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Thursday 11 January 2024

Notice of Meeting

Dear Member

Corporate Governance and Audit Committee

The **Corporate Governance and Audit Committee** will meet in the **Council Chamber - Town Hall, Huddersfield** at **10.00 am** on **Friday 19 January 2024.**

The items which will be discussed are described in the agenda and there are reports attached which give more details.

Julie Muscroft

Service Director – Legal, Governance and Commissioning

Kirklees Council advocates openness and transparency as part of its democratic processes. Anyone wishing to record (film or audio) the public parts of the meeting should inform the Chair/Clerk of their intentions prior to the meeting.

The Corporate Governance and Audit Committee members are:-

Member
Councillor James Homewood (Chair)
Councillor Yusra Hussain
Councillor Naheed Mather
Councillor Harry McCarthy
Councillor Melanie Stephen
Councillor John Taylor
Councillor Kath Pinnock
Chris Jones (Co-Optee)

When a Member of the Corporate Governance and Audit Committee cannot attend the meeting, a member of the Substitutes Panel (below) may attend in their place in accordance with the provision of Council Procedure Rule 35(7).

Substitutes Panel

Conservative	**Green**	**Labour**	**Liberal Democrat**
B Armer	K Allison	B Addy	PA Davies
D Bellamy	A Cooper	A Anwar	J Lawson
A Gregg	S Lee-Richards	S Hall	A Munro
D Hall		P Moore	A Marchington
R Smith		M Sokhal E Firth	A Smith
M Thompson		T Hawkins	A Pinnock
		H Zaman	

Ex Officio Members
Councillor Paul Davies
Councillor Elizabeth Smaje

Agenda
Reports or Explanatory Notes Attached

Pages

1: Membership of the Committee

To receive apologies for absence from those Members who are unable to attend the meeting and details of substitutions and for whom they are attending to the Committee membership.

2: Minutes of Previous Meeting — 1 - 6

To approve the Minutes of the meeting of the Committee held on the 24th November 2023.

3: Declaration of Interests — 7 - 8

Members will be asked to say if there are any items on the Agenda in which they have any disclosable pecuniary interests or any other interests, which may prevent them from participating in any discussion of the items or participating in any vote upon the items.

4: Admission of the Public

Most agenda items take place in public. This only changes where there is a need to consider exempt information, as contained at Schedule 12A of the Local Government Act 1972. You will be informed at this point which items are to be recommended for exclusion and to be resolved by the Committee.

5: Deputations/Petitions

The Committee will receive any petitions and/or deputations from members of the public. A deputation is where up to five people can attend the meeting and make a presentation on some particular issue of concern. A member of the public can also submit a petition at the meeting relating to a matter on which the body has powers and responsibilities.

In accordance with Council Procedure Rule 10, Members of the Public must submit a deputation in writing, at least three clear working days in advance of the meeting and shall subsequently be notified if the deputation shall be heard. A maximum of four deputations shall be heard at any one meeting.

6: Public Question Time

To receive any public questions.

In accordance with Council Procedure Rule 11, the period for the asking and answering of public questions shall not exceed 15 minutes.

Any questions must be submitted in writing at least three clear working days in advance of the meeting.

7: Auditors Annual Report 2022/23

9 - 50

To receive the Auditors Annual Report 2022/23.

Contact: Grant Thornton, External Auditor.

8: Treasury Management Strategy and Investment Strategy 2024/25

51 - 80

To receive the Treasury Management Strategy and consider the Investment Strategy 2024/25.

Contact: Rachel Firth, Finance Manager.

9: Dates of Council Meetings - 2024/25 Municipal Year (Reference to Council)

81 - 84

To consider the dates and times for meetings of Council for the 2024/25 municipal year.

Contact: Leigh Webb, Head of Governance.

10: Risk Management Annual Report 2023/24 — 85 - 118

To consider the Risk Management Annual Report 2023-24.

Contact: Alice Carruthers, Senior Finance Officer
Martin Dearnley, Head of Risk.

11: Quarterly Report of Internal Audit Q3 2023/24 — 119 - 122

To receive the internal audit quarter 3 report 2023/24.

Contact: Martin Dearnley, Head of Risk.

12: Exclusion of the Public

To resolve that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

13: Risk Management Annual Report 2023/24 — 123 - 132

Exempt appendix in relation to agenda item 10.

14: Quarterly Report of Internal Audit Q3 2023/24 — 133 - 138

Exempt appendix in relation to agenda item 11.

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Contact Officer: Leigh Webb

KIRKLEES COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Friday 24th November 2023

Present:	Councillor James Homewood(Chair) Councillor Harry McCarthy Councillor John Taylor Councillor Kath Pinnock Councillor Mohan Sokhal (Substitute) Chris Jones (Independent Member)
In attendance:	Julie Muscroft – Service Director, Legal, Governance and Commissioning Martin Dearnley – Head of Internal Audit James Anderson – Head of Accountancy Rachel Firth – Finance Manager (virtual) Rob Blackmore - Deputy Electoral Services Manager Aaron Gouldman – Grant Thornton Councillor Paul Davies (Ex-Officio) Councillor Elizabeth Smaje (Ex-Officio - virtual)
Apologies:	Councillor Naheed Mather Councillor Melanie Stephen

1 Membership of the Committee

Apologies for absence were received on behalf of Councillor Naheed Mather and Councillor Melanie Stephen. Councillor Sokhal attended as a substitute for Councillor Mather.

2 Minutes of Previous Meeting

In response to a question concerning Minute 12 of the last meeting, relating to budget management and forecasting process, the Head of Internal Audit reported that he was due to meet to discuss the issue with the Chair and would provide an update at the next meeting.

RESOLVED – That the Minutes of the meeting held on 29th September 2023 be approved as a correct record.

3 Declarations of Interest

No interests were declared.

4 Admission of the Public

It was noted that Agenda Item 12 would be considered in private session.

5 Deputations/Petitions
There were no deputations or petitions received.

6 Public Question Time
No questions were asked.

7 Half Yearly Monitoring Report on Treasury Management Activities 2022/23
The Committee received a report providing assurance that the Council's treasury management function was being managed prudently and pro-actively. External investments, including the £10.0 million Local Authority Property Fund (LAPF), averaged £44.5 million during the period at an average rate of 4.43%. Investments ranged from a peak of £76.1 million in April to a low of £25.8 million in August. It was reported that all treasury management activities undertaken during the period complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits were set out in Appendix 1 of the report. Details of the treasury management revenue budget of £33.4 million was set out in the report, along with the new requirement in the 2021 Code, mandatory from 1st April 2023, of quarterly reporting of the treasury management prudential indicators. The report highlighted that the non-treasury prudential indicators were now incorporated in the Council's normal quarterly revenue reports along with the treasury management indicators.

RESOLVED –
That the Committee noted the half-year treasury management performance in 2023/24 as set out in the report,

8 Audit Findings Report
The Committee received the draft External Audit Finding Report, for year end 31 March 2023, as submitted by Grant Thornton.

It was reported that Grant Thornton's audit work was completed both onsite and remotely July to October and the findings were summarised within the report. The Committee was advised that the report was a draft, and that following a final internal quality review it was expected to be signed off in the next 2 weeks. To date, no misstatements to the financial statement had been identified that had resulted in adjustments being made to the Council's Income and Expenditure Statement. Audit adjustments and managerial recommendations were appended to the report.

It was reported that the value for money work was now complete and summarised within the report. The Annual Auditors report will be submitted to the next meeting of this committee following the insertion of the management response. It was explained that headline risk conclusions relate to financial sustainability in the medium term and the deficit within the Dedicated Schools Grant.

During consideration of this item, Committee Members discussed issues relating to the minimum revenue provision; the progress in relation to financial sustainability and the achievement of identified savings; and the recovery plan in respect of the Dedicated Schools Grant.

RESOLVED –
That the draft External Audit Findings Report be received and noted,

9 **Approval of the Council's Final Accounts 2022-23**

The Committee received a report setting out an update on the final accounts and audit processes for 2022/23 and requested Members of this Committee to approve the Council's Statement of Accounts for 2022/23 including the final version of the Annual Governance Statement. The preparation of the Statement of Accounts was a statutory requirement and local authorities were now required to have them signed by the section 151 Officer by 31 May and published with an Audit Certificate by 30 September, following the end of the financial year.

It was reported that despite the significant challenges to the Council's finance team dealing with multiple competing demands, the draft accounts were completed and signed by the Council's Service Director - Finance on 29 June 2023. The Head of Accountancy highlighted that there were no queries or objections raised in the six week public inspection period. The audit of the 2022/23 Statement of Accounts was substantially complete and the Council's auditors, Grant Thornton, had issued their Draft Audit Findings Report (ISA 260). The report highlighted that the Council's Annual Governance Statement had been approved by this committee on 29th September, with authority delegated to the Chief Executive in consultation with the Leader of the Council to make necessary minor amendments to the statement.

During discussion of this item, it was confirmed that a slight amendment in respect of the AGS wording in relation point 4 relating to housing, as raised at the last meeting, would be incorporated. It was further confirmed that the text within the AGS had been reviewed with regard to the Dedicated Schools Grant.

RESOLVED –

(i) The Statement of Accounts 2022/23 incorporating the Annual Governance Statement (Appendix A) be approved, with the Chair of the Corporate Governance and Audit Committee certifying the Statement of Responsibilities set out on page 23 upon completion of the audit.

