
| Capital Grants | 0 | (1,751) |
| Non ring-fenced Grant | (4,625) | (1,541) |
| **Total** | **(5,587)** | **7,411** |

| **Credited to Services** | 2023/24<br>£000 | 2022/23<br>£000 |
|---|---|---|
| MHCLG Local Council Tax Support Admin Subsidy | 0 | (97) |
| MHCLG New Burdens | 0 | (113) |
| MHCLG NNDR Cost of Collection | (105) | (40) |
| MHCLG Homelessness Grants | 0 | 373 |
| DWP Admin Grant | (376) | (231) |
| DWP Discretionary Housing | (77) | (402) |
| DWP Housing Benefit Subsidy | (13,535) | (13,408) |
| **Total** | **(14,093)** | **(13,918)** |

## B10. Officer Remuneration

Since 2010/11, the Management Team has been shared between Redditch Borough Council and Bromsgrove District Council, with each Authority being charged 50% of the cost of each post.

| | | Salary, Fees and Allowances £ | Pension Contribution £ | Total £ | 50% share to Redditch £ | Revised Total |
|---|---|---|---|---|---|---|
| Officers Remuneration Redditch Borough Council (50% recharged to Bromsgrove District Council): | | | | | | |
| Chief Executive - Kevin Dicks to 01/10/2023 | 2022/23 | 162,497 | 25,463 | 187,960 | 93,980 | **93,980** |
| | 2023/24 | 83,720 | 13,991 | 97,711 | 48,856 | **48,856** |
| Executive Director of Finance & Resources up to 6th July 2022 | 2022/23 | 31,488 | 4,942 | 36,430 | 18,215 | **18,215** |
| | 2023/24 | 0 | 0 | 0 | 0 | **0** |
| Director of Finance & Resources from 7th July 2022 and Deputy Chief Exec from 1st October 2023 | 2022/23 | 116,958 | 0 | 116,958 | 58,479 | **58,479** |
| | 2023/24 | 162,685 | 0 | 162,685 | 81,343 | **81,343** |
| Head Of Legal & Democratic Services | 2022/23 | 99,785 | 15,716 | 115,501 | 57,751 | **57,751** |
| | 2023/24 | 102,738 | 17,271 | 120,009 | 60,005 | **60,005** |
| Total | 2022/23 | 410,728 | 46,121 | 456,849 | 228,425 | **228,425** |
| | 2023/24 | 349,143 | 31,262 | 380,405 | 190,203 | **190,203** |
| Officers Remuneration Redditch Borough Council (50% recharged to Bromsgrove District Council): | | | | | | |
| | | **Salary, Fees and Allowances £** | **Pension Contribution £** | **Total £** | **50% share to Bromsgrove £** | **Total** |
| Deputy Chief Executive and Executive Director of Leisure, Environmental & Community to 30/08/2023 and acting Chief Executive from 01/09/2023 | 2022/23 | 130,171 | 21,357 | 151,529 | 75,764 | **75,764** |
| | 2023/24 | 122,756 | 21,323 | 144,079 | 72,040 | **72,040** |
| Executive Director of Leisure Environmental & Community from 01/09/2023 | 2022/23 | 0 | 0 | 0 | 0 | **0** |
| | 2023/24 | 66,380 | 11,559 | 77,939 | 38,969 | **38,969** |
| Total | 2022/23 | 130,171 | 21,357 | 151,529 | 75,764 | **75,764** |
| | 2023/24 | 189,136 | 32,882 | 222,018 | 111,009 | **111,009** |

# NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### Senior Employees Remuneration

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

| | 2023/24 | 2022/23 |
|---|---|---|
| £50,001 to £55,000 | 4 | 2 |
| £55,001 to £60,000 | 6 | 5 |
| £60,001 to £65,000 | 10 | 10 |
| £65,001 to £70,000 | 2 | 0 |
| £70,001 to£ 75,000 | 0 | 0 |
| £75,001 to £80,000 | 1 | 0 |
| £80,001 to £85,000 | 0 | 0 |
| £85,001 to £90,000 | 2 | 5 |
| £90,001 to £95,000 | 2 | 0 |
| £95,001 to £100,000 | 1 | 1 |
| £100,001 to £105,000 | 1 | 0 |
| £105,001 to £110,000 | 1 | 1 |
| £110,001 to £115,000 | 0 | 0 |
| £115,001 to £120,000 | 0 | 0 |
| £120,001 to £125,000 | 0 | 0 |
| £125,001 to £130,000 | 0 | 0 |
| £130,001 to £135,000 | 0 | 0 |
| £135,001 to £140,000 | 0 | 1 |
| Total | 30 | 25 |

## B11. Termination Benefits

The Council had a number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the following table:

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| | 2022/23 | 2023/24 | 2022/23 | 2023/24 | 2022/23 | 2023/24 | 2022/23 | 2023/24 |
| £0-£20,000 | 0 | 0 | 2 | 3 | 2 | 3 | 33,708 | 17,576 |
| £20,001 - £40,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £40,001 - £60,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £60,001 - £80,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | **Total cost included in bandings** | | | **33,708** | **17,576** |
| | | | | **Cost to Redditch Borough Council** | | | **33,708** | **17,576** |
| | | | | Exit Packages undertaken by Redditch Borough Council with a shared cost to Bromsgrove District Council | | | **0** | **0** |
| | | | | Total cost included in the CIES | | | **33,708** | **17,576** |

# NOTES TO THE MOVEMENT IN RESERVES STATEMENT

## C1. Adjustments between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an Authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact upon the General Fund Balance, which is not necessarily in according with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. For housing authorities, however, the balance is not available to be applied to funding HRA services.

Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for Local Authority Council housing provision in accordance with Part IV of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| **Balance Sheet as at 31 March 2024** | **General Fund Balance** £000 | **Housing Revenue Account** £000 | **Capital Receipts Reserve** £000 | **Major Repairs Reserve** £000 | **Capital Grants Unapplied** £000 | **Movement in Unusable Reserves** £000 |
| **Adjustments to the Revenue Resources** | | | | | | |
| **Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.** | | | | | | |
| Pension cost (transferred to (or from) the Pensions Reserve) | 2,349 | 0 | 0 | 0 | 0 | (2,349) |
| Council tax and NDR (transfers to or from the Collection Fund) | (2,381) | 0 | 0 | 0 | 0 | 2,381 |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 4,950 | 0 | 0 | 0 | 0 | (4,950) |
| **Total Adjustments to Revenue Resources** | **4,918** | **0** | **0** | **0** | **0** | **(4,918)** |
| **Adjustments between Revenue and Capital Resources** | | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (191) | 0 | 191 | 0 | 0 | 0 |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | (6,277) | (2,387) | 0 | 0 | 0 | 5,766 |
| **Total Adjustments to Revenue Resources** | **(6,468)** | **(2,387)** | **191** | **0** | **0** | **5,766** |
| **Adjustments to Capital Resources** | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | 0 | 0 | (14) | 0 | 0 | 14 |
| Use of the Major Repairs Reserve to finance new capital expenditure | 0 | 0 | 0 | (2,767) | 0 | 2,767 |
| Application of capital grants to finance capital expenditure | 0 | 0 | 0 | 0 | (3,154) | 3,154 |
| **Total Adjustments to Capital Resources** | **0** | **0** | **(14)** | **(2,767)** | **(3,154)** | **5,935** |
| | | | | | | |
| **Total Adjustments** | **(1,550)** | **(2,387)** | **177** | **(2,767)** | **(3,154)** | **6,783** |

# NOTES TO THE MOVEMENT IN RESERVES STATEMENT

## C2. Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2022/23 and 2023/24.

| | Balance 01-Apr-22 £000 | Transfers In 2022/23 £000 | Transfers Out 2022/23 £000 | Balance 31-Mar-23 £000 | Transfers In 2023/24 £000 | Transfers Out 2023/24 £000 | Balance 31-Mar-24 £000 |
|---|---|---|---|---|---|---|---|
| **General Fund:** | | | | | | | |
| Business Rates Retention Scheme | 4,560 | 0 | 0 | 4,560 | 0 | 0 | **4,560** |
| Community Development | 74 | 0 | 0 | 74 | 0 | 0 | **74** |
| Community Safety | 860 | 0 | (649) | 211 | 0 | 0 | **211** |
| Corporate Services | 4,652 | 0 | 0 | 4,652 | 0 | (2,058) | **2,594** |
| Customer Services | 93 | 90 | 0 | 183 | 0 | 0 | **183** |
| Economic Growth | 538 | 180 | 0 | 718 | 0 | 0 | **718** |
| Electoral Services | 49 | 14 | 0 | 63 | 0 | 0 | **63** |
| Environmental Vehicles | 29 | 0 | 0 | 29 | 0 | 0 | **29** |
| Equipment replacement | 25 | 0 | 0 | 25 | 0 | 0 | **25** |
| Financial Services | 149 | 0 | 0 | 149 | 0 | 0 | **149** |
| General Risk reserve | 45 | 0 | 0 | 45 | 0 | 0 | **45** |
| Housing Benefit Implementation | 270 | 0 | 0 | 270 | 0 | 0 | **270** |
| Housing Support | 1,535 | 0 | 0 | 1,535 | 0 | 0 | **1,535** |
| Land Charges | 9 | 0 | 0 | 9 | 0 | 0 | **9** |
| Land Drainage | 129 | 0 | 0 | 129 | 0 | 0 | **129** |
| Parks & Open spaces | 8 | 0 | 0 | 8 | 0 | 0 | **8** |
| Planning Services | 512 | 180 | 0 | 692 | 0 | 0 | **692** |
| Sports Development | 77 | 0 | (95) | (18) | 0 | 0 | **(18)** |
| Town Centre | 7 | 0 | 0 | 7 | 0 | 0 | **7** |
| Warmer Homes | 16 | 0 | 0 | 16 | 0 | 0 | **16** |
| Transformational Growth | 123 | 0 | 0 | 123 | 0 | 0 | **123** |
| Pensions | 201 | 0 | 0 | 201 | 0 | 0 | **201** |
| Regeneration Income | 273 | 329 | 0 | 602 | 0 | 0 | **602** |
| Restart Grants | 0 | 2,900 | 0 | 2,900 | 0 | 0 | **2,900** |
| Covid-19 (General) | 580 | 0 | 0 | 580 | 1,426 | 0 | **2,006** |
| Covid-19 (Collection Fund) | 2,955 | 0 | (2,900) | 55 | 0 | 0 | **55** |
| **TOTALS** | **17,769** | **3,693** | **(3,644)** | **17,818** | **1,426** | **(2,058)** | **17,186** |
| **HRA** | | | | | | | |
| Housing Capital | **12,555** | 0 | (784) | **11,771** | 0 | (870) | **10,901** |
| **Total HRA** | **12,555** | **0** | **(786)** | **11,771** | **0** | **(870)** | **10,901** |
| **Total Earmarked Reserves** | **30,324** | **613** | **(1,529)** | **29,589** | **1,426** | **(2,928)** | **28,087** |

## C3. Usable Reserves

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| Capital Receipts Reserve | 14,215 | 14,038 |
| Capital Grants Unapplied | 0 | 3,154 |
| Major Repairs Reserve | 10,474 | 13,241 |
| HRA Balances | 1,085 | 1,976 |
| HRA Earmarked Reserves | 10,901 | 11,771 |
| General Fund Balances | 7,221 | 8,924 |
| Earmarked Reserves | 17,186 | 17,818 |
| **Total Usable Reserves** | **61,082** | **70,922** |

# NOTES TO THE MOVEMENT IN RESERVES STATEMENT

## Capital Receipts Reserve

These are receipts from the sale of Council assets (all relating to the Housing Revenue Account), which have not yet been used to finance capital expenditure.

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| **Balance 1 April** | **14,038** | **12,150** |
| Capital Receipts in year | 177 | 3,124 |
| **Sub-Total** | **14,215** | **15,274** |
| **Less:** | | |
| Capital Receipts used for financing | 0 | (1,236) |
| **Balance 31 March** | **14,215** | **14,038** |

Since 1 April 2016, Local Authorities have had more flexibility in the use of capital receipts. There is greater scope to use the capital receipts to fund upfront costs that will generate ongoing savings and/or transform service delivery. All of the balance is available to be used either for financing capital investments or funding projects qualifying for the flexible use.

## Capital Grants Unapplied

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| **Balance on 1 April** | **3,154** | **2,779** |
| Unapplied Capital Grants received in year | 0 | 375 |
| Unapplied Capital Grants transferred to CAA in year on application | (3,154) | 0 |
| **Balance 31 March** | **0** | **3,154** |

## Major Repairs Reserve

The major repairs reserve receives the depreciation relating to housing revenue account assets which totalled £6.417m in year. The reserve was used to finance £xm of the Housing Investment Programme, decreasing the balance held in reserves from £13.241m to £10.215m.

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| **Balance at 1 April** | **13,241** | **13,394** |
| Depreciation | 6,417 | 5,847 |
| Capital expenditure on HRA Land, Houses and Other Property | (9,184) | (6,000) |
| **Balance 31 March** | **10,474** | **13,241** |

## C4. Unusable Reserves

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| Revaluation Reserve | (106,232) | (92,486) |
| Capital Adjustment Account | (146,168) | (144,794) |
| Pensions Reserve | 3,703 | 8,617 |
| Collection Fund Adjustment Account | 2,142 | 4,575 |
| Accumulated Absences Account | 128 | 256 |
| **Total Unusable Reserves** | **(246,427)** | **(223,832)** |

# NOTES TO THE MOVEMENT IN RESERVES STATEMENT

## Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases of its Property, Plant and Equipment.

The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains before that date are consolidated into the balance on the Capital Adjustment Account.

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| **Balance at 1 April** | **(92,486)** | **(67,232)** |
| Upward revaluation of assets | (13,746) | (25,254) |
| **Balance at 31 March** | **(106,232)** | **(92,486)** |

## Capital Adjustment Reserve

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| **Balance at 1 April** | **(144,794)** | **(148,230)** |
| **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:** | | |
| Charges for depreciation and impairment of non current assets | 9,895 | 9,495 |
| Amortisation of Intangible Assets | 53 | 0 |
| Revenue expenditure funded from capital under statute | 0 | 852 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (2,008) | 2,422 |
| | **7,940** | **12,769** |
| Adjusting amounts written out of the Revaluation Reserve | 0 | 1,083 |
| **Net written out amount of the cost of non current assets consumed in the year** | **7,940** | **13,852** |
| **Capital financing applied in the year:** | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | (14) | (1,520) |
| Use of the Major Repairs Reserve to finance new capital expenditure | (2,767) | (6,501) |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (3,154) | (1,543) |
| Capital expenditure charged against the General Fund | (3,379) | (852) |
| | **(9,314)** | **(10,416)** |
| Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | 0 | 0 |
| **Balance at 31 March** | **(146,168)** | **(144,794)** |

# NOTES TO THE MOVEMENT IN RESERVES STATEMENT

## Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employers contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| **Balance at 1 April** | **8,617** | **78,488** |
| Remeasurements of the net defined benefit liability/(asset) | 0 | 3,304 |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (4,914) | (69,871) |
| Employers pensions contributions and direct payments to pensioners payable in the year | 0 | (3,304) |
| **Balance at 31 March** | **3,703** | **8,617** |

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council tax and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| **Balance at 1 April** | **4,575** | **775** |
| Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (2,433) | 3,800 |
| **Balance at 31 March** | **2,142** | **4,575** |

## Accumulated Absences Account

The Accumulated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlements carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| | 31st March 2024 £000 | 31st March 2023 £000 |
|---|---|---|
| **Balance at 1 April** | **256** | **128** |
| Settlement or cancellation of accrual made at the end of the preceding year | (128) | (128) |
| Amounts accrued at the end of the current year | 0 | 256 |
| **Balance at 31 March** | **128** | **256** |

# NOTES TO THE BALANCE SHEET

## D1. Property, Plant and Equipment
### Current Year

| | Council Dwellings £000 | Operational Land £000 | Operational Building £000 | Vehicles, Plant and Equipment £000 | Infrastructure £000 | Community assets £000 | Assets under construction £000 | Surplus Asset £000 | **Total PP&E** £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **Balance as at 1 April 2023** | **320,783** | **10,251** | **45,275** | **13,929** | **5,154** | **1,625** | **11,425** | **1,775** | **410,217** |
| Adjustments re prior years | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Adjusted opening balance** | **320,783** | **10,251** | **45,275** | **13,929** | **5,154** | **1,625** | **11,425** | **1,775** | **410,217** |
| Additions | 0 | 0 | 2,568 | 95 | 519 | 2 | 23,724 | 105 | **27,013** |
| Revaluation increases/decreases to Revaluation Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Derecognition - Disposals | (9,644) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **(9,644)** |
| Other movements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Balance as at 31 March 2024** | **311,139** | **10,251** | **47,843** | **14,024** | **5,673** | **1,627** | **35,149** | **1,880** | **427,586** |
| **Depreciation and Impairment** | | | | | | | | | |
| **Balance as at 1 April 2023** | **(5,725)** | **0** | **(9,214)** | **(11,828)** | **(1,445)** | **0** | **0** | **0** | **(28,212)** |
| Adjustments re prior years | 0 | 0 | 0 | 1,781 | 0 | 0 | 0 | 0 | **1,781** |
| **Adjusted opening balance** | **(5,725)** | **0** | **(9,214)** | **(10,047)** | **(1,445)** | **0** | **0** | **0** | **(26,431)** |
| Depreciation Charge | (2,517) | 0 | (383) | (1,006) | (148) | 40 | 0 | 0 | **(4,014)** |
| Depreciation written out on Revaluation Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Derecognition - Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Balance as at 31 March 2024** | **(8,242)** | **0** | **(9,597)** | **(11,053)** | **(1,593)** | **40** | **0** | **0** | **(30,445)** |
| **Net Book Value** | | | | | | | | | |
| **Balance as at 31 March 2024** | **302,897** | **10,251** | **38,246** | **2,971** | **4,080** | **1,667** | **35,149** | **1,880** | **397,140** |
| **Balance as at 31 March 2023** | **315,058** | **10,251** | **36,061** | **2,101** | **3,709** | **1,625** | **11,425** | **1,775** | **382,004** |