(ii) The draft Letter of Representation (Appendix B) be approved, with the Chair signing the final version on behalf of the Committee upon completion of the audit.

10 **Statutory Polling Districts and Places Review**

The Committee received a report setting out a review of the Council's polling districts and polling places, which had been conducted in conjunction with the (Acting) Returning Officer. The review had been carried out in accordance with section 18C of the Representation of the People Act 1983, and seeks to improve accessibility to polling stations for electors within the defined areas and ensure that Kirklees had a polling scheme in place which reflected the new Parliamentary constituencies.

It was reported that the last review of polling districts and places for the Kirklees area had taken place in May 2019 and that statutory polling district and places reviews were required to take place on a 5-year cycle. The report set out a number of proposed amendments to polling districts within Kirklees.

With regard to Parliamentary boundaries, it was explained that the Boundary Commission for England was currently undertaking a review of parliamentary constituency boundaries. The Commission had now published its final recommendations, and Orders for the new parliamentary constituency boundaries will be made by the end of November 2023.

RESOLVED: That the polling district boundaries be amended as per the (Acting) Returning Officer's proposals as summarised from section 2.2 onwards and provided at appendix 3 of the report, to allow for better access to polling stations prior to the next scheduled election and to ensure that Kirklees has a polling scheme in place to facilitate the next Parliamentary election on the new constituency boundaries.

11 Information Governance Annual Report 2022/23

The Committee received a report providing an update on the Information Governance service and offer to the Council, outlining key events and activities across the year. The report focused on four key areas; organisational culture change, compliance, records of processing activity (RoPA), and records management before examining the challenges, successes and next steps.

Presentation slides were submitted to accompany the report which highlighted the challenges and achievements throughout the year including details of the Subject Access Requests (SARS) backlog; current resources and service demands.

During discussion of this item, Members acknowledged the increased number of Freedom of Information and SARs requests and the measures in place to deal with the backlogs. It was explained that many requests are of a complex nature, requiring detailed input from services across the Council. The report outlined next steps and future plans for information governance in service and across the Council, supporting compliance and service delivery.

RESOLVED: That Corporate Governance and Audit Committee note the Information Governance Annual Report and that the proposed actions are enacted and kept under review.

12 Quarterly Report of Internal Audit Q2 2023/24 - July 2023 to September 2023

The Committee received a report which set out the activities of the Internal Audit in quarter 2 of 2023/24.

The report set out the work of Internal Audit that had been completed in the period shown above, including the remainder of work relating to last year's plan, plus that for the current one approved at the April meeting of this Committee. It was reported that all work included had reached a finalised state and, except where shown otherwise in the report, management had accepted the findings and agreed to implement the recommendations, or, in the case of employee investigations, any disciplinary action had been through the required stages and any appeal time. Where an assurance opinion was appropriate these reflected the standard framework set out in the report.

The Committee acknowledged that there had been no Regulation of Investigatory Powers Act activity during the period quarter 2 2023/24.

RESOLVED – That the Q2 Internal Audit Report 2023/24 be noted.

13 Exclusion of the Public

RESOLVED – That acting under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act, as specifically state in the undermentioned minute.

14 Quarterly Report of Internal Audit Q2 2023/24 - July 2023 to September 2023

Exempt information within Part 1 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information (Variation) Order 2006, namely Information relating to the financial or business affairs of any particular person (including the authority holding that information).

The Committee noted the exempt information, which was an appendix to Agenda Item 12.

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KIRKLEES COUNCIL

COUNCIL/CABINET/COMMITTEE MEETINGS ETC
DECLARATION OF INTERESTS

Corporate Governance and Audit Committee

Name of Councillor

Item in which you have an interest	**Type of interest (eg a disclosable pecuniary interest or an "Other Interest")**	**Does the nature of the interest require you to withdraw from the meeting while the item in which you have an interest is under consideration? [Y/N]**	**Brief description of your interest**

Signed: ………………………………………… **Dated:** ……………………………………..

NOTES

Disclosable Pecuniary Interests

If you have any of the following pecuniary interests, they are your disclosable pecuniary interests under the new national rules. Any reference to spouse or civil partner includes any person with whom you are living as husband or wife, or as if they were your civil partner.

Any employment, office, trade, profession or vocation carried on for profit or gain, which you, or your spouse or civil partner, undertakes.

Any payment or provision of any other financial benefit (other than from your council or authority) made or provided within the relevant period in respect of any expenses incurred by you in carrying out duties as a member, or towards your election expenses.

Any contract which is made between you, or your spouse or your civil partner (or a body in which you, or your spouse or your civil partner, has a beneficial interest) and your council or authority -

- under which goods or services are to be provided or works are to be executed; and
- which has not been fully discharged.

Any beneficial interest in land which you, or your spouse or your civil partner, have and which is within the area of your council or authority.

Any licence (alone or jointly with others) which you, or your spouse or your civil partner, holds to occupy land in the area of your council or authority for a month or longer.

Any tenancy where (to your knowledge) - the landlord is your council or authority; and the tenant is a body in which you, or your spouse or your civil partner, has a beneficial interest.

Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -
(a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and
(b) either -

the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or

if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

Auditor’s Annual Report on Kirklees Council

2022/23

January 2023

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term
(3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 13 to 32.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other councillors and management
- Attendance at Corporate Governance and Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

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The current LG landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and councillors
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

Delivering Services in Kirklees

Local context

Kirklees is a metropolitan borough council originally established in 1974 created alongside West Yorkshire, under the local Government Act of 1972 with the Chair of the Council assuming the title of Mayor. Since April 2014 Kirklees has become a constituent council of the West Yorkshire Combined Authority. In recent years, an ambitious devolution deal for West Yorkshire has been secured which will see a historic transfer of investment and central government powers to the region offering local control of at least £1.8billion of funding. This deal comprises of £38 million per year for 30 years across the five West Yorkshire Councils alongside a set of other key committed deliverables.

The Council is the 3rd largest metropolitan district in the area and ranks 14th out of 318 districts in terms of population in England and Wales (excluding County Councils). The borough covers 157 square miles and is comprised of the eight towns of Batley, Birstall, Cleckheaton, Dewsbury, Heckmondwike, Holmfirth, Huddersfield and Mirfield. Between 2011 and 2021 the population of Kirklees has increased by 2.5%, from around 422,500 to 433,200. This is smaller growth than England overall (6.6.% increase) and the wider Yorkshire and Humber region (3.8%). The number of people aged between 65 and 74 rose by around 7,400 (21.2%) with residents aged between 35 and 49 fell by around 6,800 (7.5%) decrease. Overall, the average age of Kirklees is 39 years of age, just slightly lower than the average age in England of 40 years old.

Of Kirklees residents aged 16+, 53.2% are employed, and 2.8% unemployed. The percentage of retired Kirklees residents has increased from 21.2% to 21.9% since 2011. It must be noted the Census was undertaken during the COVID-19 pandemic, which may have affected the measurements of the labor market. The Index of Deprivation 2019 identified that Kirklees is one of the most deprived areas in England for both Income and Employment summary measures, based on absolute numbers (which 'favors' larger areas such as Kirklees). Kirklees has 259 Lower Super Output Areas (LSOAs), of which using the IMD (Combined Index) 31 are in the worst 10% nationally. This is an increase of 8 since 2015, showing that Kirklees has a higher proportion of highly deprived LSOAs compared to the national average.

As of 2022/23, Kirklees is reported by the Government's own admission as having the 3rd lowest funding available to a metropolitan authority and the lowest of the 5 Councils in the West Yorkshire region. There are 23 wards served by a cabinet of 69 Local Councilors with Labour currently as the majority party after many years of there being no overall control. The Council is split into 4 main areas which align with the following focusses; Adults and Health; Children & Families; Corporate Strategy, Commissioning & Public Health; Growth & Regeneration. Kirklees is part of the West Yorkshire Integrated Care System (ICS) along with Bradford, Calderdale, Leeds and Wakefield Councils, local NHS bodies and a range of voluntary, community and social enterprise partners.

The Council has seen a number of changes in leadership during 2023, including a new Leader, a new Chief Executive and Director of Children's Services (following the planned retirement of their predecessors) and two new Chief Finance Officers. Kirklees is facing significant financial pressures alongside an increasing number of Councils across the UK. In 2021/22 our audit raised a significant weakness in the Council's arrangements to secure financial sustainability and it is developing far reaching plans to address what has become a major challenge for the new leadership team, officers and councillors. Part of this financial challenge includes the need to address a large deficit that has accumulated on the schools' budget. Despite this, the Council continues to progress its strategic ambitions for the borough, including key projects such as the Cultural Heart to develop Huddersfield town centre.

Executive summary

Value for money arrangements and key recommendation(s) – 2022/23

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below. Please note that the 2021/22 VfM findings were published in July 2023 so there is a comparatively short interval between auditor judgements.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements		2021/22 Auditor judgement on arrangements		Direction of travel
Financial sustainability	Risks identified on the Dedicated Schools Grant (DSG) overspend and the Council's Medium Term financial sustainability	R	Financial Sustainability is an area of significant weakness carried forward from 2021/22. This remains highly challenging for the Council although progress has been made. In addition, there is a further significant weakness resulting from the Council falling behind on its original plan to manage the deficit on the Council's Dedicated Schools Grant budget (impacted by increasing demand). A revised plan is being developed in dialogue with DfE. The two significant weakness have resulted in 2 key recommendations. We have also raised 3 improvement recommendations.	R	Significant weakness on financial sustainability identified. One key recommendation raised on the medium-term financial outlook.	↔
Governance	No risks of significant weakness identified	A	No significant weakness in arrangements identified but 2 improvement recommendations.	A	No significant weaknesses in arrangements identified, but 3 improvement recommendations raised.	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	A	No significant weakness in arrangements identified but 1 improvement recommendation made.	A	No significant weaknesses in arrangements identified, but 2 improvement recommendations raised.	↔

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability

Since we last reported to the Council on Financial Sustainability in July 2023 the Council has made good progress in addressing the significant financial challenge it faces. Examples of the progress made by the Council since we last reported in July 2023, include the following:

- Kirklees has been working on the delivery of savings for 2024/25 since March 2023 and has been transparent about its difficult future financial position. This has allowed the Council to focus on the delivery of savings as evidenced in the decisions and consultations to Cabinet during the year.
- In the revised medium term financial strategy in September 2023 the Council agreed to swifter actions including increasing fees and charges and bringing forward savings early from 2024/25 to help improve the Council's overall position.
- Delivery of both in year and 2024/25 savings is receiving equal prioritisation.
- The return of £9.4m of funding from the West Yorkshire Combined Authority has significantly strengthened the resources available in the short-term.
- Reserves have been reviewed with additional resources now available to manage financial risk.
- The increased focus on cost control during 2023/24 can be seen in the reduced in year forecast deficit from £20m in Quarter 1 to £16m in Quarter 2.

Our work continues to indicate that until the measures outlined above have taken full effect, the Council's future financial stability remains at risk in the short and medium term with a challenging savings plan currently being developed in order to enable the Council to set a balanced budget for 2024/25. The financial challenge has worsened during 2023/24, with ongoing cost pressures in areas such as social care, transport and housing driving a significant forecast overspend (currently £c.16m) that is likely to require a further drawdown on reserves. In addition, the revised medium term financial plan (MTFP) has increased the funding gap that must be overcome in setting the budget for 2024/25. Our benchmarking of the Council's available reserves at the end of 2022/23 indicates that these were at the lowest level among metropolitan district councils in proportion to budget.

Much hinges on the success of the Council current savings programme as part of the 2024/25 budget planning round. The Council is aware that it must close the funding gap for 2024/25 of £47.8m (c. 12% of budget), primarily through the delivery of large-scale cost savings. Should it fail to do so, the Chief Finance Officer would have a duty to issue a formal report to councillors under section 114 of the Local Government Act 1988, to the effect that the Council has insufficient resources to meet its expenditure for the forthcoming financial year. We note that with the work that is ongoing and the revision to the available reserves we note that the Chief Executive feels that there is now limited risk of the Council needing to issue a S114 notice in regard to the 2024/25 budget.

The Council is in the process of addressing our key recommendation to strengthen arrangements around financial planning and savings development and needs to deliver a strategy for replenishing reserves to stabilise the overall balance sheet position. We note that to manage the increase in the cost of services there has been continued depletion of reserves throughout 2022 and 2023. However, we also note that the Council has been able to demonstrate a good level of co-operation and engagement between officers and councillors, which will be very important to maintain. We recognise the high level of effort and dedication in seeking to manage the Council's financial pressures that we have seen from Council officers and councillors. The momentum for introducing and enacting a comprehensive savings plan has been maintained following the appointment of the new Chief Executive and S.151 Officer in the summer.

As we issued our key recommendation in July 2023, it is appropriate that the significant weakness in financial sustainability we identified at that point, and the accompanying Key Recommendation remains in place for the current year of audit (2022/23).

Executive summary

Good progress has been made on fulfilling the terms of our key recommendation. However, the Council has had to focus its efforts on shorter term savings options that can be delivered quickly and further developments in the governance of the savings plan and co-ordination with the longer-term transformation programme have not yet been addressed, in addition to a robust solution to rebuilding reserves. We have raised some additional improvement recommendations to further strengthen the Council's financial planning and monitoring processes. In particular, we consider that an enhanced savings development tracker would be a useful addition to the internal monitoring arrangements for 2024/25 savings programme. We also think that savings development would benefit from closer co-operation with the Council's transformation programme. In addition, we recommend that a formal savings challenge process be developed, documented and implemented to properly test and challenge the savings proposals.

In 2021/22, we also reported on the Council's efforts so address the accumulated deficit on its DSG budget. DSG is a ringfenced grant payable to Local Authorities by Government to fund schools and the deficit has arisen due to shortfalls in the funding of young people with 'High Needs'. The Council is participating in the Government's 'Safety Valve' programme which supports the Council with additional funding to help reduce the accumulated deficit, with the Council agreeing to make its own contribution through the use of reserves and savings.

In March 2023 the Department for Education (DfE) raised concerns that the Safety Valve agreement with Kirklees was no longer on track and could not be successful without there being significant changes made. The Council subsequently entered into an Enhanced Monitoring & Support program for its Safety Valve agreement with the intention of formulating a credible plan which works for both parties and ensures the DSG deficit will be eliminated. An opportunity to extend the agreement by one year is being discussed subject to there being no extra funding required from DfE.

The Council's current Safety Valve projections flag that the deficit position is £5.8m adrift so far in 2023/24. On balance, we consider that although the Council's performance on DSG deficit reduction has faltered, the Council has been proactive and is in the process of negotiating a way forward with DfE. We note that slippage on DSG safety valve agreements is a national issue, with a number of councils facing similar challenges. We also note the Council's assertion that DfE are supportive of the measures being taken, including increasing mainstream provision, investing in special school provision , and meeting needs as early as possible.

However, while recognising the mitigating actions being taken by the Council in 2023/24 we now consider the Council's Current DSG deficit position to be a significant weakness for the purposes of our VfM assessment for 2022/23 and we have raised a new key recommendation on this point.

We will continue to monitor the Council's progress over the next few months up to February 2024, which we recognise as a crucial period for the Council's future financial viability.

Key recommendation 1 (Rolled Forward)

Key Recommendation	**The councillors and senior officers of the Council must recognise the severity of the Council's medium term financial outlook and the need to take prompt, effective and far-reaching action to restore a sustainable financial position in the medium term. The Council should take the following steps to help this process:** • Review the arrangements for setting savings schemes and monitoring these throughout the financial year to build a greater element of contingency and allowance for slippage. This should include the clear separation of recurrent and one-off savings (e.g. holding staff vacancies) within the savings programme. • Ensure corporate and councillor oversight and challenge of proposed savings is robust, with responsible managers held to account, to make sure savings are credible, accurately valued, have realistic timing and phasing of delivery, and have been properly assessed for quality impact and risk. • Ensure corporate and councillor monitoring of savings delivery is sufficiently regular and robust to drive delivery in line with plan and help to develop mitigating actions as soon as possible when delays or risks are met. • Demonstrate a realistic plan for replenishment of reserves where one-off use is expected to cover budget gaps, to ensure medium term financial plans, demonstrate a realistic prospect of financial sustainability • Focus financial planning on reducing reliance on one-off measures over the medium term and consider opportunities to review service delivery, particularly in regard to the analysis and prioritisation of statutory vs discretionary spend and modern ways of working (such as early intervention). • Ensure that savings plans for future years of the MTFS are developed and discussed with councillors as soon as possible to ensure that delivery activities can be started as close to the beginning of the financial year as possible.
Why/impact	The Council's financial position is becoming significantly more challenging due to increased demands and complexity of service provision, along with the impact of inflation and the cost-of-living crisis, combined with workforce pressures. A failure to properly develop and risk assess savings schemes with appropriate contingencies in place will further intensify this pressure. The greatest risk is around the Council's use of reserves in the short to medium term. Reserves are a one-off resource therefore developed plans need to be in place to replenish these or the Council may be forced to curtail non-statutory activities. Whilst this need to build up reserves, has been acknowledged in the most recent MTFS published in September 2023, no active measures appear to have been refined.
Auditor judgement	The Council has not had in place large savings schemes in recent years, so now has a large shift of focus needed in order to achieve planned savings targets to bridge budget gaps. The infancy of the arrangements to develop and monitor savings going forward poses challenges to the Council and it must ensure rigorous monitoring of the position of savings going forward, with key risk assessments and development of mitigating actions on a regular basis. Whilst in 2021/22 the Council's overspend was a marginal £41k, the extremely challenging financial pressures on the budget in 2022/23 and 2023/24 mean that a deficit position appears inevitable without significant use of reserve balances. These two layers of financial risk considered simultaneously present serious concerns with regards to financial sustainability.
Management Comments	The Council acknowledges the severity of its financial position and has put in place arrangements to both deliver a balanced budget in 2023/24, including the delivery of savings, and to develop a range of savings options to reduce its net expenditure to a sustainable level and to replenish its reserves for financial resilience (see Page 13 for further details of these arrangements). Councillor and cabinet oversight has been strengthened. The Budget Delivery group works closely with the Cabinet and Strategic Directors at the weekly executive board. Quarterly updates are taken to Cabinet and Scrutiny Committee.