# NOTES TO THE BALANCE SHEET

## D1. Property, Plant and Equipment

### Comparative Year

| | Council Dwellings £000 | Operational Land £000 | Operational Building £000 | Vehicles, Plant and Equipment £000 | Infrastructure £000 | Community assets £000 | Assets under construction £000 | Surplus Asset £000 | **Total PP&E £000** |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **Balance as at 1 April 2022** | **323,205** | **10,251** | **33,538** | **13,881** | **5,076** | **1,378** | **3,588** | **1,775** | **392,692** |
| Additions | 0 | 0 | 11,737 | 48 | 78 | 247 | 7,837 | 0 | **19,947** |
| Revaluation increases/decreases to Revaluation Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Revaluation increases/decreases to Surplus or Deficit on the Provision of Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Derecognition - Disposals | -2,422 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **-2,422** |
| Reclassifications & Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Other movements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Balance as at 31 March 2023** | **320,783** | **10,251** | **45,275** | **13,929** | **5,154** | **1,625** | **11,425** | **1,775** | **410,217** |
| **Depreciation and Impairment** | | | | | | | | | |
| **Balance as at 1 April 2022** | **-5,603** | **0** | **-3,469** | **-11,068** | **-1,306** | **0** | **0** | **0** | **-21,446** |
| Depreciation Charge | -122 | 0 | -2,353 | -760 | -139 | 0 | 0 | 0 | **-3,374** |
| Depreciation written out on Revaluation Reserve | 0 | 0 | -1,138 | 0 | 0 | 0 | 0 | 0 | **-1,138** |
| Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Impairment losses/reversals to Surplus or Deficit on the Provision of Services | 0 | 0 | -2,254 | 0 | 0 | 0 | 0 | 0 | **-2,254** |
| **Balance as at 31 March 2023** | **-5,725** | **0** | **-9,214** | **-11,828** | **-1,445** | **0** | **0** | **0** | **-28,212** |
| **Net Book Value** | | | | | | | | | |
| **Balance as at 31 March 2023** | **315,058** | **10,251** | **36,061** | **2,101** | **3,709** | **1,625** | **11,425** | **1,775** | **382,004** |
| **Balance as at 31 March 2022** | **317,602** | **10,251** | **30,069** | **2,813** | **3,770** | **1,378** | **3,588** | **1,775** | **371,297** |

Page 70

Agenda Item 7

### Depreciation

All assets have been depreciated using a reducing balance method. For the housing revenue account, the depreciation calculation is based on the replacement cost and useful life of major components – bathroom, kitchen, roof, rewire, central heading boiler, central heating system, windows and the structure.

The Council's valuers and surveyors have determined the useful economic life of the assets. Buildings have a useful life of between 15 to 100 years. Vehicles, plant and equipment and software licences have a useful life of between 5 to 10 years.

### Valuation of Property, Plant and Equipment

The basis for valuation of individual classes of asset owned by the Council is explained in the Accounting Policies. The net book value as at 31 March represents the value of the assets belonging to the Council. The Council conducts a rolling programme that ensures that all Property, Plant and Equipment is measured at current value at least every five years. Bruton Knowles have been instructed to act as the Council's valuers for 2023/24.

Valuations of land and buildings are conducted in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The Council manages the Collection Fund and accounts for business rates on behalf of itself, Worcestershire County Council, Hereford and Worcester Fire and Refuse Authority and Central Government. The Council share of business rate assets and liabilities in 2023/24 was 40% in accordance with the Worcestershire Business Rate Pilot Pool that operated for that year. This was in line with 2022/23.

### Transfers between levels of the Fair Value Hierarchy

There were no transfers between Levels 1 and 2 during the year.

### Valuation Techniques used to determine Level 2 and 3 Fair Values for Surplus Assets Significant observable inputs (Level 2)

The fair value for the assets has been based on the market value approach using current market conditions and recent sales prices and other relevant information for similar assets in the Local Authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable le inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

### Highest and best use of surplus assets

In estimating the fair value of the Authority's surplus assets, the highest and best use of the assets is their current use.

### Valuation Techniques

There has been no change in the valuation techniques used during the year for surplus assets.

### Valuation Process for Surplus Assets

The fair value of the Authority's surplus assets is measured at £1.775m. Valuations have been conducted by Bruton Knowles, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

# NOTES TO THE BALANCE SHEET

## D2. INVESTMENT PROPERTIES

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| **Balance at start of the year** | **899** | **897** |
| Additions: | | |
| - Purchases | 0 | 2 |
| Disposals | 0 | 0 |
| Transfers: | | |
| - to/from Property, Plant and Equipment | 0 | 0 |
| Other changes | 0 | 0 |
| **Balance at end of the year** | **899** | **899** |

## D3. INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.053m (£0.342m in 2022/23) charged to revenue in the current year was charged to revenue cost centres who use the software which was mainly Revenues and Benefits, Cashiers and the IT service.

All software is assigned a useful life of seven years.

The movement in intangible assets for the year is as follows:

| | £000 |
|---|---|
| **Cost or Valuation** | |
| **Balance as at 1 April 2023** | **3,100** |
| Additions | 250 |
| Derecognition - Disposals | 0 |
| Other movements | 0 |
| **Balance as at 31 March 2024** | **3,350** |
| **Depreciation and Impairment** | |
| **Balance as at 1 April 2023** | **(2,054)** |
| Depreciation Charge | (53) |
| Depreciation written out on Revaluation Reserve | 0 |
| **Balance as at 31 March 2024** | **(2,107)** |
| **Net Book Value** | |
| **Balance as at 31 March 2024** | **1,243** |
| **Balance as at 31 March 2023** | **1,046** |

## D4. Debtors

| | Long term debtors | | Short term debtors | |
|---|---|---|---|---|
| | 2023/24 £000 | 2022/23 £000 | 2023/24 £000 | 2022/23 £000 |
| Central Government Bodies | 0 | 0 | 9,810 | 9,103 |
| Other entities and individuals | 906 | 906 | 4,827 | 0 |
| Housing Rents | 0 | 0 | 11,026 | 7,530 |
| Less bad debt provision | 0 | 0 | (2,345) | (3,368) |
| **Total** | **906** | **906** | **23,318** | **13,265** |

# NOTES TO THE BALANCE SHEET

## D5. Creditors

| | Short term creditors | |
|---|---|---|
| | 2023/24 | 2022/23 |
| | £000 | £000 |
| Central Government bodies | (87) | 1,081 |
| Other local authorities | (242) | 4,136 |
| Housing Rents Prepaid | (73) | (13,870) |
| Other Entities and Individuals | (8,153) | (30,351) |
| **Total** | **(8,555)** | **(39,004)** |

## D6. Provisions

### 2023/24

| | Balance as at 1 April 2023 £000 | Change in provision during year £000 | Utilised during year £000 | Balance as at 31 March 2024 £000 |
|---|---|---|---|---|
| Insurance | (472) | 0 | 1 | (471) |
| NNDR Appeals | (1,198) | (2,865) | 3,420 | (643) |
| Employee Benefit | (128) | 0 | 0 | (128) |
| **Total** | **(1,798)** | **(2,865)** | **3,421** | **(1,242)** |

### 2022/23

| | Balance as at 1 April 2022 £000 | Change in provision during year £000 | Utilised during year £000 | Balance as at 31 March 2023 £000 |
|---|---|---|---|---|
| Insurance | (384) | (88) | 0 | (472) |
| NNDR Appeals | (475) | (723) | 0 | (1,198) |
| Employee Benefit | (128) | 0 | 0 | (128) |
| **Total** | **(987)** | **(811)** | **0** | **(1,798)** |

Business Rates Appeals Provision

Within the Collection Fund, the Council has set aside provision for any potential liabilities because of business rates appeals against rateable value. A provision has been made for all outstanding appeals relating to the rate revaluation undertaken in 2010 and 2017 and set aside a provision for General Practitioner and Automated Teller Machines (ATMs) where there was a legal challenge in place against unsuccessful rating appeals. The challenge was upheld in May 2020 and payments have been made during the financial year.

There is no allocation of the business rates appeals to the Council because of the arrangements in place whereby Worcestershire County Council have taken the lead of a Pilot Business Rates Pool covering all of Worcestershire, securing 75% of the business rate resources to the area. The Council has continued to receive a share of the business rate resources in the General Fund based on a no detriment basis.

Insurance Provision

The Council also holds a provision for potential insurance claims. This is currently £0.471m. The Council self-insures up to the value of £0.028m per claim and this provision is calculated with regard to the level of outstanding claims.

## D7. Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increased in the Capital Financing Requirement (CFR) which is a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The movement in the CFR is analysed in the second part of this note.

| Capital Expenditure and Capital Financing | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Opening Capital Financing Requirement | **149,086** | **148,006** |
| ***Capital Investment*** | | |
| Property, Plant and Equipment | 23,724 | 10,033 |
| Intangible Assets | 250 | 664 |
| Revenue Expenditure Funded from Capital under Statute | 0 | 0 |
| **Total** | **23,974** | **10,697** |
| ***Sources of finance*** | | |
| Capital receipts | (177) | (1,236) |
| Government grants and other contributions | (9,846) | (1,596) |
| Major Repairs Allowance | (9,443) | (6,000) |
| ***Sums set aside from revenue:*** | | |
| Direct revenue contributions: | | |
| General Fund | 0 | 0 |
| HRA | (870) | (785) |
| Minimum Revenue Provision (MRP) | 0 | 0 |
| | **(20,336)** | **(9,617)** |
| Closing Capital Finance Requirement | **152,724** | **149,086** |
| | | |
| ***Explanation of movements in year*** | | |
| Increase in underlying need to borrowing (unsupported by government financial assistance) | 3,638 | 1,080 |
| ***Increase/(decrease) in Capital Financing Requirement*** | **3,638** | **1,080** |

### D8. Assets Held for Sale

There were no assets held for sale as at 31 March 2024. To be an asset held for sale, it requires the Council to be committed to plan to sell the asset which is available for immediate sale, being actively marketed and a sale is highly probable within twelve months.

### D9. Inventories

Details of the Authority's surplus assets and information about the fair value hierarchy as at 31 March 2024 and 2023 are as follows:

| | Consumable Stores | |
|---|---|---|
| | 2023/24 | 2022/23 |
| | £000 | £000 |
| | | |
| **Balance outstanding at start of year** | 2,374 | 731 |
| Purchases | 1,126 | 1,694 |
| Recognised as an expense in year | (1,925) | (51) |
| **Balance outstanding at year end** | **1,575** | **2,374** |

## E1. Defined Benefit Pension Scheme

### Retirement Benefits

Discretionary post-retirement Benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no planned assets built up to meet these pension liabilities.

### Transactions relating to post-employment Benefits.

The Authority recognises the cost of retirement benefits in the reported cost of service when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against Council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year.

| | Local Government Pension Scheme | | Discretionary Benefits | |
|---|---|---|---|---|
| | 2023/24 £000 | 2022/23 £000 | 2023/24 £000 | 2022/23 £000 |
| **Comprehensive Income and Expenditure Statement**<br>*Cost of services:*<br>*Service cost comprising:* | | | | |
| Current service cost | 1,939 | 4,025 | 0 | 0 |
| Past service cost | 12 | 0 | 0 | 0 |
| (Gain)/loss from settlements | 0 | 0 | 0 | 0 |
| **Financing and Investment Income and Expenditure:** | | | | |
| Net Interest expense | 398 | 1,919 | 0 | 0 |
| **Total post-employment benefits charged to the Surplus of Deficit on the Provision of Services** | **2,349** | **5,944** | **0** | **0** |

| **Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement** | | | | |
|---|---|---|---|---|
| Remeasurement of the net defined benefit liability comprising: | | | | |
| Return on plan assets (excluding the amount included in the net interest expense) | (9,387) | (3,807) | 0 | 0 |
| Actuarial gains and losses arising on changes in demographic assumptions | (2,265) | (3,085) | 0 | 0 |
| Actuarial gains and losses arising on changes in financial assumptions | 48 | (73,532) | 0 | 0 |
| Actuarial gains and losses arising on changes in Experience | 1,697 | 16,403 | 0 | 0 |
| Other | (265) | 39 | 269 | 0 |
| **Total post employment benefits charged to the Comprehensive Income and Expenditure Statement** | **(7,823)** | **(58,038)** | **269** | **0** |

| Movement in Reserves Statement | | | | |
|---|---|---|---|---|
| Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code | (2,349) | (5,944) | 0 | 0 |
| **Actual amount charged against the general fund balance for pensions in the year:** | | | | |
| Employers' contributions payable to scheme | 2,682 | 3,786 | 0 | 0 |
| Retirement benefits payable to pensioners | 0 | 0 | 269 | 0 |

### Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

| | Local Government Pension Scheme | | Discretionary Benefits | |
|---|---|---|---|---|
| | 2023/24 £000 | 2022/23 £000 | 2023/24 £000 | 2022/23 £000 |
| Present value of the defined obligation | (138,209) | (137,222) | 0 | (3,351) |
| Fair value of plan assets | 136,727 | 126,996 | 0 | 0 |
| **Net liability arising from the defined benefit obligation** | **(1,482)** | **(10,226)** | **0** | **(3,351)** |

The present value of the defined obligations includes as an estimated cost following the decision of the Sargeant/McCloud cases (generally referred to as McCloud), which rules that the transitional protections offered to older members of the Public Service Pension Schemes were amended, constituted unlawful age discrimination. The Government has accepted that remedies relating to the McCloud judgement will need to be made in relation to all public service pension schemes including the Local Government Pension Scheme. However, whilst it is highly unlikely that the exact form of the remedy will be known in the immediate future, and therefore any cost at this stage can only be an estimate.

| Net Liability and Pension Strain | Local Government Pension Scheme | |
|---|---|---|
| | 2023/24 £000 | 2022/23 £000 |
| Local Government Pension Scheme | (1,482) | (10,226) |
| Discretionary Benefits | 0 | (3,294) |
| Pension Strain Liability | | 0 |
| **Sub-total** | **(1,482)** | **(13,520)** |
| Advance Payment of Pension Contributions | 4,185 | 0 |
| **Net liability arising from the defined benefit obligation** | **2,703** | **(13,520)** |

# Agenda Item 7

## ADDITIONAL DISCLOSURES – TECHNICAL NOTES

### Reconciliation of the present value of the scheme liabilities

| | | Local Government Pension Scheme | | Discretionary Benefits | |
|---|---|---|---|---|---|
| | | 2023/24 £000 | 2022/23 £000 | 2023/24 £000 | 2022/23 £000 |
| **Opening balance at 1 April** | | (135,612) | (192,948) | 0 | (3,294) |
| Current service cost | | (1,939) | (4,025) | 0 | 0 |
| Interest cost | | (6,281) | (5,290) | 0 | (74) |
| Contributions from scheme participants | | (689) | (631) | 0 | 0 |
| Remeasurement (gains) and losses: | | | | | |
| | Experience (gains/losses) | (1,697) | (16,403) | 0 | 75 |
| | Financial Assumptions (gains/losses) | (48) | 73,532 | 0 | (327) |
| | Demographic Assumptions (gains/losses) | 2,265 | 3,085 | 0 | 0 |
| Past service cost | | (12) | 0 | 0 | 0 |
| Benefits/transfers paid | | 5,804 | 5,458 | 0 | 269 |
| **Balance as at 31 March** | | **(138,209)** | **(137,222)** | **0** | **(3,351)** |

### Local government pension scheme assets comprised:

All scheme assets have quoted prices in active markets.

| | Fair value of scheme assets | |
|---|---|---|
| | 31st March 2024 | 31st March 2023 |
| | | |
| **Cash and cash equivalents** | 2,328 | 0 |
| **Equities:** | | |
| UK quoted | 80,901 | 131 |
| Overseas quoted | 0 | 28,378 |
| PIV - UK managed | 0 | 15,971 |
| PIV - UK managed (overseas) | 0 | 48,239 |
| PIV - Overseas managed | 0 | 964 |
| Securities | 14,428 | 0 |
| Private | 62 | 0 |
| **Sub-total equity** | **95,392** | **93,683** |
| | | |
| **Bonds:** | | |
| UK Corporate | 2,700 | 0 |
| Overseas Corporate | 0 | 1,704 |
| UK Government Fixed | 0 | 1,958 |
| **Sub-total bonds** | **2,700** | **3,662** |
| | | |
| **Property:** | | |
| UK Property Debt | 0 | 841 |
| Overseas Property Debt | 3,605 | 561 |
| UK Property Funds | 7,321 | 5,329 |
| **Sub-total property** | **10,926** | **6,731** |
| | | |
| **Alternatives** | | |
| UK Infrastructure | 23,889 | 5,696 |
| European Infrastructure | 1,493 | 3,797 |
| US Infrastructure | 0 | 3,164 |
| UK Stock Options | 0 | 506 |

| | | |
|---|---|---|
| Overseas Stock Options | 0 | (253) |
| Corporate Private Debt | 0 | 1,899 |
| **Sub-total alternative funds** | **25,382** | **14,809** |

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Hymans Limited, an independent firm of actuaries, estimates for the County Council Pension Fund being based on the latest full valuation of the scheme as at 1 April 2023.