Key recommendation 2

	Key Recommendation	The Council needs to take action to address the shortfall in the Dedicated Schools Grant (DSG) recovery plan that has been agreed with the Department for Education (DfE).
	Why/impact	Action is required to reduce the deficit and remain within the plan agreed with the DfE, to ensure funding is not withdrawn.
	Auditor judgement	The Council has an agreed DSG deficit recovery plan in place with the DfE and has received funding on this basis. However, at the end of 2022/23 the Council was behind its agreed recovery plan and in 2023/24 at the end of quarter two, forecasts that it will be £5.8m behind plan. The DfE has raised concerns that the Safety Valve agreement with Kirklees was no longer on track and could not be successful without there being significant changes made. The Council subsequently entered into an Enhanced Monitoring & Support program for its Safety Valve agreement with the intention of formulating a credible plan that will ensure the DSG deficit will be eliminated. An opportunity to extend the agreement by one year is in process of being agreed subject to there being no extra funding required from DfE. Based on this position we consider that the Council does not have effective arrangements to manage the Dedicated Schools Grant and have identified this as a significant weakness in arrangements.
	Management Comments	The Council is working closely with the DfE and its advisors and a revised plan has been submitted for approval. The DfE advisors have acknowledged that nationally many plans are off track due to the demand issues and rising costs in the area. There is robust governance and sequenced plans that have been agreed by DfE are the correct areas of focus to reduce the DSG deficit, however post Covid demand continues to place demand pressures on DSG.

Executive summary (continued)

Governance

The Council has appropriate arrangements for ensuring that it makes informed decisions and properly manages its risks. Based on the work performed, review of relevant documentation and conversations with key personnel, we have not identified any evidence that would indicate a potential risk of significant weakness in the governance arrangements within the Council. During the 2022/23 financial year, the Council undertook a review of the current governance structure which was agreed and approved by Council in January 2023. This retained the Cabinet and Leader system of democracy but with recommendations approved to strengthen focus on pre-decision scrutiny. There have also been continued improvements to risk management processes. Our review of the work of the Corporate Governance and Audit Committee (CGAC) has highlighted alignment with CIPFA best practice guidance. This has included the appointment of an independent non-voting member of the Committee to help further bolster the Committee's effectiveness. We have made two improvement recommendations to appoint a further independent member to CGAC and to improve the follow up of internal audit recommendations.

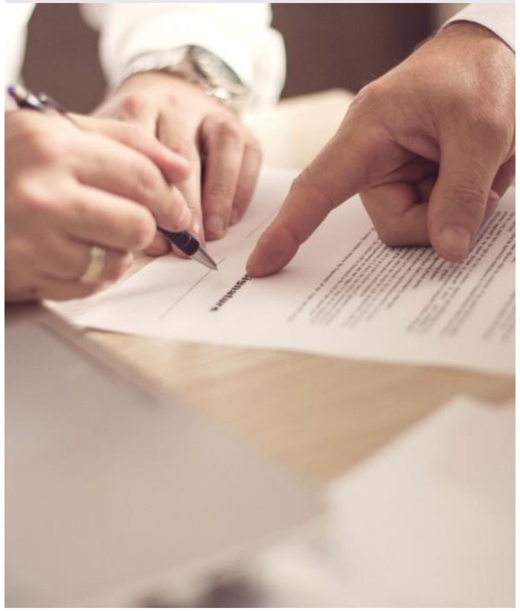
Improving economy, efficiency and effectiveness

We have not identified any significant weaknesses in the Council's arrangements to achieve economy, efficiency and effectiveness in the use of its resources. The performance monitoring arrangements in place provide councillors and the public with sufficient oversight of Council performance. The year-end report highlighted progress against all 9 key delivery areas during 2022/23. The procurement function continues to make improvements both in procurement and in supporting wider improvements in contract management. The Council continues to work closely with partners as is demonstrated by the various partner relationships outlined. These partnerships continue to produce strategies to focus improvement efforts and deliver for local people. The consideration of the impact of future financial decision-making on local organisations and residents will be key looking forward, and maintaining open and transparent communication with partners during this time will also be important. Adult Social Care spend in 2021/22 (latest comparable data available) accounts for 44.1%, and Childrens Social Care 22.5% of total net expenditure (when excluding for public health and education). Increasing social care costs continue to remain a risk for Kirklees, although this is not unique to the Council, and is a key pressure nationally. We have made an improvement recommendation to further improve performance management arrangements.

Financial Statements opinion

We have completed our audit of your financial statements and we issued an unqualified audit opinion on 07 December 2023.

Our summary findings are set out in further detail on pages 34 to 35.



Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by Council officers, Councillors and external stakeholders with whom we have engaged during the course of our review.

Use of auditor's powers

We bring the following matters to your attention:

	2022/23
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not make an application for judicial review.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Overview of the Financial Challenge

In our Annual Audit Report for 2021/22 we reported that the Council's future financial sustainability was at risk in the medium term if prompt action is not taken to rebalance the cost of services with the income that is expected to be available over the next 3-5 years. This is challenging in the context of single year government funding settlements which make it difficult to predict future funding pressures.

Prior to 2021/22 the Council had a relatively strong track record of financial and budgetary management. The 2021/22 outturn was a marginal overspend of £41k. The Council has had a number of years in which savings were not at the forefront of councillors' minds. However, following the end of the COVID-19 pandemic. The year 2022 saw financial pressures significantly worsen with inflationary pressures on energy, a pay award that was significantly higher than budgeted and increasing demand for services, particularly Adult Social Care.

In our view, the Council had not reacted sufficiently quickly to develop spending controls, identify sufficient additional savings schemes or other mitigating actions over the summer of 2022 to manage the significant overspend against budget that had developed. It also struggled to incorporate sufficient additional savings schemes into the 2023/24 budget to cover the projected budget gap that was expected to increase over the medium term.

In order to balance the budget for 2022/23 and to bridge the projected funding gap in 2023/24 the Council had to resort to a large draw down on available General Fund reserves across both years. The Council therefore entered the current financial year 2023/24 facing a considerable financial challenge with available uncommitted reserves at dangerously low levels.

The current 2022/23 outturn of a £27m deficit combined with the projected 2023/24 budget deficit of £24.6m within the 2023/24 MTFS, reflected a higher level of reduction in reserves than we consider prudent and has left the Council with limited capacity to absorb further shocks in 2023/24 or beyond. This increases the importance of the 2024/25 budget setting process and the delivery in full of the planed savings for 2023/24, which are fundamental to the Council's ability to set a balanced budget.

Financial control and performance in 2022/23

In June 2023 the Council reported its Q4 outturn for 2022/23 as an overspend of £27m. This was attributed to cost of living pressures and inflationary pressures over and above what had been included in the core financial assumptions.

As a response to the worsening financial situation during the year, the Chief Executive of the Council at that time implemented a number of short-term spending control measures including:

- A short-term freeze on recruitment;
- Reduction in agency staff;
- Rationalising use of Council buildings;
- Increased scrutiny on all new expenditure; and
- Reductions in non-essential expenditure across services.

This was in addition to ongoing work to review in-year demand forecasts, continued exploration of external funding opportunities, ongoing review of fees and charges and a corporate led capital plan review. The Council had also undertaken a review of Earmarked Reserves to optimise the level of reserves available to manage the overspend.

In our view, these were appropriate measures to take, however we note that they were not sufficiently timely or far reaching to prevent a significant overspend at year end reflecting 7.7% of the Council's net revenue budget.

We note that significant overspends occurred across all service directorates, with the largest values occurring in Children and Families and Environment and Climate Change.

Financial sustainability

The most significant drivers of the £27m overspend in 2022/23 included:

- £8.6m cost pressure related to the nationally agreed pay award for Council employees.
- £5.6m of energy inflation including on central budgets, schools and Kirklees Active Leisure (KAL).
- £3.6m Children and Families relating primarily to High Needs, SEND and other Learning services and Family Support services.
- £1.4m on Adults and Health which included home care, residential and nursing placements and self-directed support.
- £2.9m on schools transport
- £3.2m on Highways and street scene, including a £1.1m shortfall on parking income
- £2.6m of other primarily income shortfalls including Schools Catering and Markets

The total overspend partly offset by £4m of corporate budget contingency set aside to cover income shortfalls along with some additional one-off benefits and grants. The Council also made use of £2.9m through the flexible use of capital receipts to fund transformation related activity. These and other measures helped limit the overspend to £27m.

The £27m overspend for the year was funded through the unplanned use of reserves. This unplanned use of reserves added to the planned use of reserves of £27.7m already agreed to help balance the 2022/23 budget. Along with some smaller drawdowns, this contributed to an overall reduction in usable general fund reserves (excluding schools and public health) of £65.8m, a 44% reduction since the start of the year ending 31 March 2023. We look at the consequences of this for financial resilience in the following sections.

Financial planning and performance to date in 2023/24

The Council set its 2023/24 budget in February 2023 and at the same time, revised its MTFS. This included the planned use of general fund reserves of £24.6m and savings in year of £18.6m. In the first half of 2023/24 a further challenging budget overspend has emerged. At Q1 this was forecast to be £20.3m by year end, however by Q2 this had improved to a forecast £16.1m overspend at year end. This reflects the impact of the additional grant funding for social care, emergency budgetary controls currently operating and measures such as the holding of staff vacancies. As had been the case in 2022/23 the overspends have occurred across all directorates. The most significant areas of overspend in 2022/23 and include:

- £5.3m in Children and families – including pressure on demand and unit cost for external placements, the disability service and looked after children.
- £2.2m in Adults and Health – including demand and unit cost inflation for home care and self-directed support.
- £2.7m Growth and Regeneration - across transport repair costs, waste, income shortfalls on parking and planning and increased staffing costs.
- £4m Corporate Strategy, Commissioning and Public Health – where spending on homelessness that is not supported by housing benefit subsidy is the main pressure.
- £1.9 Central budgets – primarily due to the increased cost of debt.

The forecast overspend in 2023/24 is being closely monitored and efforts are being made to continue the improved trajectory seem since Q1. Approximately £19m of savings have been delivered within the budget, slightly ahead of the original target. However, at present, the remaining £16.1m forecast overspend will again need to be funded from core unallocated reserves.

Taken together with the planned use of earmarked reserves and the anticipated drawdown on general unallocated reserves for 2023/24 of £24.6m, that was agreed in the budget, reserves currently available to fund future unplanned pressures are currently forecast to reduce to £35m by year end, including the £15m minimum working balance. This would reflect a 76% reduction in usable reserves since 1 April 2022.

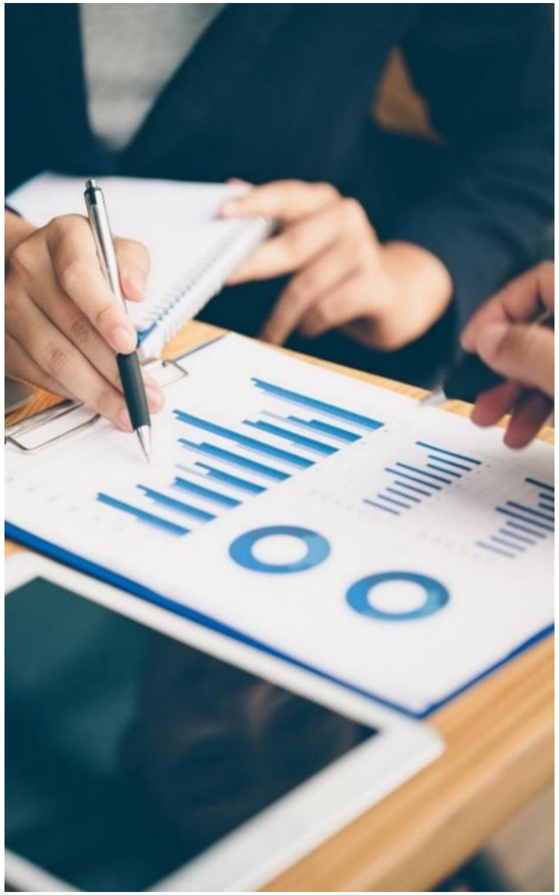
Financial sustainability

Short and medium term financial planning

The Council produced a revised MTFS alongside its annual budget in March 2023. This set out a projected funding gap for 2023/24 of £43.2m rising to £71.4m by 2027/28. This position assumed that there would be no further draw down of reserves and that the funding gap would be closed by savings, with up to £40.6m of savings proposals already identified for delivery over the MTFS period.

We looked at the underpinning assumptions around funding and cost inflation and found these to be reasonable. Business rates income is assumed to recover to pre-pandemic levels, with a 97.4% collection rate. Funding for 2023/24 assumes a 4.99% Council Tax rise. The majority of other funding envisaged for 2023/24 prudently assume these to be at the same level as achieved during 2022/23. However, the significant overspends incurred in both 2022/23 and 2023/24 indicate that the financial planning assumptions have been overly optimistic in relation to the Council ability to control costs. We note that the overspends are specific to particular areas of service across the directorates – for example in regard to social care demand and unit costs, and other areas such as rising transport maintenance costs for an aging fleet of vehicles. For 2023/24 the pay-award was budgeted at 6%, which concluded as being 6.2% , equating to an estimated £1.2m adverse variance. This gap for the next year ahead could widen depending on what is agreed with the Unions and adds more pressure to the Council to seek new areas of savings. It can be argued that 2022/23 was exceptional in regard to inflationary pressures and would have been difficult to predict. While still the case to an extent, this argument is less justifiable moving into 2023/24. Although challenging to action in the Council's current financial predicament, it is important that the Council guards against optimism bias in its financial planning assumptions in the 2025/26 budget planning round and builds in sufficiently prudent mitigations to avoid such large unplanned overspends in the future years of the MTFS.

In September 2023, the Council produced an updated MTFS in its Budget Strategy update which extended the planning horizon to five years up to 2027/28. The new MTFS reflected significant revisions following a fundamental review by the new Director of Finance. The funding gap was increased in the early years to £47.8m in 2024/25 but then reduced slightly in later years from the previous iteration (£59m in 2027/28 and £57.9m in 2028/29). The September MTFS also gave approval for increasing fees and charges and early delivery of 2024/25 savings which had been agreed up to March 2023. The MTFS paper presented a more detailed analysis of the assumptions and risks than had been the case previously. The additional narrative and analysis provides a useful basis for councillors and the public to be able to fully understand and engage with the Council's future financial agenda.



Financial sustainability

Bridging the fundings gap - the savings programme

In order to close the forecast funding gap over the MTFS period, the Council is wholly reliant on an ambitious savings programme to strip sufficient cost from the 2024/25 budget and generating additional income to enable it to be balanced in line with statutory responsibilities. With regard to the Council's track record on savings, we note that the target for current year is £19.8m with £19.2m of this considered achievable by year end. There is some risk contained within this. However, in general the Council is confident that the planned savings can be delivered to a tolerable level of completion by the year end.

The Council has been introducing cost saving and income generating proposals for 2024/25 through individual Cabinet papers throughout the year. For example, a paper on a revised Leisure Centre Offer in September 2023 and car parking tariffs and charges went to Cabinet in November 2023. Our discussions with officers indicates that approximately £36m of savings proposals have been added to the pipeline and are currently being worked up into fully risk assessed proposals. Whilst schemes are at varying stages of development, we can see that progress is being made. For example, the capital savings review is likely to render £3m of savings and other proposals that have gone to Cabinet for decision include the closure of care homes and leisure centre subsidy. The remaining gap of £10m is expected to be closed on a one-off basis by a rebate from the West Yorkshire Combined Authority for the purposes of balancing the 2024/25 budget.

	2023/24	2024/25
Planned savings	£19.8m	£37.0m
Planned savings as a % of income	5%	10%

It is of vital importance that the Council continues to make progress on the savings programme for 2024/25. This will undoubtably require some difficult decisions to be made on services. The level of savings required to balance the 2024/25 budget is in our view very high at almost 10% of the net service budget. At the date of this report we can see that good progress has been made, however the next few weeks and months will be crucial to the Council's future financial sustainability, as it now has very little scope to use reserves to close the gap, especially in the context of the significant forecast overspend for 2023/24. We note that the Council has had to focus its efforts on shorter term savings options that can be delivered quickly and co-ordination with the longer-term transformation programme has not been a key focus. We think that the Council would benefit from realigning savings development with a revitalised and re-focused longer term transformation programme, building on the arrangements already in place.

The Council needs to be equipped to challenge savings plans robustly for deliverability. Currently, savings development for 2024/25 is not being formally reported in terms of assessment for risk. We think that the introduction of an enhanced savings development tracker would be a useful addition to the internal monitoring arrangements, including a RAG (red amber green) rating or similar system that also captures the results of the corporate challenge process and mitigating actions. This should enable effective peer challenge and encourage the development of additional headroom in the plan to manage slippage.

In addition, we recommend that a formal savings challenge process be embedded, documented and implemented to properly test and challenge the savings proposals to ensure that the timing of delivery and true financial impact can be properly assessed and project-managed. This will help the Council to avoid optimism bias that results in it relying on savings plans that are found to be undeliverable later down the line. This challenge process should ensure that there is sufficient headroom to absorb any potential for slippage identified by the process or that other mitigating strategies are in place – such as alternative short-term savings plans.

Financial sustainability

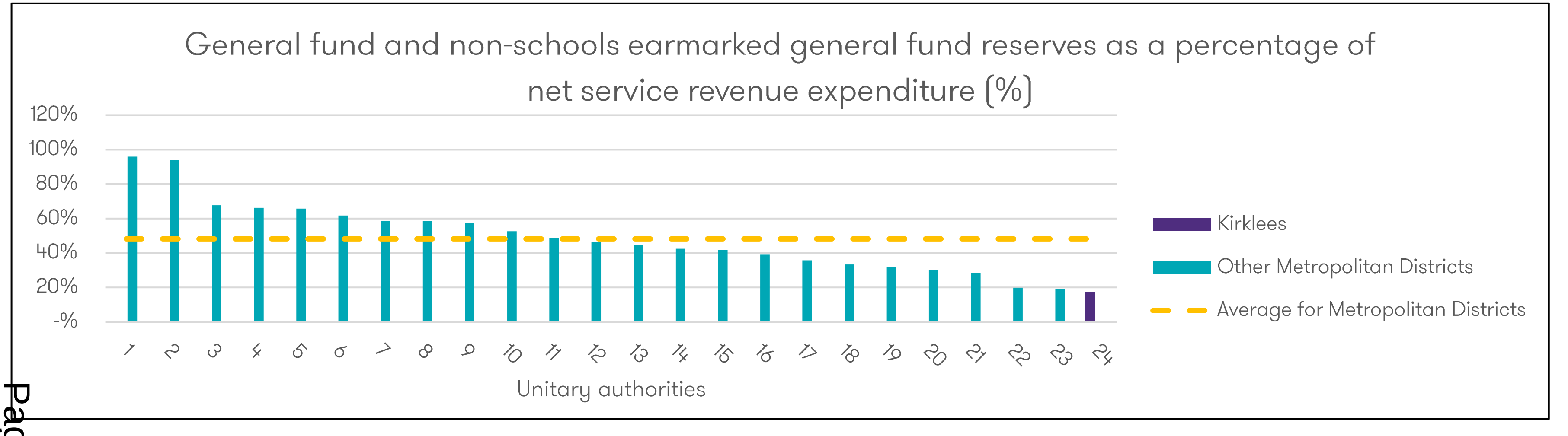
Councillor engagement

We note from discussion with Cabinet members and officers that there is an ongoing discussion on savings for 2024/25 and beyond that is not yet complete. We observe that councillors have recognised the importance of the savings programme to the future of the Council and are effectively engaged with officers in addressing the issues. It is of vital importance that the constructive and proactive nature of these discussions continues and that officers and councillors continue to work together on restoring financial sustainability to the Council. We note that the new Chief Executive and Leader are in the process of reforming a cross party budget working group to support this.