The significant assumptions used by the actuary are set out below:

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Mercer Limited, an independent firm of actuaries, estimates for the County Council Pension Fund being based on the latest full valuation of the scheme as at 1 April 2016.

The significant assumptions used by the actuary are set out below:

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|---|---|---|---|---|
| | 2023/24 | 2022/23 | 2023/24 | 2022/23 |
| **Mortality assumptions:** | | | | |
| *Longevity at 65 current pensioners:* | | | | |
| Men | 21.3 | 22.7 | 21.3 | 22.7 |
| Women | 23.6 | 25.1 | 23.6 | 25.1 |
| | | | | |
| *Longevity at 65 for future pensioners:* | | | | |
| Men | 22.6 | 24.4 | 22.6 | 24.4 |
| Women | 25.5 | 27.1 | 25.5 | 27.1 |
| | | | | |
| **Financial assumptions:** | | | | |
| Rate of inflation | 2.8% | 2.7% | 2.8% | 2.7% |
| Rate of increase in salaries | 4.3% | 4.2% | 4.3% | 4.2% |

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The longevity assumption, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

### Impact on the Authority's cashflows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis.

The scheme takes account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

| | Impact on the Defined Benefit Obligation in the Scheme | |
|---|---|---|
| | Increase in assumption £000 | Decrease in assumption £000 |
| Longevity (increase or decrease in one year) | 6,007 | (6,007) |
| Rate of inflation (increase or decrease by 0.1%) | 3,143 | (3,143) |
| Rate of increase in salaries (increase or decrease by 0.1%) | 231 | (231) |
| Rate for discounting liabilities (increase or decrease by 0.1%) | (3,095) | 3,095 |

## E2. Financial Instruments

| | Current | | | | | | Non-Current | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Investments | | Debtors | | Total | | Investments | | Debtors | | Total | |
| | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Financial Assets** | | | | | | | | | | | | |
| Cash not falling into the following categories | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fair Value through profit and loss | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortised cost | 10,912 | 41,850 | 23,318 | 13,265 | 34,230 | 55,115 | 0 | 0 | 906 | 906 | 906 | 906 |
| **Total Financial Assets** | **10,912** | **41,850** | **23,318** | **13,265** | **34,230** | **55,115** | **0** | **0** | **906** | **906** | **906** | **906** |
| Non-Financial Assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **10,912** | **41,850** | **23,318** | **13,265** | **34,230** | **55,115** | **0** | **0** | **906** | **906** | **906** | **906** |

| | Current | | | | | | Non-Current | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Borrowing | | Creditors | | Total | | Borrowing | | Creditors | | Total | |
| | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 | 31/03/2024 | 31/03/2023 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Financial Liabilities** | | | | | | | | | | | | |
| Fair Value through profit and loss | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortised Cost | (9,000) | (9,000) | (8,555) | (39,004) | (17,555) | (48,004) | (104,064) | (104,064) | (5,311) | (2,791) | (109,375) | (154,859) |
| **Total Financial Liabilities** | **(9,000)** | **(9,000)** | **(8,555)** | **(39,004)** | **(17,555)** | **(48,004)** | **(104,064)** | **(104,064)** | **(5,311)** | **(2,791)** | **(109,375)** | **(154,859)** |
| Non-Financial Liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **(9,000)** | **(9,000)** | **(8,555)** | **(39,004)** | **(17,555)** | **(48,004)** | **(104,064)** | **(104,064)** | **(5,311)** | **(2,791)** | **(109,375)** | **(154,859)** |

The new advances are lifetime loans granted to owner occupiers which will be repaid on the sale of the property. The reclassification relates to lifetime loans granted to owner occupiers and loans to owners of homes of multiple occupation in previous years, which will be repaid on the sale of the property. In all cases, no interest is charged on the loans and a fair value adjustment has been made assuming the loan is repaid after 10 years.

## E3. Nature and extent of risks arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council because of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council within the annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch Ratings Services.

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used (for example the rating assigned to a secured investment), otherwise the counterparty credit rating is used. Credit ratings are obtained and monitored by the Council's Treasury Advisors, who will notify changes in the ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investment will be made,
- Any existing investments that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

The Council defines 'high credit quality' organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For Money Market Funds and other pooled funds 'high credit quality' is defined as those having a credit rating of A- or higher.

The credit criteria in respect of financial assets held by the Council are detailed below:

| | **Banks Unsecured** | **Banks Secured** | **Government** | **Corporates** | **Registered Providers** |
|---|---|---|---|---|---|
| **UK Govt** | n/a | n/a | £ Unlimited 50 years | n/a | n/a |
| **AAA** | £2.5m<br>5 years | £2.5m<br>20 years | £2.5m<br>50 years | £2.5m<br>20 years | £1m<br>20 years |
| | £2.5m | £2.5m | £2.5m | £2.5m | £1m |

| | | | | | |
|---|---|---|---|---|---|
| **AA+** | 5 years | 10 years | 25 years | 10 years | 10 years |
| **AA** | £2.5m<br>4 years | £2.5m<br>5 years | £2.5m<br>15 years | £2.5m<br>5 years | £1m<br>10 years |
| **AA-** | £2.5m<br>3 years | £2.5m<br>4 years | £2.5m<br>10 years | £2.5m<br>4 years | £1m<br>10 years |
| **A+** | £2.5m<br>2 years | £2.5m<br>3 years | £2.5m<br>5 years | £2.5m<br>3 years | £1m<br>5 years |
| **A** | £2.5m<br>13 months | £2.5m<br>2 years | £2.5m<br>5 years | £2.5m<br>2 years | £1m<br>5 years |
| **A-** | £2.5m<br>6 months | £2.5m<br>13 months | £2.5m<br>5 years | £2.5m<br>13 months | £1m<br>5 years |
| **None** | £1m<br>6 months | n/a | £3m<br>25 years | £1m<br>5 years | £500k<br>5 years |
| **Pooled funds** | £2.5m per fund or trust | | | | |

Banks Unsecured: call and notice accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should the banking regulator determine that the bank/building society is failing or likely to fail.

**Banks Secured:** covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are exempt from bail-in and are secured on the financial institution's assets, which limits the potential losses in the unlikely event of insolvency.

Government: Investments with local authorities or guaranteed by national governments, investments with multilateral development banks. These are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years. Investments with the Debt Management Account Deposit Facility (DMADF) are guaranteed by HM Treasury. Following advice from the Council's treasury advisors, no upper limit was imposed on investments with the DMADF.

**Corporates:** Loans, bonds, and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

**Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and extremely low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

### Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

### Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charges to the Surplus / Deficit on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus / Deficit on the Provision of Services will rise
- Investments at fixed rates – the fair value of the asset will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus / Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus / Deficit on the Provision of Services and affect the General Fund Balance.

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. It has a number of strategies for managing interest rate risk and these are addressed in the Treasury Management Strategy. In 2023/24, the Council had no variable long-term investments or borrowings.

### Price Risk

The Council, excluding its exposure to the Pension Fund, does not invest in equity shares.

## E4. Leases

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

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

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

### The Authority as Lessee – Finance Leases

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

Lease payments are apportioned between:

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

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

Lease payments are apportioned between:

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

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

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

The Council has no finance leases.

### Operating Leases

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

The Rubicon Centre is leased with a remaining lease period to 31 July 2023. This is a business centre sublet to small businesses.

The Council leases multifunctional devises (MFDs) through a lease that commenced in 2018/19 for an initial period until 31 July 2023. The future minimum payments under non-cancellable operating leases in future years are set out below:

| | 2023/24<br>£000 | 2022/23<br>£000 |
|---|---|---|
| Minimum lease rentals payable: | | |
| No later than 1 year | 14 | 38 |
| Later than 1 year and no later than 5 years | 0 | 0 |
| Later than 5 years | 0 | 0 |
| **Total** | **14** | **38** |

### The Authority as a Lessor – Finance Leases

When the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable is apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of the rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve (England and Wales).

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

The Council has no finance leases.

### Operating Leases

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

The Authority, in accordance with its statutory and discretionary responsibilities, leases out property and equipment under operating leases for the following purposes:

- For the provision of community services, such as sports and community facilities
- For the economic development purposes to provide suitable affordable accommodation for small local businesses
- Any other purpose

The future minimum lease payments receivable under non-cancellable leases in future years are:

| | 2023/24<br>£000 | 2022/23<br>£000 |
|---|---|---|
| Minimum lease rentals payable: | | |
| No later than 1 year | 363 | 363 |
| Later than 1 year and no later than 5 years | 1,263 | 1,263 |
| Later than 5 years | 942 | 1,318 |
| **Total** | **2,568** | **2,944** |

## E5. Accounting Policies

### General Principles

The Statement of Accounts summarises the Council's transactions for the 2023/24 financial year and its position at the year-end of 31 March 2024. The statements are prepared on a general principle of a going concern and that the functions and services provided by the Council will continue to operate for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Lacal Authority Accounting in the United Kingdom 2022/23, supported by the International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### Summary of Significant Accounting Policies

#### i) Revenue and Expenditure Recognition

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

- Revenue in respect of services provided is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer and is measured at the amount of the transaction price allocated to that performance obligation. Where income is received for a specific performance obligation that is to be satisfied in the following year, that income is deferred.
- Income from the sale of non-current assets is recognised only when all material conditions of sale have been met and is measured as the sums due under the sale contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cashflows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- The Council has set a deminimus level for accruals of creditors and debtors that are calculated manually to avoid addition time and cost in estimating and recording accruals.

This level is reviewed annually and is currently set at £5,000. If a payment or receipt is split across different cost centres, the limit is for the whole payment or receipt.

Exceptions to this deminimus rule where accruals are made in full are:

- Qualifying expenditure upon which income from government grant or other third parties is dependent and associated grant income, where the grant funding would be lost if the accrual is not made.
- Invoices for the same supply or service that are chargeable to the same service area are aggregated where their total is over £500.
- Accruals posted based on orders that have been goods receipted on the Tech One system.
- For capital projects work in progress schedules will be obtained and accruals will be processed on this basis.

### ii) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are high liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

### iii) Prior period adjustments and changes in Accounting Policies and Estimates and Errors

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### iv) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of the holding fixed assets during the year:

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

The Authority is not required to raise Council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference for the two.

### v) Council Tax and Non-Domestic Rates (England)

Billing Authorities act as agent, collecting Council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting Council tax and NDR for themselves. Billing Authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council tax and NDR. Under the legislative framework for the Collection Fund, billing Authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council tax and NDR collected could be less or more than predicted.

#### Accounting for Council Tax and NDR

The Council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of Council tax and NDR that must be included in the Authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund

Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

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

### vi) Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are re cognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holidays entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### Termination Benefits

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

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

#### Post Employment Benefits

Employees of the Authority are members of the Local Government Pension Scheme, administered by Worcestershire County Council known as the Worcestershire Pension Fund (WPF). The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

#### The Local Government Pension Scheme

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

The liabilities of the WPF attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate of 2.5% (based on the indicative rate of return on a basket of high-quality corporate bonds, government gilts and other factors).

The assets of WPF attributable to the Authority are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate

- Unitised securities – current bid price
- Property – market value

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

- Service cost comprising:
    - Current service cost – the increase in liabilities because of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increase in liabilities because of a scheme amendment or curtailment whose effects relates to years of service earned in earlier years and debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.
    - Net interest on the net defined benefit liability, i.e. net interest expenses for the Authority – the change during the period on the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period, considering any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

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

### Discretionary Benefits

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

## vii) Events after the Balance Sheet date

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

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

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

### viii) Fair Value Measurement

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

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

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

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

### ix) Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised when the Council becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been extinguished – that is, the obligation has been discharged or cancelled or has expired.

Financial liabilities are initially measured at fair value and carried at their amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the amortised cost of the financial liability. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount (balance carried forward) of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount included in the Balance Sheet is the outstanding interest repayable, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement. Accounting for debt re-structuring or early settlement will be in accordance with the Code and relevant statute.

Financial assets are classified into the following categories:

- Financial assets at amortised cost,
- Financial assets at fair value through other comprehensive income, and
- Financial assets at fair value through profit and loss.

The classification is determined by the cashflow and business model characteristics of the financial assets, as set out in the Code, and is determined at the time of initial recognition.

#### Financial Assets at Amortised Cost

Financial assets measured at amortised cost are those held within a business model whose objective is to hold financial assets to collect contractual cashflows and where the cashflows are solely payments of principal and interest. This includes most trade receivables, loans receivable and other simple debt instruments.

After initial recognition, these financial assets and measured at amortised cost using the effective interest method, less any impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

For most of the loans that the Council has made, this means that the amount included in the Balance Sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council has made interest free loans to homeowners (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at an effective rate of interest rather than interest free, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**Financial Assets at Fair Value through Other Comprehensive Income or Profit and Loss Account**

The Council does not hold any financial assets that require fair value adjustment through either other comprehensive income (FVOCI) or through profit and loss (FVPL) and therefore, does not hold accounting policies for these issues.

**Impairment**

For all financial assets measured at amortised cost or at fair value through other comprehensive income (except equity instruments designated at fair value through other comprehensive income), lease receivables and contract assets, the Council recognises a loss allowance representing expected credit losses on the financial instrument.

The Code requires that Local Authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or Local Authority for which relevant statutory provision prevent default.

The Council adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial asserts, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition, and otherwise at an amount equal to twelve month expected credit losses.

For financial assets that have become credit impaired since initial recognition, expected credit losses at the reporting date are measured as the difference between the net present value of all the contractual cashflows that are due to the Council in accordance with the contract for the instrument and the net present value of all the cashflows that the Council expects to receive, discounted at the original effective interest rate. Any adjustment is recognised in the Surplus or Deficit on the Provision of Service as an impairment gain or loss.

**x) Government Grants and Contributions**

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

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Account until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

### xi) Heritage Assets

#### Tangible and Intangible Heritage Assets (described in this summary as Heritage Assets)

Heritage assets are those with cultural, environmental or historical significance that make their preservation for future generations important.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration. Any impairment is recognised and measured in accordance with the Authority’s general policies on impairment.

### xii) Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority’s good or services.

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

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

### xiii) Interests in Companies and Other Entities

An assessment of the Council’s interests has been carried out in accordance with the CIPFA Code of Practice to determine a group relationship exists. Inclusion in the group is dependent upon the extent of the Council's control and significant influence over the entity demonstrated through ownership, such as a shareholding in the entity or representation on an entity's board of directors, and materiality. Accounts are prepared on a single entity basis with the Statement of Group Accounts representing the position for the Council and its subsidiary. Interests in other entities are recorded as financial assets at cost, less any provision for losses, or at valuation as appropriate.

### xiv) Inventories and Long-Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

Long-term contracts are accounted for based on charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### xv) Joint Operations

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

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

### xvi) Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would influence the reader of the accounts. Notes are only included where items are material by value or nature.

### xvii) Property, Plant and Equipment

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

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, if it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the Council's housing properties, where there is no market for office accommodation and that are measured at depreciated replacement cost (instant build) as an estimate of current value.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

Where there is no balance in the Revaluation Reserve an insufficient balance, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against service line(s) in the Comprehensive Income and Expenditure Statement.

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

### Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance against the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings – the depreciation charge to the Housing Revenue Account is based on component depreciation with the charge being calculated based on the useful life of the major components

within the dwellings (kitchen, bathroom, boiler, heating system, electric, roof, windows and structure)
- Vehicles, plant and equipment – straight-line over the useful life, as advised by a suitably qualified officer.
- Infrastructure – straight-line allocation over 25 years

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

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

### Disposals and Non-Current Assets Held for Sale

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposal (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the reserve from the General Fund Balance in the Movement in Reserves Statement.

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

## xviii) Provisions, Contingent Liabilities and Contingent Asset Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, considering relevant risks and uncertainties.

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

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

### Contingent Liabilities

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

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

### Contingent Assets

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

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

### xix) Reserves

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

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

### xx) Revenue Expenditure Funded from Capital under Statute

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

### xxi) Shared Services

Redditch Borough Council provides the hosting for a number of shared service arrangements with Bromsgrove District and Wyre Forest District Council. A number of other shared services are hosted by Bromsgrove District (including Worcestershire Regulatory Services which is a Jointly Controlled Operation), Worcester City Council and Wyre Forest District Council.

Each arrangement is accounted for within the records of the host Council with a monitoring report prepared for the partner Authority monthly for consideration of the operational costs together with an annual statement of assets and liabilities extracted from the accounts of the host Council. There is a responsibility for each partner Council to account for their share of the arrangement within the Statement of Accounts.

When entering into share services, all capital assets that are purchased are financed by each Authority separately and accounted for on their own Balance Sheet. Any assets purchased prior to the start of the shared service are not included in the shared service; the costs associated with this remain on the accounts of the Authority that purchased the asset only.