Managing financial resilience - Reserves

As noted in our 2022/23 report and earlier in this report, the Council is now in a precarious position in regard to the level of available reserves. Over the last 2 years the Council's usable general fund and earmarked reserves have reduced by approximately 76% and are projected to stand at only £35m by the end of 2023/24. Within this, a minimum of £15m must be maintained in order for the Council to remain financially sustainable according to the Council policies. Of the remainder, a significant proportion is earmarked for specific purposes and may not be available for use to cover unplanned spend or unfulfilled savings targets. It remains critical that the Council delivers a medium-term strategy to rebuild reserves to a safer level.

Using data available from local authority financial statements for 2022/23, we have compared Kirklees Council's general fund and non-schools earmarked reserves to other metropolitan districts. Kirklees own general fund reserves at the end of 2022/23 accounted for 17% of its net cost of services, and therefore the Council shows as having the lowest level of reserves compared to other similar councils. Low levels of reserves mean that the Council is more exposed to the risk that unplanned cost pressures become unaffordable. The further significant reduction in reserves planned for 2023/24 and the need to cover the cost of the overspend in the current year, means that the Council's position is likely to further worsen in comparison to its peers by the end of 2023/24.



Data is sourced directly from Local Authority draft Statement of Accounts for 2022/23 published on Council websites as of September 2023. As this data is taken from third parties, we cannot verify the accuracy of completeness of such information. Data is not available for all Local Authorities due to some delays in publications.

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Financial sustainability

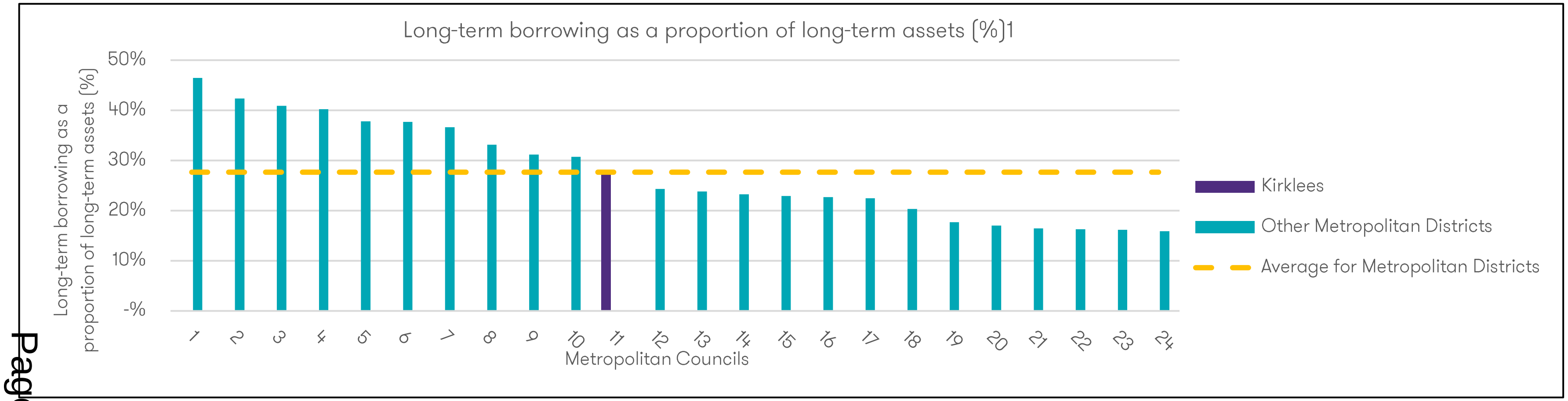
Other areas of financial performance (Capital and HRA)

The Council underspent on its revised Capital budget for 2022/23 by £33.1m on a total budget of £179.3m, meaning that 82% of the budget was delivered. We note that the Council has been working to revise down the capital budget in year in order to reduce the revenue impact of the cost of borrowing. However, the Council did continue to invest in programmes that it considered important for the future of the Borough, especially where work was already underway and there were contractual commitments to proceed. The key variance was in regard to 'Sustainable Economy' badged projects including Cultural Heart (where the gateway 3 process had been pushed back), Huddersfield Town Centre Action plan and Dewsbury Town Centre. There were also underspends in Highways and Landlord asset management, partly attributable to shortages of materials and capacity. While not ideal, the level of slippage has been contained and is in the context of the Council's efforts to reduce or defer borrowing costs.

The Council has been able to manage pressures in the HRA, delivering relatively a modest deficit in 2022/23. HRA financial sustainability is a national issue at present due to the need to comply with legislation on fire safety and damp and mould, and the need to meet the standards set by the housing regulator. In 2022/23 the HRA delivered a deficit of £1.7m after the use of £4.5m from the HRA reserve. The slippage was primarily driven by higher than expected repairs and maintenance costs and a decision to fund a greater proportion of the capital programme from revenue. HRA reserve levels remain relatively healthy (£44.4m a presented in the Q4 outturn report for 2023/24).

Borrowing

The Council benchmarks at the average for its level of borrowing, although there is some scope to reduce this to help reduce revenue financing costs, which is a consideration within the current savings programme, as set out below. The higher that levels of borrowing are relative to long-term assets, the more risk this poses to a local authority. This is not a significant area of concern for Kirklees, at the moment, however as interest rates have risen, the cost of borrowing has continued to increase. Therefore, this should be an area the Council continues to keep under consideration due to the impact on both revenue and capital spend.



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Financial sustainability

Dedicated Schools Grant (DSG) deficit – Monitoring & Support program

We note that the Council has been managing an accumulated deficit on the Dedicated Schools Grant (DSG) budget. DSG is a ringfenced grant payable to Local Authorities by Government through the Department for Education (DfE) for the funding of both maintained schools and academies. Due to shortfalls in the funding of support services provided to young people categorised as 'High Needs' the Council has accumulated a deficit on it DSG budget. The Council is participating in the Government's 'Safety Valve' programme which supports the Council with additional funding to help reduce the accumulated deficit with the Council agreeing to make its own contribution through the use of reserves and savings. An initial £13.5m was awarded in 2021/22 with the balance of agreed £20m government funding contribution to the Council's DSG deficit over the next 5 years is dependent on delivery of in-year DSG High Needs savings target. Quarterly reports are submitted to the Education and Skills Funding Agency (ESFA) Safety Valve team to highlight the progress towards the safety valve planned position and the management plan also allows for some flexibility to review spend and funding profiles over its lifetime. It is noted that the original agreement with DfE aims to bring back into balance the annual budged to reduce the historic deficit to nil, the Council will receive funding of £33.5m over 5-years before 2026/27.

In March 2023 the Department for Education (DfE) raised concerns that the Safety Valve agreement with Kirklees was no longer on track and could not be successful without there being significant changes made. The estimated DSG deficit for 2022-23 declared was £28.9m against a target of £19m. Kirklees Council subsequently entered into an Enhanced Monitoring & Support program for its Safety Valve agreement with the intention of formulating a credible plan which works for both parties and ensures the DSG deficit will be eliminated. An opportunity to extend the agreement by one year is in process of being agreed subject to there being no extra funding required from DfE.

The DfE has recently raised further concerns around the timeliness and backlog of Education, Heath and Care (EHC) needs' assessments, the accuracy of some data capture and submissions. Following on from these detailed discussions with the DfE, at the end of September 2023, Kirklees Council committed to providing feedback and submission of revised plans. There is acknowledgement that the Council's plans are ambitious but should allow them to achieve a positive outcome.

The Special Educational Needs and Disabilities (SEND) transformation programme is well advanced and progressing as intended, and a statement has been issued stipulating no additional funding will be requested from the DfE. However, the Council's current Safety Valve projections flag that the deficit position is £5.8m adrift so far in 2023/24 and the risk that future Safety Valve funding is not forthcoming is already included on the Corporate risk register, with a Cabinet paper being drafted for Nov 2023 to bring councilors up to date. We also note that the planned use of reserves is included in part of the Safety Valve Management Plan which commits £10.75m of Council reserves to the reduction of the DSG Deficit with £8.6m of this being contributed in 2025/26.

Notwithstanding these matters, the Council considers that its historic deficit can be cleared by 2027/28 but this assumes a one-year extension to the arrangement is given. On balance, we consider that although the Council's performance on DSG deficit reduction has faltered, the Council has been proactive and is in the process of negotiating a way forward with DfE. However, we now consider the Council's Current DSG deficit position to be a significant risk for the purposes of our VfM assessment.