The Management Team is shared across both Authorities, as well as other services. Cross-charging occurs where the other Authority uses a resource where there is not a formal shared service in place.

Each Authority pays a fair share of services which are shared, in line with business case; all direct expenditure is shared on this basis, with income staying with the home Authority. Where a cost is only in relation to one Authority, this falls outside the business case and the Authority that gains the benefit is fully charged.

### xxii) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

## E6. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in **Note E5**, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are outlined below.

There is a high degree of uncertainty about future levels of funding for Local Government. However, the Authority has determined that this uncertainty is not yet sufficient to prove an indication that the assets of the Authority might be impaired because of a need to close facilities and reduce levels of service provision. The Council holds earmarked General Fund balance of £7.221m and a General Fund reserves of £17.186m.

The Council participates in a number of Shared Services under contractual arrangements with other Councils and is a partner in the Worcestershire Regulatory Services Board. These arrangements are accounted for as Jointly Controlled Operations. A Jointly Controlled operation uses the assets and resources of the partner authorities without the establishment of a separate entity. Under these arrangements, each participant in the arrangement accounts separately for its own transactions including the use of assets, liabilities, income, expenditure and cashflows.

The Council has determined that a Group Accounting relationship exists with Rubicon Leisure Limited which was formed in December 2018. Rubicon Leisure Limited is a company limited by guarantee and is 100% controlled by the Council. Where material, the Group position is disclosed on the face of the applicable Core Statements. All other notes relate to the Council rather than the Group.

The Council has made a 100% provision against the potential cost of business rates appeals arising from the 2010 and 2017 rating list based on indicative information from Analyse Local informed by data from the Valuation Office. In addition, the Council has proved for the cost of the successful appeal to the Supreme Court concluded on 20 May 2020, which ruled that Automated Teller Machines (ATMs) should not be rated separately to the building and the cost of a challenge relating to the business rates of purpose-built General Practice (GP) Surgeries, where there have been reductions in the rateable value from the 2017 rating list. Both the ATM and GP Surgeries outcome was concluded after 31 March 2020 but full provision was made in the provision for business rate appeals. The level of the 2017 rating list provision for appeals has contributed £2.865m and utilised £3.420m in 2023/24. Previously the Council held 4.7% of rating income as a potential provision linked to the level of appeals against the 2010 rating list. Further information on these appeals is provided in **Note D6.**

The Council manages the Collection Fund and accounts for business rates on behalf of itself, Worcestershire County Council, Hereford and Worcestershire Fire and Rescue Authority and Central Government. The Council share of the business rate assets and liabilities was 40%.

The Council has determined that it does not hold any assets solely for income or capital appreciation and therefore, does not hold any investment properties,

## E7. Accounting Standards not yet adopted.

The Code requires that the Council disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

There is an amendment to IFRS 16 Leases. This standard was due to be implemented on 1 April 2020, but this has now been delayed until 1 April 2024.

IFRS 16 Leases – the amendment requires Local Authorities who are lessees to recognise leases on the Balance Sheet as right of use assets with a corresponding lease liability. As yet, the Council has not done sufficient detailed work to accurately ascertain the impact of IFRS 16 leases on the accounts due to the extension in the implementation deadline.

### E8. Assumptions made about the future and other major sources of estimation uncertainty.

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

### E9. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. The Council have considered the materiality of the transactions from both the Council's and the related parties perspective.

#### Central Government

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Council tax bills, housing benefits). Grants received from government departments are set out in **Note B9.**

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2023/24 is shown in **Note B7.**

Many Redditch Borough Councillors are also County Councillors and / or elected members of the Parish Council.

In 2023/24, all members have completed a register of members' disclosable pecuniary interest.

#### Officers

There were no disclosures made by officers in 2023/24,

#### Entities Controlled or Significantly Influenced by the Authority

The Council has a wholly owned leisure company called Rubicon Leisure to run its leisure services for it.

As part of the shared services with Bromsgrove District Council, Redditch paid £7.457m (£6.915m in 2022/23) for Bromsgrove hosted services and received £4.065m (£3.717m in 2021/22) for services hosted at Redditch.

The Councils has been involved in shared service arrangements for Economic Development, Land Drainage and Shared Emergency Planning with Wyre Forest District Council. The Council has paid £0.381m to Wyre Forest District Council for services hosted by them.

A shared service arrangement has also been set up between the Council, Bromsgrove District and Wyre Forest for the provision of Building Control. Redditch paid £0.115m to Bromsgrove (this figure is included in the shared services figure above).

For the provision of Car Park services, the Council paid £0.072m to Wychavon District Council.

Under the Internal Audit Shared Service, the Council paid £0.122m to Worcester City Council.

The Council paid Bromsgrove District Council £0.633m for Worcestershire Regulatory Shared Service for hosting Environmental Health and Licencing.

In total, the Council received £0.604m in 2023/24 (£0.578m 2022/23) from Worcestershire County Council for running the Early Help services.

### E10. Events after the Balance Sheet date

The Council manages the Collection Fund and accounts for business rates on behalf of itself, Worcestershire County Council, Hereford and Worcester Fire and Rescue Authority and Central Government. The Council share of the business rates assets and liabilities in 2023/24 was £1,394,298.

The Council changed its actuaries from Mercer Limited to Hymans in the 2023/24 financial year. The pension assets were valued by Mercers as at 31 March 2023 at a lower value by £16.689m.

### E11. Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the Council's control.

There are no contingent assets as at 31 March 2024.

### E12.Contingent Liabilities

A contingent liability is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the Council's control.

There are no contingent liabilities as at 31 March 2024.

# ADDITIONAL DISCLOSURES – TECHNICAL NOTES

## F1. Cash and Cash Equivalents

Cash and cash equivalents at the end of the reporting period can be reconciled to the related items in the Balance Sheet as follows:

| | 2023/24<br>£000 | 2022/23<br>£000 |
|---|---:|---:|
| Cash and Bank balances | 16,707 | 15,620 |
| Short Term Investments | 10,912 | 41,850 |
| **Total** | **27,619** | **57,470** |

## F2. Adjustments to the net surplus / (deficit) on the provision of services for non-cash movements

| | 2023/24<br>£000 | 2022/23<br>£000 |
|---|---:|---:|
| Depreciation | 4,014 | 9,548 |
| Impairment & downward valuations | 0 | 3,289 |
| Amortisation | 53 | 240 |
| (Increase)/Decrease in Debtors | 10,053 | 32,195 |
| Increase/(Decrease) in Creditors | (30,449) | (8,181) |
| Increase in Inventories | (799) | (1,643) |
| Movement in pension liability | 7,424 | 4,489 |
| Carrying amount of non-current assets, and non-current assets held for sale, sold or de-recognised | 9,644 | 2,872 |
| Other items charged to the net surplus or deficit on provision of services | 12,500 | 1,801 |
| **Total** | **12,440** | **44,610** |

## F3. Adjustments for items included in the net surplus / (deficit) on the provision of services that are investing for financing activities.

| **Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities** | | |
|---|---:|---:|
| Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | 0 | 0 |
| Proceeds from the sale of PP&E, investment property and intangible assets | 0 | (4,058) |
| Any other items | 0 | (1,596) |
| **Total** | **0** | **(5,654)** |

## F4. Investing Activities

| | 2023/24<br>£000 | 2022/23<br>£000 |
|---|---:|---:|
| Purchase of PP&E, investment property and intangible assets | (27,013) | (10,697) |
| Purchase of Short Term Investments (not considered to be cash equivalents) | 0 | (52,383) |
| Purchase of Long Term Investments | 0 | 0 |
| Proceeds from the sale of PP&E, investment property and intangible assets | 9,644 | 4,058 |
| Proceeds from Short Term Investments (not considered to be cash equivalents) | 0 | 0 |
| Proceeds from Long Term Investments | 0 | 0 |
| **Net Cash flows from Investing Activities** | **(17,369)** | **(59,022)** |

## F5. Financing Activities

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Cash Receipts from Short and Long Term Borrowing | 45,465 | 12,617 |
| Other Receipts from Financing Activities | 0 | 0 |
| Repayment of Short and Long Term Borrowing | (38,000) | 0 |
| Other payments for Financing Activities | 0 | 0 |
| **Net Cash flows from Financing Activities** | **7,465** | **12,617** |

# ADDITIONAL DISCLOSURES – TECHNICAL NOTES

## G1. Group Accounts

Rubicon Leisure Limited

Rubicon Leisure Limited was created in 2018/19 and commenced trading on 1 December 2018 through a management agreement with the Council. Rubicon Leisure Limited is a company limited by guarantee and the Guarantor and 100% owner is Redditch Borough Council.

The Council continues to own the buildings and Rubicon operate services at the following sites:

- Abbey Stadium
- Palace Theatre
- Pitcheroak Golf Course
- Pitcheroak Golf Course Café
- Forge Mill Museum
- Batchley, Oakenshaw, Windmill and Winvates Green Meeting Rooms
- Arrow Valley Visitor Centre

The company activity is included in the Group Comprehensive Income and Expenditure Statement, Movement in Reserves Statement and Balance Sheet. The Group Balance Sheet nets off transactions between the Council and Rubicon which impacts on debtors and creditors. This is to avoid a double count. In addition, the Company inventory, cash and reserves are reflected in the Group Balance Sheet.

There is no goodwill as the group did not arise through a purchase.

The Group CIES reflects expenditure of £3,988k and income of £3,532k for Rubicon, reflecting a net position of £456k. There is also £30k reflected on the Taxation and Non-Specific Grant Income and Expenditure line for a grant relating to Forge Mill.

The Group Balance Sheet reflects Rubicon usable reserves at £580k. This is made up of £19k on inventories, £276k on short term debtors, short term creditors at (£518k), PPE at £244k, other long term liabilities £1,608k and cash and cash equivalents of (£1,049k).

# HOUSING REVENUE ACCOUNT

The Housing Revenue Account included is a ring-fenced account within the council's budget used to record income and expenditure related to the housing services provided to council tenants.

### H1. Overview

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| **Expenditure** | | |
| Repairs & Maintenance | (7,243) | (5,973) |
| Supervision & Management | (7,613) | (7,250) |
| Rents, Rates, Taxes and other charges | (399) | (432) |
| Depreciation, impairments and revaluation losses of non-current assets | (6,417) | (5,846) |
| Debt Management Costs | (8) | (9) |
| Movement in the allowance for bad debts | (228) | (965) |
| **Total Expenditure** | **(21,909)** | **(20,476)** |
| **Income** | | |
| Dwelling rents | 25,753 | 24,089 |
| Non-dwelling rents | 522 | 502 |
| Charges for services and facilities | 630 | 609 |
| Capitalisation of System Implementation Team | 45 | 49 |
| Contributions towards Supported Housing | 130 | 40 |
| Other | 34 | 25 |
| **Total Income** | **27,115** | **25,314** |
| | | |
| | | |
| **Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement** | **5,207** | **4,839** |
| | | |
| HRA Services Share of Corporate & Democratic Core | (723) | (693) |
| | | |
| **Net Expenditure of HRA Services** | **4,483** | **4,146** |
| | | |
| Gains/(loss) on sale of HRA Fixed Assets | 191 | 400 |
| Interest Payable and Similar Charges | (4,174) | (4,410) |
| HRA Interest and Investment Income | 125 | 183 |
| Net interest on the defined benefit liability (asset) | 0 | 0 |
| Capital Grants and Contributions | 0 | 0 |
| **Surplus or (Deficit for Year) on HRA Services** | **626** | **319** |

## H2. Movement on the HRA Statement

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| **Balance on the HRA at the end of the previous year** | 1,976 | 2,057 |
| Surplus or (Deficit) on the HRA Income and Expenditure Statement | 626 | 319 |
| Adjustments between accounting basis and funding basis under statute | (1,061) | (1,185) |
| Net Increase or (Decrease) before transfers to or from reserves | (436) | (866) |
| Transfers (to)/from Reserves | 870 | 785 |
| **Increase or (decrease) on the HRA for the year** | **435** | **(81)** |
| **Balance on the HRA at the end of the current year** | **2,410** | **1,976** |

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute | 6,417 | 0 |
| Transfers to/from the Capital Adjustment Account | (191) | 5,846 |
| Gain or loss on sale of HRA non current assets | 0 | (400) |
| Transfers to/(from) Major Repairs Reserve | (6,417) | (5,846) |
| Capital expenditure funded by the HRA | (870) | (785) |
| **Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year** | **(1,061)** | **(1,185)** |

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Transfers (to)/from earmarked reserves | 0 | 0 |
| Transfers (to)/from Capital Grants Unapplied | 0 | 0 |
| **Total Transfers** | **0** | **0** |

### H3. Property, Plant and Equipment

| Property, Plant & Equipment (PP&E) | Council Dwellings | Buildings | Vehicles, Plant & Equipment | Surplus Assets | Total PP&E | Intangible Assets | TOTAL |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or Valuation** | | | | | | | |
| **Balance as at 1 April 2023** | **352,786** | **4,106** | **534** | **1,520** | **358,946** | **1,378** | **360,324** |
| Adjustments re prior years | (32,003) | 0 | 0 | 0 | **(32,003)** | 0 | **(32,003)** |
| **Adjusted opening balance** | **320,783** | **4,106** | **534** | **1,520** | **326,943** | **1,378** | **328,321** |
| Additions | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| Revaluation increases to Revaluation Reserve | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| Derecognition - Disposals | (9,644) | 0 | 0 | 0 | **(9,644)** | 0 | **(9,644)** |
| **Balance as at 31 March 2024** | **311,139** | **4,106** | **534** | **1,520** | **317,299** | **1,378** | **318,677** |
| **Depreciation and Impairment** | | | | | | | |
| **Balance as at 1 April 2023** | **(12)** | **0** | **(714)** | **0** | **(725)** | **(87)** | **(812)** |
| Adjustments re prior years | (8,230) | 0 | 714 | 0 | **(7,516)** | 0 | **(7,516)** |
| **Adjusted opening balance** | **(8,242)** | **0** | **0** | **0** | **(8,241)** | **(87)** | **(8,328)** |
| Depreciation Charge | (6,171) | (199) | (30) | 0 | **(6,400)** | (17) | **(6,417)** |
| Depreciation written out on Revaluation Reserve | 6,171 | 199 | 30 | 0 | **6,400** | 17 | **6,417** |
| Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| **Balance as at 31 March 2024** | **(8,242)** | **0** | **0** | **0** | **(8,241)** | **(87)** | **(8,328)** |
| **Net Book Value** | | | | | | | |
| **Balance as at 31 March 2024** | **302,897** | **4,106** | **534** | **1,520** | **309,058** | **1,291** | **310,349** |
| **Balance as at 31 March 2023** | **352,774** | **4,106** | **(180)** | **1,520** | **358,221** | **1,291** | **359,512** |

**Prior year**

| | Council Dwellings | Operational Building £000 | Vehicles, Plant and Equipment £000 | Surplus Asset £000 | Assets under construction £000 | Intangible £000 | **Total PP&E £000** |
|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | |
| **Balance as at 1st April 2022** | **337,590** | **4,204** | **534** | **1,520** | **6,461** | **713** | **326,822** |
| Adjustments re prior years | (6,750) | (114) | 0 | 0 | (6,461) | 377 | **(12,948)** |
| **Adjusted opening balance** | **330,840** | **4,090** | **534** | **1,520** | **0** | **1,090** | **338,074** |
| Additions | 7,460 | 0 | 0 | 0 | 0 | 350 | **7,810** |
| Revaluation increases/decreases to Revaluation Reserve | 16,908 | 16 | 0 | 0 | 0 | 0 | **16,924** |
| Derecognition - Disposals | (2,422) | 0 | 0 | 0 | 0 | 0 | **(2,422)** |
| Other movements | 0 | 0 | 0 | 0 | 0 | 0 | |
| **Balance as at 31st March 2023** | **352,786** | **4,106** | **534** | **1,520** | **0** | **1,440** | **360,386** |
| | | | | | | | |
| **Depreciation and Impairment** | | | | | | | |
| **Balance as at 1 April 2022** | **(12)** | **(15)** | **(609)** | **0** | **0** | **(17)** | **(637)** |
| Adjustments re prior years | 0 | (15) | 0 | 0 | 0 | (52) | **(67)** |
| **Adjusted opening balance** | **(12)** | **0** | **(609)** | **0** | **0** | **(69)** | **(690)** |
| Depreciation Charge | (5,536) | (189) | (104) | 0 | 0 | (17) | **(5,846)** |
| Depreciation written out on Revaluation Reserve | 5,536 | 189 | 0 | 0 | 0 | 0 | **5,725** |
| **Balance as at 31st March 2023** | **(12)** | **0** | **(713)** | **0** | **0** | **(86)** | **(811)** |
| | | | | | | | |
| **Net Book Value** | | | | | | | |
| **Balance as at 31st March 2023** | **352,774** | **4,106** | **(179)** | **1,520** | **0** | **1,354** | **359,575** |
| **Balance as at 31st March 2022** | **337,578** | **4,189** | **(75)** | **1,520** | **6,461** | **696** | **349,673** |

Dwellings within the Housing Revenue Account are valued in accordance with the RICS Appraisal and Valuation Manual, as published by the Royal Institution of Chartered Surveyors, and DCLG guidance. Accordingly, the Existing Use Value for Social Housing (EUV-SH) has been used as the basis of valuation. The beacon approach to valuation of the housing stock has been adopted as recommended by the DCLG, including the regional adjustment to be adopted within the EUV-SH valuation. Valuations of dwellings are carried out annually, valued at 1 April each year.

### H4. Housing Stock

The number of dwellings in the Authority's housing stock as at 31 March 2024 totalled 5,554 properties. The types of properties are analysed below:

| | 2023/24 Number | 2022/23 Number |
|---|---|---|
| **Property Type** | | |
| Flats and Maisonettes | | |
| (Blocks up to and incl. 2 Storey) | | |
| 1 Bed | 1,521 | 1,528 |
| 2 Bed | 531 | 532 |
| 3 Bed | 28 | 28 |
| **Sub-Total** | **2,080** | **2,088** |
| Non Permanent | 41 | 41 |
| **Sub-Total** | **41** | **41** |
| Houses / Bungalows | | |
| 1 Bed | 652 | 653 |
| 2 Bed | 847 | 843 |
| 3 Bed | 1,774 | 1,777 |
| 4 or More | 160 | 163 |
| **Sub-Total** | **3,433** | **3,436** |
| **Total Dwellings 31 March** | **5,554** | **5,565** |

### H5. Housing Revenue Account Capital Expenditure

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| **Capital investment** | | |
| Operational assets | 11,570 | 7,460 |
| Intangible Assets | 336 | 350 |
| **Totals** | **11,906** | **7,810** |
| **Sources of funding** | | |
| Capital Receipts | 1,495 | 1,025 |
| Major Repairs Reserve | 9,223 | 6,000 |
| Government grants and other contributions | 318 | 0 |
| Direct Revenue Financing | 870 | 785 |
| **Totals** | **11,906** | **7,810** |

### H6. Rent Arrears

During 2023/24, total rent arrears remained broadly the same. A summary of rent arrears and prepayments are shown in the following table:

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Current Tenant Arrears | 1,438 | 1,570 |
| Former Tenant Arrears | 690 | 479 |
| **Total Rent Arrears** | **2,128** | **2,049** |
| Prepayments | 0 | 0 |
| **Net Rent Arrears** | **2,128** | **2,049** |

The rent arrears and prepayments exclude supporting people balances.

## H7. Depreciation and Impairment of Non-Current Assets

| | 2023/24 £000 | | 2022/23 £000 | |
|---|---|---|---|---|
| | Depreciation | Impairment | Depreciation | Impairment |
| Council Dwellings | 6,171 | 0 | 5,536 | 0 |
| Other Land and Buildings | 199 | 0 | 189 | 0 |
| Vehicles, Plant, Furniture and Equipment | 30 | 0 | 104 | 0 |
| Intangible Assets | 17 | 0 | 17 | 0 |
| **Total** | **6,417** | **0** | **5,846** | **0** |

## H8. Retirement Benefits

As part of terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits within the Local Government Pension Scheme. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Worcestershire Local Government Pension Fund administered by Worcestershire County Council. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

However, the charge required to be made against the Housing Revenue Account is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Housing Revenue Account after Net Operating Expenditure. The following transactions have been made in the Housing Revenue Account during the year.

Pension costs for the Housing Revenue Account are charged to the Council and recharged to the HRA.

## H9. Total Capital Receipts Generated during the year.

| | 2023/24 £000 | 2022/23 £000 |
|---|---|---|
| Land | 0 | 0 |
| Council Houses | 2,331 | 2,871 |
| **Sub Total** | **2,331** | **2,871** |
| Disposal Costs | (42) | (49) |
| **Total HRA capital receipts** | **2,289** | **2,822** |

## COLLECTION FUND

### I1. The Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligations for billing Authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to Local Authorities and the Government of council tax and non-domestic rates.

Due to the Collection Fund accounting treatment, the deficit on the fund will not be passed to the Council's General Fund until 2024/25 and later years. The Government have confirmed that the in-year deficit on the Collection Fund in 2023/24 can be spread over three years from 2024/25 to 2026/27.

| 2022/23 | | | Collection Fund | 2023/24 | | |
|---|---|---|---|---|---|---|
| Business Rates | Council Tax | Total | | Business Rates | Council Tax | Total |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| | | | **INCOME** | | | |
| | (53,217) | (53,217) | Council Tax Receivable | | (55,903) | (55,903) |
| (31,308) | | (31,308) | Business Rates Receivable | (32,390) | | (32,390) |
| **(31,308)** | **(53,217)** | **(84,525)** | **Total amounts to be credited** | **(32,390)** | **(55,903)** | **(88,292)** |
| | | | **EXPENDITURE** | | | |
| | | | **Apportionment of Previous Year Surplus/Deficit** | | | |
| 297 | | 297 | Central Government | (2,626) | | (2,626) |
| 238 | 180 | 417 | Redditch Borough Council | (2,101) | (182) | (2,282) |
| 53 | 970 | 1,024 | Worcestershire County Council | (473) | (1,000) | (1,472) |
| 6 | 66 | 72 | Hereford and Worcestershire Fire and Rescue | (53) | (64) | (116) |
| | 174 | 174 | Police and Crime Commissioner for West Mercia | | (179) | (179) |
| | | | **Precepts, demands and shares** | | | |
| 16,711 | | 16,711 | Central Government | 18,201 | | 18,201 |
| 13,369 | 6,762 | 20,131 | Redditch Borough Council | 14,561 | 6,905 | 21,466 |
| 3,008 | 37,080 | 40,088 | Worcestershire County Council | 3,276 | 38,557 | 41,834 |
| 334 | 2,373 | 2,707 | Hereford and Worcestershire Fire and Rescue | 364 | 2,483 | 2,847 |
| | 6,628 | 6,628 | Police and Crime Commissioner for West Mercia | | 6,958 | 6,958 |
| | | | **Charges to Collection Fund** | | | |
| 0 | 0 | 0 | Write-offs of uncollectable amounts | (3) | (116) | (119) |
| 0 | 0 | 0 | Interest | 43 | 0 | 43 |
| 8 | 0 | 8 | Disregarded amounts | 4 | 0 | 4 |
| 381 | 443 | 824 | Increase/(decrease) in allowance for impairment | 163 | 538 | 701 |
| 3,589 | | 3,589 | Increase/(decrease) in allowance for appeals | (1,386) | | (1,386) |
| 394 | | 394 | Transitional Protection Payments Payable | (3,085) | | (3,085) |
| | | | **Charges to General Fund** | | | |
| 104 | | 104 | Charge to General Fund for allowable collection costs for non-domestic rates | 105 | (27) | 78 |
| **38,492** | **54,675** | **93,167** | **Total amounts to be debited** | **26,992** | **53,874** | **80,866** |
| **7,184** | **1,459** | **8,642** | **(Surplus) /deficit arising during the year** | **(5,397)** | **(2,029)** | **(7,426)** |
| 1,893 | 147 | 2,040 | (Surplus)/deficit b/f at 1 April | 9,076 | 1,606 | 10,683 |
| **9,076** | **1,606** | **10,683** | **(Surplus)/deficit c/f at 31 March** | **3,679** | **(422)** | **3,257** |

## I2. Council Tax Income

The amount of Council tax payable is calculated by establishing a ‘Council Tax Base’. This is the Council’s estimated number of chargeable dwellings expressed in relation to those dwellings in Band D. Once this has been determined, the Council tax payable for each band is established as follows (the actual amount payable for each property is also subject to discounts where applicable):

**FOR THE YEAR ENDED 31st MARCH 2024**

| Band | | Valuation band limits £ | | £ | Calculated number of dwellings | Adjusted for discounts | Ratio to Band D | | Equated number of dwellings |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 16 | 9.80 | 5/9 | | 5.44 |
| A | Up to & including | 40,000 | | | 7,826 | 4,528.50 | 6/9 | | 3,019.00 |
| B | | 40,001 | - | 52,000 | 12,059 | 9,364.00 | 7/9 | | 7,283.11 |
| C | | 52,001 | - | 68,000 | 7,870 | 6,830.30 | 8/9 | | 6,071.38 |
| D | | 68,001 | - | 88,000 | 4,438 | 4,058.40 | 9/9 | | 4,058.40 |
| E | | 88,001 | - | 120,000 | 3,375 | 3,183.80 | 11/9 | | 3,891.31 |
| F | | 120,001 | - | 160,000 | 1,273 | 1,215.70 | 13/9 | | 1,756.01 |
| G | | 160,001 | - | 320,000 | 465 | 438.30 | 15/9 | | 730.50 |
| H | More Than | | | 320,001 | 19 | 18.80 | 18/9 | | 37.60 |

| | |
|---|---|
| Adjustment | 0.98 |
| **Council tax base** | **26,304.94** |

**FOR THE YEAR ENDED 31st MARCH 2023**

| Band | | Valuation band limits £ | | £ | Calculated number of dwellings | Adjusted for discounts | Ratio to Band D | | Equated number of dwellings |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 20 | 11.60 | 5/9 | | 6.44 |
| A | Up to & including | 40,000 | | | 7,788 | 4,581.70 | 6/9 | | 3,054.47 |
| B | | 40,001 | - | 52,000 | 12,055 | 9,411.20 | 7/9 | | 7,319.82 |
| C | | 52,001 | - | 68,000 | 7,821 | 6,810.40 | 8/9 | | 6,053.69 |
| D | | 68,001 | - | 88,000 | 4,406 | 4,022.50 | 9/9 | | 4,022.50 |
| E | | 88,001 | - | 120,000 | 3,382 | 3,190.80 | 11/9 | | 3,899.87 |
| F | | 120,001 | - | 160,000 | 1,260 | 1,205.80 | 13/9 | | 1,741.71 |
| G | | 160,001 | - | 320,000 | 468 | 448.10 | 15/9 | | 746.83 |
| H | More Than | | | 320,001 | 19 | 19.00 | 18/9 | | 38.00 |

| | |
|---|---|
| Adjustment | 0.99 |
| **Council tax base** | **26,546.63** |

The breakdown above is for Redditch Borough Council only. Below is the total payable for Band D equivalent for all preceptors:

| | 2023/24 £ | 2022/23 £ |
|---|---|---|
| Redditch Borough Council | 261.75 | 254.15 |
| Worcestershire County Council | 1,465.78 | 1,396.78 |
| Police and Crime Commissioner for West Mercia | 264.50 | 249.66 |
| Hereford and Worcestershire Fire and Rescue | 94.40 | 89.40 |
| **Total Council Tax for non parish areas** | **2,086.43** | **1,989.99** |
| Feckenham Parish Council | 53.22 | 40.05 |
| **Total Council Tax for Feckenham** | **2,139.65** | **2,030.04** |

## I3. Non-Domestic Rates

Non-domestic rates are organised on a local basis. The Government specifies a rate poundage, and subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. In 2022/23 the rate poundage was 51.2p (2021/22 51.2p). The Council is responsible for collecting rates due from the ratepayers in its area and distributing the amount collected between itself, central government and major preceptors in proportions specified by central government. The Council share is shown in the Comprehensive Income and Expenditure Statement and analysed at **Note B6.**

The total rateable value at 31 March 2024 was £91,833,251 (2022/23 £82,141,970).

For 2023/24, the Council was part of the Worcestershire Business Rates Pool where it received a no detriment payment from Worcestershire County Council which is why there is no precept amount reflected in the Collection Fund Statement.

## ANNUAL GOVERNANCE STATEMENT

### Scope of Responsibility

Redditch Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and provides value for money. Redditch Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

In discharging this overall responsibility, Redditch Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

### The purpose of the Governance Framework

The governance framework comprises the systems and processes, culture, and values by which the Authority is directed and controlled and its activities through which it accounts to, engages with, and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money. It also enables the Council to demonstrate to the public that it has effective stewardship of the public funds it is entrusted to spend.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level, consistent with the risk appetite of the Council. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Redditch Borough Council's policies and Strategic Purposes, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively, and economically.

The governance framework has been in place at Redditch Borough Council for the year ended 31 March 2024 and up to the date of approval of the Statement of Accounts.

### The Governance Framework

The framework to deliver good governance across the Council's services in delivering the Strategic Purposes encompass a number of elements.

- The Strategic Purposes have been developed in line with the needs of our communities and customers and the Council Plan has been approved to reflect the activities that need to be undertaken by the Council to further support the delivery of these purposes
- Strategic Partnership meetings are held on a regular basis to ensure that all partners and agencies are engaged in supporting the Councils aims to deliver the purposes to our community. Liaison between officers to deliver joint working arrangements in encouraged and actively undertaken by the Council.
- A performance dashboard is in place, and integrated quarterly finance and performance reporting, for members and officers to review the performance of key measures, both strategic and operational across the organisation. This includes national statistics where relevant to the community of the Borough.
- The Council's Constitution clearly sets out the roles and responsibilities of Councillors, and the procedural rules for Full Council, Executive and the other Committees operated by the Council.
- Terms of reference for member working groups (e.g., Scrutiny Task Groups) are clearly defined.
- Council has approved financial Regulations and Contract Procedure Rules. A full training programme is in place to ensure all relevant officers comply and understand the regulations in place. In addition, an officer contract working group has been established with the aim to improve efficiencies in relation to contract management arrangements.
- A clear scheme of Councillor/Officer delegation exists to provide clarity on the powers entrusted to those appointed to make decisions on behalf of the Council. A Member / Officer protocol is also set out in the Constitution.

- The roles and responsibilities of Councillors are underpinned by an extensive Member Development Programme to include both mandatory and discretionary training. This is developed by the cross-party Member Development Steering Group and includes induction, chair and specific Committee based training.
- The behaviour of Councillors is regulated by the Member Code of Conduct and is supported by a number of protocols.
- A review of the Constitution is undertaken on a regular basis to ensure it enables members to make informed and transparent decisions. This includes the Scheme of Delegation to officers.
- Decision making is carried out through Executive, Planning Committee and Audit, Governance and Standards Committee. Overview and Scrutiny Committee has responsibility to review and scrutinise the activities of the Council.
- Regular staff briefings and fourth tier manager forums are held to ensure staff are aware of changes and are engaged in the systems thinking methodology of supporting service changes across the Council. In addition, a commercial approach to fees and charges and other income generation has been adopted. A framework of culture change is in place, through the Workforce Strategy, and managers are working with their teams to build up actions plans to support culture change in the Council.
- Financial management arrangements have been in place during the year through regular quarterly combined finance and performance monitoring reports, online purchase ordering systems and robust financial internal controls that ensure that the Council complies with statutory legislation. This has included resolving the financial systems issues linked to the enterprise system implemented on 8 February 2021 which resulted in S24 Recommendations to be issued by the Council's External Auditors for non-delivery of Statement of Accounts. A financial recovery process is in place to rectify this position, and this is regularly reported to both Cabinet and the Audit, Standards and Performance Committee. In addition, Backstop Legislation implemented by the Government in September 2024 has also impacted the delivery of outstanding accounts.
- There is a clear procurement code and policy in place to ensure that purchases are made in a compliant and transparent manner.
- Heads of Service are responsible for establishing and maintaining an adequate system of internal control arrangements when within their own services. They are required to sign off annual Governance and Internal Control returns where they can raise any items of concern. There were no new issues raised during 2023/24.
- The Constitution clearly defines the roles of Monitoring Officer, S151 and Head of Paid Service
- Regular press releases are submitted and online information about the Council is sent to residents to inform them of the Councils activities and services provided. In addition, information on the commercial services provided by the Council was sent out to enable residents to utilise the services offered.

### Review of Effectiveness

Redditch has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Heads of Service within Redditch Borough who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and by comments made by the external auditors.

The Constitution clearly identifies the terms of reference, roles and responsibilities of Full Council, Executive, Overview and Scrutiny Committee and Audit, Governance and Standards Committee all of which have fully understood governance responsibilities.

Throughout 2023/24, the Council adopted a robust approach to corporate governance, which has been advised through the work of the Audit, Governance and Standards Committee, Overview and Scrutiny as well as the statutory roles of the S151 Officer and the Monitoring Officer. As in 2023/24, the Audit Governance and Standards Committee has continued to meet six times a year and will only revert to quarterly meetings once the accounts issues have been resolved.

**Audit, Governance and Standards Committee**

The Committee played a role by reviewing and monitoring internal control issues throughout the year. This included approval of the treasury management strategy, savings reports, regular progress reports from Internal Audit and reports and updates from the External Auditors.

**Internal Audit**

RBC's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2015.

The Worcestershire Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient, and effective use of resources.

During 2023/24 the Internal Audit team delivered a comprehensive programme including:

- a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example governance, and,
- a number of operational systems, for example, procurement, projects, grants, and GDPR were looked at to maintain and improve control systems and risk management processes or reinforce oversight of such systems.

Internal Audits' work programme helps to assure Audit, Governance and Standards Committee that the framework and statement can be relied upon based on the following:

- Evidence streams which were verifiable and could be relied upon
- Monitoring and reporting mechanisms were in place to report issues,
- These streams and reporting mechanisms are embedded in the RBC governance process

Internal Audit reports are considered by the relevant Head of Service and Director of Finance and Resources, before submission to the Audit, Governance and Standards Committee for further scrutiny.

In relation to the reviews that have been undertaken, all have been finalised. There were no Audits returned with an assurance level of 'limited," However, a number of "critical friend" audits carried out on the General and Accounts Receivable ledgers and their recommendations have been considered.