Conclusion

Since we last reported to the Council on Financial Sustainability in July 2023 the Council has made good progress in addressing the significant financial challenge it faces. However, our work indicates that the Council's future financial stability continues to be at risk in the short and medium term with a highly challenging savings plan target for 2024/25 currently being developed in order to enable the Council to meet its statutory obligation to set a balanced budget for 2024/25. The Council is working hard to resolve the financial challenges and is aware that should it fail to achieve this through the delivery of large-scale cost savings, the Chief Finance Officer will be required to issue a formal report to councillors under section 114 of the Local Government Act 1988, to the effect that the Council has insufficient resources to meet its expenditure for the forthcoming financial year. The Council is in the process of addressing our key recommendation to strengthen arrangements around financial planning and savings development and needs to deliver a strategy for replenishing reserves to stabilise the overall position. We note that to manage the increase in the cost of services there has been continued depletion of reserves throughout 2022 and 2023. However, we also note that the Council has been able to demonstrate a good level of co-operation and engagement between officers and councillors which will be very important to maintain.

Improvement recommendation 1

Improvement Recommendation 1	A formal savings challenge process should be developed, documented and implemented to properly test and challenge the savings proposals to ensure that the timing of delivery and true financial impact can be properly assessed and project managed.
Improvement opportunity identified	This will help the Council to avoid optimism bias and placing reliance on savings plans that are found to be undeliverable later down the line. This should incorporate a process for ensuring that there is sufficient headroom to absorb any potential for slippage identified by the process or that other mitigating strategies are in place – such as alternative short-term savings plans.
Summary findings	It is of vital importance that the Council continues to make progress on the savings programme for 2024/25. This will undoubtably require some difficult decisions to be made on services. The level of savings required to balance the 2024/25 budget is in our view very high at almost 10% of the net service budget. At the date of this report we can see that good progress has been made, however the next few weeks and months will be crucial to the Council's future financial sustainability, as it now has very little scope to use reserves to close the gap, especially in the context of the significant forecast overspend for 2023/24.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has identified a weakness in arrangements which we do not consider to be significant but we have raised a recommendation to support management in making appropriate improvements.
Management comments	The development of savings for 2024/25 has been worked on since March 2023 and following agreement of the MTFS in September 2023 is also starting some early deliver such as leisure centre's, care homes and parking charges. The Council does have a Budget Delivery Group which is regularly discussed at Cabinet.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation 2

Improvement Recommendation 2	The Council should develop an enhanced savings development tracker that used RAG ratings or similar means to capture the level of risk associated with the delivery of savings.
Improvement opportunity identified	We consider that a formal savings development tracker would be a useful addition to the internal monitoring arrangements for 2024/25 savings programme, including a RAG (red amber green) rating that also captures the results of the corporate challenge process and mitigating actions. This should enable effective peer challenge and encourage the development of additional headroom in the plan to manage slippage.
Summary findings	Currently, the Council's £37m savings programme is being developed through informal means and communicated in the form of slide decks. We have had verbal assurance that a spreadsheet of opportunities is being maintained and used, however as the Council enters a crucial phase of development we consider a more formalised tracker used for internal communication and possibly summarised for Cabinet would be a useful addition.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has identified a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Management comments	The Council already reports on savings to Cabinet. This can be reviewed to consider how this can be enhanced with the quarterly monitoring reports.

Improvement recommendation 3

Improvement Recommendation 3	The Council should ensure that the ongoing Transformation programme is properly integrated with and supports the short-term budget saving development process.
Identified significant weakness in arrangements	The validation of savings and opportunities sought does not refer-back to what has previously been identified within the transformation remit. Tactical savings sought have potential of being subsumed within the transformation process without going through the same validation process being managed by the Finance function.
Summary findings	We note that the Council has had to focus its efforts on shorter term savings options that can be delivered quickly and co-ordination with the longer-term transformation programme has not been a key focus. We think that the Council would benefit from realigning savings development with a revitalised and re-focused longer term transformation programme, building on the arrangements already in place.
Criteria impacted by the significant weakness	Financial sustainability
Auditor judgement	Our work has identified a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed - the Council has kept track of both short term and long-term savings and will need to make sure all savings and mitigations are considered.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

The range of recommendations that external auditors can make is explained in Appendix B.

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk management

The Council has a risk management system in place, which at the corporate level shows clear documentation and discussion of risks. The risk management arrangements incorporate service and directorate risk registers, which are informed by an assessment of the key risks impacting each area. The corporate risk register was reviewed by Cabinet during 2022/23.

At corporate level, the Council documents its risks through a risk register, which applies a risk score both before and after mitigations measures, enabling the Council to manage the risk and act where necessary. The assessment and scoring of the risks is based on the likelihood of the risk being realised and the impact it would have. This document ensures that the Council recognises the role that risk management has in delivering services.

The risk management process within the Council, if fully utilised, clearly sets out the risk owner and strategy in a clear and detailed format, providing councillors and officers with sufficient and appropriate detail. Reporting includes relevant management actions, control opportunities and trends in a digestible format for corporate level risks.

The Council has a structure in place to manage risks, but there is a lack of consistency for risk management at individual directorate level. More regular discussions and increased awareness of risk is needed across the Council to ensure risk management is fully embedded. We raised this as an improvement recommendation in the previous year.

There is no specific bespoke risk management tool in place within Kirklees, as this is still managed through the use of spreadsheets. Whilst this is acceptable if used effectively, embedding risk management across the organisation may be easier with the use of a specific risk management tool which remains live and available for accountable officers. The Authority needs to continue focussing on embedding a risk management culture throughout the organisation as currently risk management is not prioritised.

Internal control

The Council has a team of internal auditors, led by the Head of Risk and Internal Audit, that provides assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud. The annual Internal Audit Plan is agreed with management at the start of the financial year and is reviewed by the Corporate Governance and Audit Committee (CGAC) prior to final approval. The planned work is supplemented by ad hoc reviews in respect of suspected irregularities and other work to respond to emerging risks and issues. For 2023/24 the Council has adopted 6-monthly, rather than annual Internal Audit plans to be able to adapt better to the needs of the Council.

As with many public internal audit teams, available people-resource continues to be a challenge. Despite this, the team was able to complete 57 out of the 85 planned reviews in 2022/23 alongside 10 unplanned pieces. This was an increase on the 47 total planned and unplanned pieces of work in 2021/2. Internal audit was also involved in updates to Contract and Financial Procedure Rules.

The service underwent an external assessment during 2022/23 which concluded that the service "generally conforms" to the Public Sector Internal Audit Standards (PSIAS), building on the internal assessment which took place in 2021/22. This did highlight that reporting requirements could be improved, which the Council is currently undertaking. Our discussions with the Head of Internal Audit highlighted that follow-up on previous internal audit recommendations continues to highlight slow progress on implementation. The Council needs to ensure continued emphasis on actioning internal audit recommendations in a timely manner. Failure to address this opens the organisation up to continued risk. Future reporting to the CGAC should emphasise progress against follow up recommendations so that councillors are aware and can insist on officers' attendance to explain the reasons for slow progress, where necessary.

Governance

Investigation of fraud and corruption

We consider that there are adequate arrangements in place in respect to the prevention and detection of fraud. The Council's constitution, code and conduct and whistleblowing policy specifically outline the Council's commitment to identifying and preventing fraud and corruption. Furthermore, employees must observe the employee handbook which includes fraud and corruption items, setting out learning on best practice examples and remedies.

From discussions with Internal Audit, it was apparent that within 2022/23 there were capacity issues within the team. The team did attempt recruitment of a fraud specialist, however, given the current market, was not successful in finding the correct candidate. Instead, the team recruited a general role that could undertake anti-fraud activities.

From April 2022, Internal Audit and Risk Service took full responsibility for fraud investigation and management of the fraud team from the Welfare and Exchequer Service. The initial focus was on customer fraud with the establishment of a fraud risk panel. There were a number of positive outcomes in relation to right to buy refusals, and tenancy recoveries were achieved, as well as the pursuit of people misusing blue badges. One case of abuse of the COVID-19 grant scheme resulted in a criminal conviction. There is also regular quarterly reporting to the Corporate Governance and Audit Committee in relation to the fraud work that is being carried out. The Council should ensure it builds a Fraud Strategy and associated Fraud Action Plan which aligns with this and takes into consideration the change in responsibility for fraud work from the Welfare & Exchange Team to the Risk Service areas. This was raised as an improvement recommendation in our 2021/22 work.

Corporate Governance and Audit Committee (CGAC) effectiveness

The purpose of the Corporate Governance & Audit Committee (CGAC) is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements at the Council. The Committee's role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to those charged with governance that those arrangements are effective. There is a general consensus in the Council that the Committee functions well and provides the Council with a sufficient level of support and scrutiny. It remains important that the CGAC does not become overly political.

There are no statutory requirements that determine the composition of audit committees. The CGAC at Kirklees is comprised of nine councillors. CIPFA's recommendation in *Audit Committees: Practical Guidance for Local Authorities and Police (2022)* is authorities should strive to have no more than eight Audit Committee members which the Council only just exceeds. CIPFA recognises that committees of this size should allow sufficient breadth of experience but is small enough to allow the development of a dedicated group.

During 2022/23, the Committee appointed a non-voting independent member. CIPFA guidance and the Redmond Review (2020) recommend the Committee includes two co-opted independent members. We recommend that the Council considers the merits of appointing a second appropriately qualified independent member to the CGAC. The injection of an external view can often bring a new approach to committee discussions and provides an element of continuity outside the political cycle. To accommodate this the Council could consider reducing the number of councillors on the Committee. We note that attendance for the meetings has been consistently high and there is representation from each of the political parties. There were 10 meetings during the year, which is more than CIPFA's recommended minimum of 4. with reports from internal audit, external audit, financial statements, annual governance statement and risk management. The Committee also reviewed the recommendations made around the proposed changes in Council governance. The Committee has asked for attendance from key officers throughout the year to present on specific areas such as IT audit controls.