## Significant Governance Issues

The Annual Governance Statement identifies governance issues and risks for the Council to address and these are linked to the following two external documents: External Auditors Draft Annual Report for 2020/21 and the External Auditors Draft Report for 2021/22 and 2022/23. These include that the Council in November 2023 received a Report from the Council's External Auditor setting out that the Council had received a S24 Statement for non-delivery of the 2020/21 to 2022/23 Accounts within the required timescales due to the implementation of a new financial ledger and the inherent financial risks associated with this. In respect of Governance Arrangements relating to the 2021/22 financial year:

Actions in these reports have been updated following the issuing by the Government in September 2024 of "Backstop Legislation" to close accounts up to the 2022/23 financial year by the 13th December 2024 and the 2023/24 financial year by the 28th February 2025.

- The Section 24 Recommendation around the delivery of the 2020/21 accounts is still in place and has been extended to the subsequent accounting periods now outstanding. The "Backstop Legislation" has resulted in accounts up to 2022/23 being given "Disclaimer Opinions".
- Of the 6 Key Recommendations in the 2020/21 report, only one serious weakness remains in relation to opening balances linked to the budget which will be resolved with the delivery of the Accounts, the remainder of those significant weaknesses have been resolved or linked to Improvement Recommendations (of which there were 10 in the report).

- There is one new Key Recommendation linked to Organisational Capability and Capacity. The Council is mitigating this in the main through the rollout of the Workforce Strategy.
- Of the 13 2020/21 Improvement Recommendations, 9 have been fully or partially addressed and 4 are yet to be addressed. Again, ongoing improvements are linked to the 10 new Improvement Recommendations set out in the External Auditors report

The 2021/22 and 2022/23 External Audit Report highlights the following key recommendations in the Draft 2020/21 External Audit Report:

- The 2020/21 to 2022/23 Account must be completed and Audited by the date of the next Audit report to ensure there is full confidence in the Council's finances.
- The Council should direct effort toward embedding and stepping up the Workforce Strategy objectives. In line with the recommendations of the LGA Peer Review (March 2023), the Council should ensure that there is commitment at all levels of the organisation to enact succession planning, creative recruitment and development of the workforce. The Council should also ensure that existing staff are utilised in the most effective way possible to ensure delivery of key Council programmes (such as the finance recovery programme) and the strategic priorities
- The Council needs to ensure that the Medium-The Council should Term Financial Plan (MTFP) presented to members and Stakeholders is completely transparent regarding the financial challenge and that any savings schemes included are fully worked up and approved by Members in advance.
- The Council needs to improve the management of Key projects, such as the financial ledger implementation, to ensure that the expected benefits are realised. As part of this the Council needs to undertake a comprehensive review of the financial ledger implementation and ensure that lessons are learned for future key projects.

In response to these issues

- Now that the Government have imposed a backstop date of the 13 December 2024 for Draft Statement of Accounts to be produced, 2020/21 and 2021/22 have been delivered by the backstop date with "Disclaimer Opinions". 2022/23 was delivered by the 22nd January 2025, also with a "Disclaimer Opinion.
- There is a Country wide issue of what the impact of "Disclaimer Opinions" mean for the wider Local Government Sector and Bromsgrove Council in particular.
- The Council has put in place a Financial Recovery process to get accounts up to date. This will be reviewed at the Committee in January 2025.. Since Q1 2023 the Audit Standards and Governance Committee have met six times a year to ensure financial compliance is being delivered. This frequency will remain until the Council's accounts are up to date.
- The MTFP, from 2023/4 onwards is now a 2 Stage process within Stage 1 for wider descriptions on savings and growth items and the time for Members to properly debate all the contents of the reports, including base underlying assumptions. Wider consultation has been undertaken in Q3 2024 for the 2025/26 budget.
- Joint finance and performance monitoring has taken place since Q1 2022/23 with reports going to the Corporate Management Team and then Cabinet.
- An updated Risk Management process has been implemented with reports coming quarterly to the Corporate Management Team and Audit Standards and Governance Committee for review and comment. This regime also includes how formal project monitoring is delivered.
- The Workforce Strategy is moving forward with monthly meetings reviewing the action plan and delivery against it.

An opinion from the Head of Worcestershire Internal Audit is provided in the Accounts on page 78.

### Conclusion and Evaluation

As Leader and Chief Executive, we have been advised on the results of the review of the effectiveness of the Council's governance framework. Our overall assessment is that this Annual Governance Statement is a balanced reflection of the governance environment, and the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

We are also satisfied that over the coming year, the Council will take appropriate steps to address any significant governance issues and we will monitor their implementation and operation as part of our next annual review.

**Signed ……………………………………….**

**Signed ……………………………………….**

**Leader of the Council & Chief Executive on behalf of Redditch Borough Council**

## INTERNAL AUDITORS' REPORT

### Head of Internal Audit Opinion

Redditch Borough Council has a responsibility for maintaining an adequate and effective internal audit function which is set out in the Accounts and Audit (England) Regulations 2018.

Internal Audit Services are delivered by the Worcestershire Internal Audit Service.

The Public Sector Internal Audit Standards (the Standards) require the Head of Internal Audit to provide an annual Internal Audit Opinion and report that can be used by the organisation to inform its Annual Governance Statement. The Standards specify that the annual report must contain:

- An Internal Audit opinion on the overall adequacy and effectiveness of the Council's governance, risk management and control framework (i.e. the control environment);
- A summary of the audit work (including organisational knowledge) from which the opinion is derived and any work by other assurance providers upon which reliance is placed; and
- A statement of the extent of conformance with the Standards including progress against the improvement plan arising from any external assessments

**Overall Governance Conclusion**

The Head of Internal Audit's overall opinion on the Council's system of internal control is that:

**Reasonable assurance** can be given that there is an adequate and effective governance, risk and control framework in place, designed to meet the organisation's objectives.

All of the 10 graded assignments completed in 2023/24 resulted in an opinion of either Substantial or Reasonable assurance.

The progress made by management in implementing the actions arising from audits has been good. Follow up work completed by Internal Audit has not highlighted any overdue High or Medium priority actions. Implementation of agreed control improvement actions strengthens the organisation's framework of governance, risk management and control.

The Corporate risk register is regularly reviewed and updated, with trend analysis and good oversight by the Audit, Standards and Governance Committee. A stable governance framework is in place, which is deemed to be effective, and no significant weaknesses have been identified in 2023/24.

A summary of Internal Audit assurance opinions issued in 2023/24 is shown in Table 1 below:

**Table 1 – Summary of Internal Audit Opinions in 2023/24**

| Assurance Area | Substantial | Reasonable | Limited | No |
|---|---|---|---|---|
| Financial | 2 | 3 | 0 | 0 |
| IT | 0 | 1 | 0 | 0 |
| Governance & Ethics | 0 | 2 | 0 | 0 |
| Strategic & Operational Risks | 2 | 0 | 0 | 0 |
| **Totals** | **4** | **6** | **0** | **0** |

The Auditor's Opinion for each assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean:

**Table 2 – Assurance Categories**

| Opinion | Definition |
|---|---|
| Substantial Assurance | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited |
| Reasonable Assurance | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Limited Assurance | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. |
| No Assurance | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

The prioritisation of recommendations made by Internal Audit is based upon an assessment of the level of risk exposure. The Auditor's Opinion considers the likelihood of corporate/ service objectives not being achieved, and the impact of any failure to achieve objectives. In order that recommendations can be prioritised according to the potential severity of the risk, a traffic light system is used as follows:

**Definition of Priority of Recommendations**

| Priority | Definition |
|---|---|
| H | Fundamental control weaknesses that present a significant material risk to the function or system objectives and requires immediate attention by Senior Management. |
| M | Other control weaknesses where there are some controls in place but there are issues with parts of the control that need to be addressed by Management within the area of review. |
| L | Issues of best practise where some improvement can be made. |

Table 3 details the assurance levels resulting from all audits completed during the year:

Table 3 details the assurance levels resulting from all audits completed during the year:

| Audit Area | Assurance Opinion |
|---|---|
| **Financial** | |
| Debt Management | Reasonable |
| Council Tax | Reasonable |
| Benefits | Substantial |
| NNDR | Substantial |
| Treasury Management | Reasonable |
| **IT** | |
| ICT – Cyber Security | Reasonable |
| **Governance & Ethics** | |
| Risk Management | Reasonable |
| Project Management | Reasonable |
| **Strategic & Operational Risks** | |
| Grants Assurance | Substantial |
| Follow up reviews | Substantial |

Much internal audit work is carried out "behind the scenes" and is demand led but is not always the subject of a formal report. Examples include:

- Governance e.g. assisting with the Annual Governance Statement.
- Risk management.
- Dissemination of information regarding potential fraud cases likely to affect the Council.
- Drawing managers' attention to specific audit or risk issues.
- Internal audit recommendations: follow up review and advice.
- Day to day audit support and advice for example risk implications arising from proposed changes in controls. • Networking with audit colleagues in other Councils on professional points of practice.

## QUALITY ASSURANCE AND COMPLIANCE WITH PROFESSIONAL STANDARDS

The Public Sector Internal Audit Standards (the Standards) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) from April 2013. The Standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector.

The objectives of the Standards are to:

- Define the nature of internal auditing within the public sector;
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for evaluation of internal audit performance and to drive improvement planning.

The Standards require that an independent External Quality Assessment (EQA) of the service be completed every 5 years. An EQA has just been completed in May 2024, and the results confirm that the service is operating in General Conformance to the Standards. This is the highest of the three available assessment grades. The findings of the external assessment are being used to develop a continuous improvement action plan which will be presented with a new Quality Assurance policy at the next Audit, Standards and Governance Committee meeting.

As part of the EQA a client satisfaction survey was issued and based upon a response from 15 senior client officers and members, there was a 92% positive satisfaction score. Further quality control measures embedded in the service include individual audit reviews and regular Client Officer feedback. All staff work to a given methodology and have access to the internal audit reference material and Charter which are updated regularly to reflect the requirements of the standards and the changing environment that Internal Audit operates.

### ORGANISATION INDEPENDENCE

If independence or objectivity is impaired in fact or appearance, the Head of Internal Audit is required to disclose this. The Head of Internal Audit can confirm that the Internal Audit service is independent and objective, and this is currently demonstrated in a number of ways:

- The Head of Internal Audit reports directly to the S151 officer at all partner organisations in the Shared Service and the equivalent Audit Committee. He also has direct unfettered access to the Heads of Paid Service, Monitoring Officers and Chairs of the Audit Committees.
- Any attempts to unduly influence the scope of audit reviews or the contents of reports will be reported by the Head of Internal Audit to the Head of Paid Service and the Chair of the Audit Committee.
- All officers responsible for internal audit work are required to complete an annual Declaration of Interests form, which is in turn reviewed by the Head of Internal Audit. In the case of the Head of Internal Audit, the form is reviewed by the Director of Corporate Resources (s151 officer) at Worcester City Council. Auditors are required to report any interests that might compromise the impartiality of their professional judgements – or give rise to a perception that this impartiality has been compromised. Any conflicts of interest are avoided when allocating assignments.
- The Audit, Standards and Governance Committee approves any significant consultancy activity included in the Internal Audit Plan.

## GLOSSARY

### AAA FITCH RATING
Highest credit quality - 'AAA' ratings denote the lowest expectation of credit risk.

They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

### AA FITCH RATING
Extremely high credit quality - 'AA' ratings denote a very low expectation of credit risk. They indicate strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

### A FITCH RATING
High credit quality - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

### ACCOUNTING PERIOD
The period covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### ACCRUALS
Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

### ACTUARIAL GAINS AND LOSSES
For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because:

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- The actuarial assumptions have changed

### ASSET
An item having value to the authority in monetary terms. Assets are categorised as either current or non-current

- A current asset will be consumed or cease to have material value within the next financial year (e.g., cash and stock).
- A non-current asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g., a community centre, or intangible, e.g., computer software licences.

### AUDIT OF ACCOUNTS
An independent examination of the Authority's financial affairs.

### BALANCE SHEET
A statement of the recorded assets, liabilities, and other balances at the end of the accounting period.

### BORROWING
Using cash provided by another party to pay for expenditure, based on an agreement to repay the cash at a future point, usually incurring additional interest charges over and above the original amount.

### BUDGET
The forecast of net revenue and capital expenditure over the accounting period.

### CAPITAL EXPENDITURE
Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

# GLOSSARY

### CAPITAL FINANCING
Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

### CAPITAL PROGRAMME
The capital schemes the Authority intends to carry out over a specific period of time.

### CAPITAL RECEIPT
The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

### CLAW-BACK
Where average Council house rents are set higher than the government's prescribed average limit rent, used in the calculation of rent rebates, the percentage difference reduces the amount of rent rebate subsidy due to the Authority, i.e., it is "clawed-back" by the government.

### CIPFA
The Chartered Institute of Public Finance and Accountancy

### COLLECTION FUND
A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

### COMMUNITY ASSETS
Assets that the Authority intends to hold in perpetuity, which have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

### COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
The account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants, and other income.

### CONSISTENCY
The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

### CONTINGENT ASSET
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not within the Authority's accounts.

### CONTINGENT LIABILITY
A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not within the Authority's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

### CORPORATE AND DEMOCRATIC CORE
The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### CREDITOR
Amount owed by the Authority for work done, goods received, or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

### CURRENT SERVICE COST (PENSIONS)
The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

## GLOSSARY

**DEBTOR**
Amount owed to the Authority for works done, goods received, or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

**DEFINED BENEFIT PENSION SCHEME**
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

**DEPRECIATION**
The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Authority's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

**DISCRETIONARY BENEFITS (PENSIONS)**
Retirement benefits, which the employer has no legal, contractual, or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

**EQUITY**
The Authority's value of total assets fewer total liabilities.

**EVENTS AFTER THE BALANCE SHEET DATE**
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

**EXPECTED RETURN ON PENSION ASSETS**
For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

**FAIR VALUE**
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

**FINANCE LEASE**
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**GOING CONCERN**
The concept that the Statement of Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

**GOVERNMENT GRANTS**
Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Authority. These grants may be specific to a particular scheme or may support the revenue spend of the Authority in general.

**HOUSING BENEFITS**
A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by central government.

**HOUSING REVENUE ACCOUNT (HRA)**
A separate account to the General Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Authority.

**IMPAIRMENT**
A reduction in the value of a fixed asset to below its recoverable amount, the higher of the asset's fair value less costs to sell and its value in use.

### INFRASTRUCTURE ASSETS
Fixed assets belonging to the Authority that cannot be transferred or sold on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths, and bridges.

### INTANGIBLE ASSETS
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

### INTEREST COST (PENSIONS)
For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

### INVESTMENTS (PENSION FUND)
The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

### LIABILITY
**A liability is where the Authority owes payment to an individual or another organisation.**

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g., creditors or cash overdrawn.
- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

### LIQUID RESOURCES
Current asset investments that are readily disposable by the Authority without disrupting its business and are either:

- Readily convertible to known amounts of cash at or close to the carrying amount; or
- Traded in an active market

### LONG-TERM CONTRACT
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

### MATERIALITY
The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

### MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year to provide for the repayment of loans and other amounts borrowed by the Authority.

### NET BOOK VALUE
The amount at which fixed assets are included in the Balance Sheet, i.e., their historical costs or current value less the cumulative amounts provided for depreciation.

### NET DEBT
The Authority's borrowings less cash and liquid resources.

### NON-DISTRIBUTED COSTS
These are overheads for which no user now benefits and as such are not apportioned to services.

### NON-DOMESTIC RATES (NDR)
The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by central government and multiplied by the assessed rateable value of the premises they occupy. In England it is collected by the Authority on behalf of itself, central government, and major preceptors. In Scotland it is collected by the Authority on behalf of central government and then redistributed back to support the cost of services.

### NON-OPERATIONAL ASSETS
Fixed assets held by the Authority but not directly occupied, used, or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

### OPERATING LEASE
A lease where the ownership of the fixed asset remains with the lessor.

### OPERATIONAL ASSETS
Fixed assets held and occupied, used, or consumed by the Authority in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### PAST SERVICE COST (PENSIONS)
For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period because of the introduction of, or improvement to retirement benefits.

### PENSION SCHEME LIABILITIES
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

### PRECEPT
The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

### PRIOR YEAR ADJUSTMENT
Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### PROVISION
An amount put aside in the accounts for future liabilities or losses which are certain or highly likely to occur but the amounts or dates of when they will arise are uncertain.

### PUBLIC WORKS LOAN BOARD (PWLB)
A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

### RATEABLE VALUE
The annual assumed rental of a hereditament, which is used for NDR purposes.

### RELATED PARTIES
There is a detailed definition of related parties in FRS 8. For the Council’s purposes related parties are deemed to include the Authority’s members, the Chief Executive, its Directors and their close family and household members.

### RELATED PARTY TRANSACTIONS
The Statement Of Recommended Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

### REMUNERATION
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

## GLOSSARY

**RESERVES**
The accumulation of surpluses, deficits, and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

**RESIDUAL VALUE**
The net realisable value of an asset at the end of its useful life.

**RETIREMENT BENEFITS**
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

**REVENUE EXPENDITURE**
**The day-to-day expenses of providing services.**

**REVENUE EXPENDITURE CAPITALISED UNDER STATUTE (REFCUS)**
Expenditure which ordinarily would be revenue but is statutorily defined as capital.
Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction.

**REVENUE SUPPORT GRANT**
A grant paid by Central Government to authorities, contributing towards the general cost of their services.

**STOCKS**
Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

**TEMPORARY BORROWING**
Money borrowed for a period of less than one year.

**TRUST FUNDS**
Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

**USEFUL ECONOMIC LIFE (UEL)**
The period over which the Authority will derive benefits from the use of a fixed asset.

**WORCESTERSHIRE PENSION FUND (WPF)**
The Worcestershire Pension Fund is administered by Worcestershire County Council and consists of the County and Districts within Worcestershire together with admitted bodies such as Academy Schools.

This page is intentionally left blank

**REDDITCH BOROUGH COUNCIL**

## Audit, Governance and Standards Committee 30th January 2025

### Capital Strategy 2025/26 Including Treasury Management Strategy

| | | |
|---|---|---|
| Relevant Portfolio Holder | | Councillor Woodall – Portfolio Holder for Finance |
| Portfolio Holder Consulted | | Yes |
| Relevant Head of Service | | Debra Goodall |
| Report Author | Job Title: Assistant Director Finance & Customer Services<br>Contact email: Debra.goodall@bromsgroveandredditch.gov.uk<br>Contact Tel: | |
| Wards Affected | | All |
| Ward Councillor(s) consulted | | No |
| Relevant Strategic Purpose(s) | | All |
| Key Decision / Non-Key Decision | | |
| If you have any questions about this report, please contact the report author in advance of the meeting. | | |
| | | |

## 1. RECOMMENDATIONS

**Audit, Governance and Standards Committee are asked to RECOMMEND TO COUNCIL that:**

**i) the Capital Strategy (Appendix A) as an appropriate overarching strategy for the Council be approved.**
**ii) the Treasury Management Strategy for 2025/26 (Appendix B) and the associated MRP policy (Appendix C) be approved.**
**iii) the Investment Strategy (Appendix D) be approved.**

## 2. BACKGROUND

2.1 The report for 2025/26 is required following changes in the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Ministry for Housing, Communities and Local Government guidance. It combines an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. The strategies set limits and indicators that embody the risk management approach that the Council believes to be prudent. The strategies are set against the mid-term financial strategy, the context of the UK economy and projected interest rates.

2.2 The Council are required to set a balanced operating budget. The role of the treasury function is to manage cash flow within the authority so that the demands of expenditure can be met. The policies included in this report set out the criteria in which the Council can manage its Treasury management function.

2.3 The CIPFA Code of Practice for Treasury Management in Public services (the CIPFA TM Code) and the Prudential Code require local authorities to set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each financial year. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance. In addition, the Council has to receive a report on treasury management, and this is reported on a quarterly basis which is included within the Quarterly Monitoring Report.

2.4 CIPFA has defined Treasury Management as:

"the management of the organisation's investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.5 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. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments)
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years)
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

2.6 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.

2.7 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, the Council adopts the Treasury Management Framework and Policy recommended by CIPFA.

2.8 The Council has closed its 2020/21, 2021/22, 2022/23 Accounts and the 2023/24 accounts are out for consultation to comply with the Governments "backstop requirements". However, like many other Councils, "Disclaimer Opinions" have been received for 2020/21 through to 2022/23 as per the "backstop requirements" and the implications of these opinions are still not clear. The Strategies will be updated, if required, once the Accounts have been closed and approved.

## 3. LEGAL IMPLICATIONS

3.1 This is a statutory report under the Local Government Act 2003.

## 4. STRATEGIC PURPOSES - IMPLICATIONS

**Relevant Strategic Purpose**

4.1 The Strategic purposes are included in the Council's Corporate Plan and guides the Council's approach to budget making ensuring we focus on the issues and what are most important for the borough and our communities. Our Financial monitoring and strategies are integrated within all our Strategic Purposes.

**Climate Change Implications**

4.2 The green thread runs through the Council Plan. This includes the Capital and Treasury Management Strategies.

## 5. OTHER IMPLICATIONS

**Equalities and Diversity Implications**

5.1 There are no direct equalities implications arising as a result of this report.

**Operational Implications**

5.2 None as a direct result of this report, service requirements which form the Capital Programme are the base data for this report.

## 6. RISK MANAGEMENT

6.1 Failure to manage the Treasury Management function effectively to ensure the delivery of maximum return within a secure environment. Controls in place to mitigate these risks are as follows:

- Regular monitoring of the status of the organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications.

## 7. APPENDICES and BACKGROUND PAPERS

Appendix A – Capital Strategy 2025/26
Appendix B – Treasury Management Strategy 2025/26
Appendix C – Minimum Revenue Provision Statement 2025/26
Appendix D – Investment Strategy 2025/26

**REDDITCH BOROUGH COUNCIL**

**Audit, Governance and Standards Committee 30th January 2025**

## 8. REPORT SIGN OFF

| Department | Name and Job Title | Date |
|---|---|---|
| Portfolio Holder | Cllr Ian Woodall | 21/01/2025 |
| Lead Director / Assistant Director | Pete Carpenter | 21/01/2025 |
| Financial Services | Debra Goodall | 20/01/2025 |
| Legal Services | Claire Felton | 21/01/2025 |
| Policy Team (if equalities implications apply) | N/A | |
| Climate Change Officer (if climate change implications apply) | N/A | |

# Appendix A RBC Capital Strategy Report 2025/26

## Introduction

1.1 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

1.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

## Capital Expenditure and Financing

1.3 Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

1.4 In 2025/26, the Authority is planning capital expenditure of £4.9m for General Fund projects £12.0m for HRA work and £2.9m for regeneration work, most of which is related to Towns Fund grant. This ss summarised below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions*

| | 2023/24 actual | 2024/25 forecast | 2025/26 budget * | 2026/27 budget | 2027/28 budget |
|---|---|---|---|---|---|
| General Fund services | 1.1 | 6.8 | 4.9 | 3.3 | 2.0 |
| Council housing (HRA) | 10.3 | 11.7 | 12.0 | 11.5 | 11.1 |
| Regeneration | 0.7 | 13.8 | 2.9 | 0.7 | 0.1 |
| **TOTAL** | 12.1 | 32.3 | 19.8 | 15.5 | 13.2 |

1.5 The main General Fund capital projects include Towns Fund regeneration schemes (Innovation Centre, Town Square and Public Realm) totalling £16m to be spent by 2026 and UK Shared Prosperity Funding to be spent by 2025. Following a change in the Prudential Code, the Authority no longer incurs capital expenditure on investments.

1.6 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsided, by other local services. HRA capital expenditure is therefore recorded separately.

1.7 **Governance**: Service managers bid annually in January to include projects in the Authority's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Audit Standards and Governance Committee and then the Cabinet appraises all bids based on a comparison of strategic priorities against financing costs and makes recommendations to Council. The final capital programme is then presented to Cabinet in February and to Council in February each year.

- For full details of the Authority's capital programme, including the project appraisals undertaken, see Tranche 2 of the 2025/26 Medium Term Financial Plan.

1.8 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

*Table 2: Capital financing in £ millions*

| | 2023/24 actual | 2024/25 forecast | 2025/26 budget * | 2026/27 budget | 2027/28 budget |
|---|---|---|---|---|---|
| External sources | 0.9 | 15.0 | 4.9 | 0.7 | 0.7 |
| Own Resources | 11.2 | 4.8 | 3.0 | 2.8 | 1.5 |
| Debt | 0 | 12.5 | 11.9 | 12.0 | 11.0 |
| **TOTAL** | 12.1 | 32.3 | 19.8 | 15.5 | 13.2 |

1.9 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned [MRP / repayments] and use of capital receipts are as follows:

*Table 3: Replacement of prior years' debt finance in £ millions*

| | 2023/24 actual | 2024/25 forecast | 2025/26 budget * | 2026/27 budget | 2027/28 budget |
|---|---|---|---|---|---|
| Minimum revenue provision | 0.9 | 0.9 | 1.0 | 1.1 | 1.2 |
| Capital Receipts | 0.2 | 3.3 | 4.2 | 1.7 | 1.7 |

- The Authority's full minimum revenue provision statement is available within the body of this report.

1.10 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £1.9m during 2025/26. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

*Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions*

| | 31.3.2024 actual | 31.3.2025 forecast | 31.3.2026 budget | 31.3.2027 budget | 31.3.2028 budget |
|---|---|---|---|---|---|
| General Fund & Regeneration | 6.7 | 10.9 | 12.5 | 10.5 | 10.5 |
| **HRA** | 146 | 147 | 147.3 | 147.7 | 147.7 |
| **TOTAL CFR** | 152.7 | 157.9 | 159.8 | 158.2 | 158.2 |

1.11 **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. Within this strategy, individual properties and associated land will be further evaluated to determine:

- The operational necessity and benefit.
- Projected costs of ensuring all elements of the buildings continue to meet legislative requirements and performance standards.
- Planned and cyclical maintenance costs for elements nearing the end of their 'life' expectancy, ensuring service provision is maintained without unnecessary interruption. Costs associated with meeting future EPC rating minimum requirements.
- Rent levels (and net costs for each building) and revised leases.
- Alternative or rationalised portfolio or joint enterprises for service delivery.

By evaluation of all factors cited above, informed decisions can be made to determine which assets are:

- No longer cost effective to run, where outlay exceeds earning potential
- No longer viable for effective service delivery
- Surplus to requirements

Asset considerations will be presented to Cabinet on a half yearly basis for approval for disposal, unless there is an urgent requirement for a decision.

1.12 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt: The Authority is currently also permitted to spend capital receipts "flexibly" on service transformation projects until 2029/30 although nothing is presently planned. Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £4.2m of capital receipts in the coming financial year as follows:

*Table 5: Capital receipts receivable in £ millions*

| | 2023/24 actual | 2024/25 forecast | 2025/26 budget * | 2026/27 budget | 2027/28 budget |
|---|---|---|---|---|---|
| Asset sales | 0.2 | 3.3 | 4.2 | 1.7 | 1.7 |
| Loans etc repaid | 0 | 0 | 0 | 0 | 0 |

**Treasury Management**

1.13 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

1.14 Due to decisions taken in the past, the Authority currently has no external long term (over 1 year) borrowing and £16.5m treasury investments at an average rate of 4.8%.

1.15 **Borrowing strategy:** The Authority's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

1.16 The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

1.17 Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement (see above).

*Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions*

| Gross Debt | 31.3.2024 actual | 31.3.2025 forecast | 31.3.2026 budget | 31.3.2027 budget | 31.3.2028 budget |
|---|---|---|---|---|---|
| HRA (incl. PFI & leases) | 103.9 | 103.9 | 105.4 | 105.8 | 106.2 |
| General Fund (incl. PFI & leases) | 0.9 | 8.1 | 17.5 | 18.9 | 19.1 |
| Capital Financing Requirement | 152.7 | 157.9 | 159.8 | 158.2 | 158.2 |

# Agenda Item 8

1.18 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

1.19 **Liability benchmark:** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £2m at each year-end. This benchmark is currently £5.6m and is forecast to rise to £6.6m over the next three years.

*Table 7: Borrowing and the Liability Benchmark in £ millions*

| | 31.3.2024 actual | 31.3.2025 forecast | 31.3.2026 budget | 31.3.2027 budget | 31.3.2028 budget |
|---|---|---|---|---|---|
| Forecast Outstanding borrowing - GF | 0.9 | 8.1 | 17.5 | 18.9 | 19.1 |
| Liability benchmark | -23.0 | -15.8 | -6.4 | -5.0 | -4.8 |

1.20 The table shows that the Authority expects to remain borrowed below its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.

1.21 **Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

*Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

| | 2024/25 limit £m | 2025/26 limit £m | 2026/27 limit £m | 2027/28 limit £m |
|---|---|---|---|---|
| Authorised limit – borrowing | 185 | 190 | 190 | 195 |
| Authorised limit – PFI and leases | 1.5 | 1.5 | 1.5 | 1.5 |
| Authorised limit – total external debt | **186.5** | **191.5** | **191.5** | **196.5** |
| Operational boundary – borrowing | 175 | 180 | 180 | 185 |
| Operational boundary – PFI and leases | 1.5 | 1.5 | 1.5 | 1.5 |
| Operational boundary – total external debt | **176.5** | **181.5** | **181.5** | **186.5** |

1.22 **Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

1.23 The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

*Table 9: Treasury management investments in £millions*

| | 2023/24 actual | 2024/25 forecast | 2025/26 budget * | 2026/27 budget | 2027/28 budget |
|---|---|---|---|---|---|
| Near-term investments | 42 | 35 | 20 | 20 | 25 |
| Long-term investments | 0 | 0 | 0 | 0 | 0 |
| **TOTAL** | 42 | 35 | 20 | 20 | 25 |

- Further details on treasury investments are in the Treasury Management Strategy part of this appendix.

1.24 **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- The treasury management prudential indicators are in the treasury management strategy which are part of these appendices.

1.25 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to Cabinet. The Audit, Standards and Governance Committee is responsible for scrutinising treasury management decisions.

**Investments for Service Purposes**

1.26 The Authority makes investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, and the Authority's subsidiaries that provide services to stakeholders. Total investments for service purposes are currently valued at £0m.

1.27 **Risk management:** In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs. A limit of £2.5m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

1.28 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. The relevant service director and the Director of Finance are responsible for ensuring that adequate due diligence is carried out before investment is made.

Further details on service investments are in the Treasury Management Strategy

## Liabilities

1.29 In addition to debt of £104m detailed above, the Authority has set aside £0.47m to cover risks of Insurance Claims and £0.64m for Business Rates Appeals.

1.30 **Governance:** Decisions on incurring new discretional liabilities are taken by Heads of Service in consultation with the Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by the corporate finance team and reported biannually to Cabinet. New liabilities exceeding £0.5m are reported to full council for approval/notification as appropriate.

## Revenue Budget Implications

1.31 In addition to debt of £104m detailed above, the Authority is committed to making future payments to cover its pension fund deficit. It has also set aside £0.64m for Business Rates Appeals via a reserve.

*Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream*

| | 2023/24 actual | 2024/25 forecast | 2025/26 budget * | 2026/27 budget | 2027/28 budget |
|---|---|---|---|---|---|
| Financing costs (£m) | 1.1 | 1.1 | 1.2 | 1.4 | 1.5 |
| Proportion of net revenue stream | 9.80% | 9.10% | 11.50% | 12.40% | 12.90% |

1.32 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because of the Medium Term Financial Plan (MTFP) forecasts which show that the Council is financially sustainable over that period.

**Knowledge and Skills**

1.33 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Finance and Head of Service are qualified accountants with significant experience. The Authority pays for junior staff to study towards relevant professional qualifications including CIPFA and AAT.

1.34 Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers and Bruton Knowles as property consultants. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

- Further details on staff training can be found in the HR Employee Development section of the website.

# Appendix B - RBC Treasury Management Strategy Statement 2025/26

## Introduction

2.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

2.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

2.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

## External Context

### Economic background:

2.4 The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.

2.5 The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.

2.6 The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).

2.7 ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

2.8 The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

2.9 The US Federal Reserve has continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an (upwardly revised) annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

2.10 Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

**Credit outlook:**

2.11 Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

2.12 Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

2.13 Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the authority's treasury adviser.

2.14 Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

**Interest rate forecast (December 2024):**

2.15 The Authority's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

2.16 Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

2.17 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

2.18 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 4.6%%, and that new long-term loans will be borrowed at an average rate of 5.8%.

**Local Context**

2.19 On 7th January 2025, the Authority had no borrowing and £13m of treasury investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

*Table 1: Balance sheet summary and forecast*

| | 31.3.24 Actual £m | 31.3.25 Estimate £m | 31.3.26 Forecast £m | 31.3.27 Forecast £m | 31.3.28 Forecast £m |
|---|---|---|---|---|---|
| Capital financing requirement | 6.7 | 10.9 | 12.5 | 10.5 | 10.5 |
| Less: External borrowing ** | 0 | 12.5 | 24.4 | 36.4 | 47.4 |
| **Internal borrowing** | 6.7 | -1.6 | -11.9 | -25.9 | -36.9 |
| Less: Usable Reserves | -17.0 | -17.0 | -15 | -14.0 | -12.0 |
| Less: Working Capital | -4.9 | -4.9 | -4.9 | -4.9 | -4.9 |
| **Treasury investments** | 15.2 | 23.5 | 31.8 | 44.8 | 53.8 |

** shows only loans to which the Authority is committed and excludes optional refinancing

2.20 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.21 The Authority has an increasing CFR due to the capital programme, but minimal investments but will be funding the programme through internal borrowing.

2.22 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2025/26.

2.23 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £0.2m at each year-end to maintain sufficient liquidity but minimise credit risk.

2.24 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

*Table 2: Prudential Indicator: Liability benchmark*

| | 31.3.24 Actual £m | 31.3.25 Estimate £m | 31.3.26 Forecast £m | 31.3.27 Forecast £m | 31.3.28 Forecast £m |
|---|---|---|---|---|---|
| Loans CFR | 6.7 | 10.9 | 12.5 | 10.5 | 10.5 |
| Less: Usable Reserves | -17.0 | -17.0 | -15 | -14.0 | -12.0 |
| Less: Working Capital | -4.9 | -4.9 | -4.9 | -4.9 | -4.9 |
| **Net loans requirement** | -15.2 | -11.0 | -7.4 | -8.4 | -6.4 |
| Plus: Liquidity allowance | 2.0 | 2.0 | 2 | 2.0 | 2.0 |
| **Liability benchmark** | -13.2 | -9.0 | -5.4 | -6.4 | -4.4 |

2.25 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £2m average a year, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year.

## Borrowing Strategy

2.26 The Authority currently holds £104 million of loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £7.4m in 2025/26. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £60 million.

2.27 **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

2.28 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators, see below.

2.29 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of [internal / short-term] borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

2.30 The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

2.31 In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

2.32 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly known as UK Infrastructure Bank Ltd)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Local Government Pension Scheme)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

2.33 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

2.34 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

2.35 **Short-term and variable rate loans**: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

2.36 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

## Treasury Investment Strategy

2.37 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £1 and £18.5 million, and similar levels are expected to be maintained in the forthcoming year.

2.38 **Objectives:** The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

2.39 **Strategy:** As demonstrated by the liability benchmark above, the Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

2.40 The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

2.41 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

2.42 **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

2.43 **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

*Table 3: Treasury investment counterparties and limits*

| Credit rating | Banks unsecured | Banks secured | Government | Corporates | Registered Providers |
|---|---|---|---|---|---|
| UK Govt | n/a | n/a | £ Unlimited 50 years | n/a | n/a |
| AAA | £3 m 5 years | £3m 20 years | £3m 50 years | £3m 20 years | £1m 20 years |
| AA+ | £3m 5 years | £3m 10 years | £3m 25 years | £3m 10 years | £1m 10 years |
| AA | £3m 4 years | £3m 5 years | £3m 15 years | £3m 5 years | £1m 10 years |
| AA- | £3m 3 years | £3m 4 years | £3m 10 years | £3m 4 years | £1m 10 years |
| A+ | £3m 2 years | £3m 3 years | £3m 5 years | £3m 3 years | £1m 5 years |
| A | £3m 13 months | £3m 2 years | £3m 5 years | £3m 2 years | £1m 5 years |
| A- | £3m 6 months | £3m 13 months | £3m 5 years | £3m 13 months | £1m 5 years |
| None | £1.5m 6 months | n/a | £3m 25 years | £1m 5 years | £500k 5 years |
| **Pooled funds and real estate investment trusts** | | £2.5m per fund or trust | | | |

2.44 **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

2.45 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £500,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

2.46 **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

2.47 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

2.48 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

2.49 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

2.50 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

2.51 **Strategic pooled funds:** Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

2.52 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

2.53 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

2.54 **Operational bank accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2.0m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

2.55 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

2.56 **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

2.57 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

2.58 **Investment limits**: The Authority's revenue reserves available to cover investment losses are forecast to be £17 million on 31st March 2025 and £15 million on 31st March 2026. In order that no more than 42% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

2.59 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £2m in operational bank accounts count against the relevant investment limits.

2.60 Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

| | Cash limit |
|---|---|
| Any single organisation, except the UK Central Government | £5m each |
| UK Central Government | unlimited |
| Any group of organisations under the same ownership | £5m per group |
| Any group of pooled funds under the same management | £5m per manager |
| Negotiable instruments held in a broker's nominee account | £5m per broker |
| Foreign countries | £5m per country |
| Registered providers and registered social landlords | £2.5m in total |
| Unsecured investments with building societies | £2.5m in total |
| Loans to unrated corporates | £1m in total |
| Money market funds | £20m in total |
| Real estate investment trusts | £2.5m in total |

2.61 **Liquidity management**: The Authority uses detailed spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

2.62 The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## Treasury Management Prudential Indicators

2.63 The Authority measures and manages its exposures to treasury management risks using the following indicators.

2.64 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| **Credit risk indicator** | **Target** |
|---|---|
| Portfolio average credit [rating / score] | *A* |

2.65 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

| **Liquidity risk indicator** | **Target** |
|---|---|
| Total cash available within 3 months | £2.5m |

2.66 **Interest rate exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

| **Interest rate risk indicator** | **Limit** |
|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | £500,000 |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £500,000 |

# Agenda Item 8

2.67 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

2.68 **Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

| Refinancing rate risk indicator | Upper limit | Lower limit |
|---|---|---|
| Under 12 months | 50% | 0% |
| 12 months and within 24 months | 50% | 0% |
| 24 months and within 5 years | 50% | 0% |
| 5 years and within 10 years | 50% | 0% |
| 10 years and above | 100% | 0% |

2.69 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

2.70 **Long-term treasury management investments:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

| Price risk indicator | 2025/26 | 2026/27 | 2027/27 | No fixed date |
|---|---|---|---|---|
| Limit on principal invested beyond year end | £1.0m | £0.5m | £0m | £0m |

2.71 Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

**<u>Related Matters</u>**

2.72 The CIPFA Code requires the Authority to include the following in its treasury management strategy.

2.73 **Financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

2.74 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

2.75 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

2.76 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

2.77 **Markets in Financial Instruments Directive**: The Authority has retained retail client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance believes this to be the most appropriate status.

**Financial Implications**

2.78 The budget for investment income in 2025/26 is £203.6k based on an average investment portfolio of £4.5 million at an interest rate of 4.5%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

2.79 Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

**Other Options Considered**

2.80 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, having consulted the Cabinet Member for Finance and Enabling, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

| Alternative | Impact on income and expenditure | Impact on risk management |
|---|---|---|
| Invest in a narrower range of counterparties and/or for shorter times | Interest income will be lower | Lower chance of losses from credit related defaults, but any such losses may be greater |
| Invest in a wider range of counterparties and/or for longer times | Interest income will be higher | Increased risk of losses from credit related defaults, but any such losses may be smaller |
| Borrow additional sums at long-term fixed interest rates | Debt interest costs will rise; this is unlikely to be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain |
| Borrow short-term or variable loans instead of long-term fixed rates | Debt interest costs will initially be lower | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain |
| Reduce level of borrowing | Saving on debt interest is likely to exceed lost investment income | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain |

**Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2024**

**Underlying assumptions:**

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.
- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.
- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.
- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.
- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.
- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

**Forecast:**

- In line with our forecast, Bank Rate was held at 4.75% in December.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.

- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.
- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

| | Current | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.25 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Central Case | 4.75 | 4.50 | 4.25 | 4.00 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |
| Downside risk | 0.00 | -0.25 | -0.25 | -0.50 | -0.50 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 |
| 3-month money market rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.25 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Central Case | 4.90 | 4.60 | 4.35 | 4.10 | 3.90 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 |
| Downside risk | 0.00 | -0.25 | -0.25 | -0.50 | -0.50 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 |
| 5yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.70 | 0.80 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Central Case | 4.34 | 4.30 | 4.20 | 4.10 | 4.00 | 3.90 | 3.90 | 3.95 | 4.00 | 4.05 | 4.05 | 4.05 | 4.05 |
| Downside risk | 0.00 | -0.50 | -0.60 | -0.65 | -0.65 | -0.70 | -0.70 | -0.75 | -0.75 | -0.80 | -0.80 | -0.80 | -0.80 |
| 10yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.70 | 0.80 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Central Case | 4.56 | 4.55 | 4.45 | 4.30 | 4.20 | 4.20 | 4.20 | 4.20 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 |
| Downside risk | 0.00 | -0.50 | -0.60 | -0.65 | -0.65 | -0.70 | -0.70 | -0.75 | -0.75 | -0.80 | -0.80 | -0.80 | -0.80 |
| 20yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.70 | 0.80 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Central Case | 5.05 | 5.00 | 4.90 | 4.80 | 4.70 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 |
| Downside risk | 0.00 | -0.50 | -0.60 | -0.65 | -0.65 | -0.70 | -0.70 | -0.75 | -0.75 | -0.80 | -0.80 | -0.80 | -0.80 |
| 50yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.70 | 0.80 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Central Case | 4.52 | 4.70 | 4.60 | 4.50 | 4.40 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 |
| Downside risk | 0.00 | -0.50 | -0.60 | -0.65 | -0.65 | -0.70 | -0.70 | -0.75 | -0.75 | -0.80 | -0.80 | -0.80 | -0.80 |

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

## Appendix B – Existing Investment & Debt Portfolio Position

| | 20/01/2025<br><br>Actual Portfolio<br><br>£m | 20/01/2025<br><br>Average Rate<br><br>% |
|---|---|---|
| **External borrowing:** | 103.9 | 3.59 |
| **Total external borrowing** | **103.9** | **3.59** |
| **Treasury investments:** | | |
| Banks, MMF & building societies (unsecured) | 6.5 | 4.9 |
| Government (incl. local authorities) | 10.0 | 4.7 |
| **Total treasury investments** | **16.5** | **4.8** |
| **Net Debt** | **87.4** | |

This page is intentionally left blank

## **<u>Appendix C - RBC Annual Minimum Revenue Provision Statement 2025/26</u>**

3.1 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in April 2024.

3.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

3.3 The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP, but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

3.4 MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Expenditure in Local Authorities*, 2021 edition.

- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 4%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the

asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- For capital expenditure on loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.
- There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.
- Where the council makes a capital contribution or loan to another entity or where responsibility for a council asset with borrowing attached is transferred to a third party, then no MRP will be set aside if:
  - the payments are appropriately covered by assets
  - there are detailed plans demonstrating that all the expenditure will be recovered in an appropriately short time frame
- To ensure that this remains a prudent approach the Council will review the expenditure and income regularly to determine if the income or asset values have decreased to the point that MRP needs to be provided for. Should evidence emerge which suggests the expenditure will no longer be recovered, MRP will be provided for.
- Where the council uses internal borrowing and receipts of rental income are greater than the MRP calculated then as there are sufficient revenues to repay the capital cost, no MRP will be set aside.

### 3.5 Capital loans

- For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

- For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

- For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

- For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

3.6 Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

3.7 Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2025, the budget for MRP has been set as follows:

| | **31.03.2025 Estimated CFR<br><br>£m** | **2025/26 Estimated MRP<br><br>£m** |
|---|---|---|
| Capital expenditure before 01.04.2008 | | |
| Supported capital expenditure after 31.03.2008 | | |
| Unsupported capital expenditure after 31.03.2008 | 0 | 0.926 |
| Leases and Private Finance Initiative | | |
| Transferred debt | | |
| Loans to other bodies repaid in instalments | | |
| Voluntary overpayment (or use of prior year overpayments) | | |
| **Total General Fund** | **0** | **0.926** |
| Assets in the Housing Revenue Account | 24.1 | |
| HRA subsidy reform payment | 98.9 | |
| **Total Housing Revenue Account** | **123.0** | |
| **Total** | **123.0** | **0.926** |

### 3.8 Capital receipts

Proceeds from the sale of capital assets are classed as capital receipts, and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.

Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

## Appendix D RBC Investment Strategy Report 2025/26

### Introduction

4.1 The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

4.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

4.3 The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

### Treasury Management Investments

4.4 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £2m and £15m during the 2025/26 financial year.

4.5 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

4.6 **Further details:** Full details of the Authority's policies and its plan for 2025/26 for treasury management investments are covered in a separate document, the treasury management strategy, which is part of these appendices.

**Service Investments: Loans**

4.7 **Contribution:** The Council will lend money to its subsidiaries, local businesses, local charities and housing associations to support local public services and stimulate local economic growth.

4.8 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

*Table 1: Loans for service purposes in £ millions*

| Category of borrower | 31.3.2024 actual | | | 2025/26 |
|---|---|---|---|---|
| | Balance owing | Loss allowance | Net figure in accounts | Approved Limit £m |
| Subsidiaries | 0 | 0 | 0 | 1.0 |
| Local businesses | 0 | 0 | 0 | 0.5 |
| Local charities | 0 | 0 | 0 | 0.5 |
| Housing associations | 0 | 0 | 0 | 1.0 |
| **TOTAL** | **0** | **0** | **0** | **3.0** |

4.9 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

4.10 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by using specialist advice to understand the market and the potential future demands of the market and the customers in it. It will also use benchmarking data from the market to determine future potential risks which need to be planned for. External advice is only sought from credible sources eg acknowledged experts in their fields and officers ensure that they fully understand any information given to them before decision or advice is taken.

**Commercial Investments: Property**

4.11 **Contribution:** The Authority invests via Regeneration schemes such as Levelling Up Fundings via the Government in property with the intention of making a profit that will be spent on local public services. Levelling Up funding in being invested in regenerating the Market Hall site and clearing the existing Fire Station site for future regeneration.

*Table 2: Property held for investment purposes in £ millions*

| **Property [type]** | **Actual** | **31.3.2024 actual** | | **31.3.2025 expected** | |
|---|---|---|---|---|---|
| | **Purchase cost** | **Gains or (losses)** | **Value in accounts** | **Gains or (losses)** | **Value in accounts** |
| N/A | 0 | 0 | 0 | 0 | 0 |
| **TOTAL** | **0** | **0** | **0** | **0** | **0** |

4.12 **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

4.13 *Where value in accounts is at or above purchase cost:* A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2024/25 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

4.14 *Where value in accounts is below purchase cost:* The fair value of the Authority's investment property portfolio is no longer sufficient to provide security against loss, and the Authority is therefore taking mitigating actions to protect the capital invested.

4.15 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by involving specialist advisors with expertise in the type of property being purchased, looking at historic data and speaking to other councils undertaking similar activities.

4.16 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council ensures that properties purchased are in an active market where there is demonstrable demand to ensure that the authority does not purchase assets which it will not be able to sell on at a later date.

**Loan Commitments and Financial Guarantees**

4.17 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

**Proportionality**

4.18 The Council does not plan to become dependent on profit generating investment activity to achieve a balanced revenue budget.

**Borrowing in Advance of Need**

4.19 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council would only not follow this guidance if interest rate forecasts and treasury advisor guidance set out that it was more cost effective, **in terms of significantly reduced debt interest charges**, for the Council to borrow for the **approved 3 year capital programme** at a point of time rather than when that expenditure is taking place over that 3 year period. It is unlikely that this will happen however the option should not be closed off. Funds would be invested. The Councils policies in investing the money borrowed, including management of the risks, would be as per normal short term Treasury Investments.

**Capacity, Skills and Culture**

4.20 **Elected members and statutory officers:** Member training will take place annually as part of the induction process. External advisors will provide reports to support investment decisions with officers ensuring that they fully understand them and can relate them to the strategic objectives and risk profile of the Council.

4.21 **Commercial deals:** Significant work has been undertaken using external advisors and relevant training courses have been attended to ensure that officers are fully aware of the code and statutory requirements of a local authority which is investing.

KPMG have developed a modelling tool for the Council to use when assessing potential purchases as a precursor to engaging with external consultants to ensure that potential purchases are likely to make sense from the perspective of the authority before incurring advisor costs. However, following an internal review of the policy, it has been decided that the Council may wish to make purchases which do not make a financial return or may indeed make a loss in the short term. On these occasions a business case will be developed which specifies the non-financial benefits of the investment. These are likely to be regenerative schemes for the greater good of the area with an intended long term impact. The regenerative and redevelopment benefits which will flow from the investment will be taken into account in the development of the business case, so if the net investment yield falls below 0.75% it can still proceed if these benefits are deemed to outweigh the lower than target yield.

4.22 **Corporate governance:** when investment decisions are to be made, they are to be led by the Council's Director of Finance in consultation with the Corporate Management Team. They will assess the potential investment opportunity using the KPMG finance appraisal model and should they decide it presents a strong opportunity for the Council and complies with the relevant criteria a conditional offer can be made. A business case will then be developed and presented ensuring that once greater detail is included, it makes a satisfactory income yield and/or economic redevelopment and regeneration impact. When the business case is completed, if it is still compliant with the Council criteria, it will be presented to Cabinet for approval before purchase is completed. Once a purchase has been made the Director of Finance will provide quarterly reports in line with financial and monitoring reports on the status of the investment.

## Investment Indicators

4.23 The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

4.24 **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

*Table 3: Total investment exposure in £millions*

| **Total investment exposure** | **31.03.2024 Actual** | **31.03.2025 Forecast** | **31.03.2026 Forecast** |
|---|---|---|---|
| Treasury management investments | 10 | 11 | 13 |
| Service investments: Loans | 0 | 0 | 0 |
| Commercial investments: Property | 0 | 0 | 0 |
| **TOTAL INVESTMENTS** | **10** | **11** | **13** |
| Commitments to lend | 0 | 0 | 0 |
| Guarantees issued on loans | 0 | 0 | 0 |
| **TOTAL EXPOSURE** | **10** | **11** | **10** |

4.25 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

*Table 4: Investments funded by borrowing in £millions*

| **Investments funded by borrowing** | **31.03.2024 Actual** | **31.03.2025 Forecast** | **31.03.2026 Forecast** |
|---|---|---|---|
| Treasury management investments | 0 | 0 | 0 |
| Service investments: Loans | 0 | 0 | 0 |
| Service investments: Shares | 0 | 0 | 0 |
| Commercial investments: Property | 0 | 0 | 0 |
| **TOTAL FUNDED BY BORROWING** | **0** | **0** | **0** |

4.26 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

*Table 5: Investment rate of return (net of all costs)*

| **Investments net rate of return** | **2023/24 Actual** | **2024/25 Forecast** | **2025/26 Forecast** |
|---|---|---|---|
| Treasury management investments | 5.2 | 4.9 | 4.6 |
| Service investments: Loans | 0 | 0 | 0 |
| Service investments: Shares | 0 | 0 | 0 |
| Commercial investments: Property | 0 | 0 | 0 |
| **ALL INVESTMENTS** | **5.2** | **4.9** | **4.6** |