Council decision making and oversight

Within the Council, arrangements are in place to ensure that all relevant information is provided to decision makers before making major decisions. Directors commission heads of service and their teams to produce reports related to the major decision, which are supported where necessary by professional experts. Draft proposals are reviewed by the responsible directorate senior leader teams. All investment decisions within the Council are assessed and approved internally prior to the revenue or capital allocations provided, through the annual budget, which is then signed off by Cabinet. This system allows for segregation of duties regarding financial decisions and enables for healthy deliberation and challenge to be incorporated into the decision-making process.

Governance

The Council's decision-making arrangements are established in the Council's constitution, which is publicly available on the Council's website. Decisions are either made by councillors (Council, cabinet or other decision-making committees) or delegated to Cabinet portfolio leads, or officers. Prior to decision making, the relevant scrutiny committee will provide evidence-based recommendations regarding a decision, which provides effective review as part of the decision and policy making process. These committees have oversight of the key services lines (Health and Adults Social Care, Children, Economy and Neighbourhoods, Corporate), and have an ad hoc function to carry out focussed reviews in order to influence the policies and decisions made by the Council in delivery of public services. The key principles are to proactively and constructively provide 'critical friend' challenge and maximise the use of pre decision scrutiny to influence important decisions before they are made.

During the 2022/23 financial year there was a review of committee structures by the Democracy Commission, with changes approved by the Corporate Governance & Audit Committee (CGAC) in December 2022 and by Full Council in January 2023. The Cabinet and Leader model of governance has been retained, with a number of recommendations to be implemented throughout the 2023/24 year. Following this a review of progress is set for March 2024. The model has a focus on pre-decision scrutiny and training in order to build effective working arrangements between officers and councillors. During 2022/23 the Scrutiny Committee and Panels were also reviewed with revisions at Council in May 2023. This included some changes to focus areas for more effective working.

Budget planning and monitoring

The annual budget setting process at the Council is lead by the Service Director – Finance (s151 Officer) who engages with the Executive Team at numerous staging posts during the budget process. Leadership Management Team (LMT) are also engaged by s151 officer at various points during the process along with discreet Scrutiny sessions. We note that the financial planning process has been further strengthened during 2023/24 including an earlier starting point.

The Council's annual budget for 2023/24 was approved at Budget Council in March 2023, which is also informed by the current approved Council plan to March 2023. This allows for the Council to incorporate both financial and strategic outcomes in its reporting function.

Once the annual budget has been agreed, the financial performance monitoring reports of the Council are presented to senior managers, councillors and Cabinet for approval on a quarterly basis. This enables appropriate scrutiny and oversight of financial performance and any spending pressures that may arise.

Budget performance for revenue and capital is reviewed monthly at director level and by the executive team, with portfolio holders receiving regular updates. Formal budget monitoring reports are taken to Cabinet on a quarterly basis. We note that the level of analysis provided in 2022/23 Q4 and 2023/24 reporting has been extensive, which is appropriate to enable councillors to be fully informed of the latest position. We have covered the effectiveness of the process in addressing the Councils financial challenges earlier in this report under Financial Sustainability.

Gifts, hospitality and declaration of interests

A gifts and hospitality policy is set out in the Council's constitution which provides a clear summary of the Council's policy on how officers should handle gifts and hospitality. It was noted however that within our previous two Value for Money assessments, declarations of interest of councillors are not readily available for public inspection within the Council's website. This is still the case, and the Council should update the documents in a timely manner, as it may obstruct accountability and hinder public inspection both of which are important governance principles for local authorities.

Conclusion

The Council has appropriate arrangements for ensuring that it makes informed decisions and properly manages its risks. Based on the work performed, review of relevant documentation and conversations with key personnel in the Council, we have not identified any evidence that would indicate a potential risk of significant weakness in the governance arrangements within the Council.

Improvement recommendation 4

Improvement Recommendation 4	The Council should consider the merits of appointing one additional appropriately qualified independent councillor to the Corporate Governance & Audit Committee (CGAC).
Improvement opportunity identified	The injection of an external view can often bring a new approach to committee discussions and provides an element of continuity outside the political cycle.
Summary findings	There is currently only one independent member on Kirklees Council's Corporate Governance & Audit Committee. CIPFA guidance and the Redmond Review (2020) recommend the Committee includes two-coopted independent members.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Agreed - we will consider the merits and work with the Committee.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation 5

Improvement Recommendation 5	The Council should review the arrangements for implementation and follow up of improvement recommendations.
Improvement opportunity identified	Improvements to the tracking and reporting of internal audit recommendations will help to ensure best value obtained from the work of the internal audit team. By regularly reporting progress to the CGAC this will help to improve management accountability and improve implementation in appropriate timescales.
Summary findings	The service underwent an external assessment during 2022/23 which concluded that the service "generally conforms" to the Public Sector Internal Audit Standards (PSIAS), building on the internal assessment which took place in 2021/22. This did highlight that reporting requirements could be improved, which the Council is currently undertaking. Our discussions with the Head of Internal Audit highlighted that follow-ups on previous internal audit recommendations continues to highlight slow progress, however this was not evident from our review of reports. The Council needs to ensure continued emphasis on actioning internal audit recommendations in a timely manner. Otherwise, this opens the organisation up to continued risk. Future reporting to the CGAC should also emphasise progress against follow up recommendations so that councillors are aware and can insist on officers' attendance to explain the reasons for slow progress, where necessary.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements. There is limited evidence of progress against internal improvement recommendations, however our discussions with internal audit have highlighted that this is not consistent and more emphasis is needed to improve implementation progress.
Management comments	Agreed - regular monitoring of audit recommendations is considered crucial.

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance management

The Council Plan outlines the Council's vision, priorities and values, and it is against these that the Council manages performance against desired outcomes. During the previous financial year, the plan was updated which saw the addition of a new shared outcome, 'Shaped by People'. This was developed in conjunction with directorates, councillors and citizens. Within 2022/23 there were various achievements against this including the implementation of the Democracy Friendly Schools programme as well as marked improvement in the call answering rate from the public to the Council’s customer service functions.

Performance is reviewed by Cabinet on a biannual basis, via production of a mid-year and year-end performance report. These outline progress against each of the outcomes and summarise key successes and risks for each. The year-end report highlighted progress against all 9 key delivery areas with clear and concise KPIs against each of the areas enabling quick and easy identification of progress.

In the previous few years, the Council has shifted its focus to outcomes in order to drive performance reporting throughout the organisation. Each report begins with key highlights and throughout focusses on areas where the Council is having success and where the key challenges and risks lie, under each of the Council’s shared outcomes. This is welcomed and has been continued in 2022/23. We consider there could be further use of data and intelligence and the Council has recognised this with a Data and Insight Strategy, which is currently being implemented and will help to ensure organisational wide consistency.

The current Council Plan was approved in July 2023 and will run until January 2024. It has 4 key areas: ‘Our recovery, Our approach, Council priorities and Our vision’. Within the plan there is clear definitions against each of the 4 areas. The ‘Our recovery’ area makes it clear that Kirklees’ focus is regaining financial sustainability improving the transparency between the Council and residents on the difficult challenges the Council is currently facing. It was highlighted during out review that the Council Plan was not established first in order to develop the budget based on these priorities, due to the challenging financial position, but a new Council Plan is under development to ensure a priority-led approach to budgeting in future.

Overall, performance management within the Council is clear, concise and enables scrutiny with officers and councillors. This could be improved with more effective use of data and insights, which has been recognised by the Council, and is an area it is working through overseen by the Modern Organisation Board. In prior years we have also raised that the Council should consider whether bi-annual reporting provides Cabinet with sufficient information in a manner which allows for timely enough action.

Improving economy, efficiency and effectiveness

Procurement and contract management

Procurement and robust contract management are two key management functions that local authorities can use to help ensure value for money in the way that public money is spent. Kirklees Council has been working on embedding improvements in procurement and contract management practices by focussing on a 'Back to Basics' approach . This has included a rollout of training across the Council.

The Council updated its Procurement Strategy and Social Value Policy during the year, which was agreed by Cabinet in November 2022, supported by updated Contract Procedure Rules dated May 2023.

Whilst for larger procurements, procurement plans have always been built, this is now in place for all new procurements to ensure ownership at service levels and to provide information to Heads of Services on the options considered, the timescales and officers involved.

Contract management is an area where there continues to be inconsistency across the Council. This was coupled with limited visibility and assurance over all activity. However, this has been identified by the Council and discussed at Executive Team meetings. Therefore, there are now actions underway to bring about improvements in this area. For example, the Contract Assurance Board is now in place which requires officers to attend to explain the specific contracts where there are concerns around contract management practice or large variations in the contracted spend requested. This also helps to raise awareness on issues more widely and is viewed within the Council as beginning to make small but appreciated impacts.

Additionally, the procurement team has built in an additional step in the handover process. This means when a contract is formally handed over to the contract manager within the directorate, they are provided with clear information dependent on the type of contract which includes the value, extensions, key performance indicators, the expected social value commitments and contract manager responsibilities. Procurement officers are also insisting that contract managers are named before the procurement process begins, so they can handover in a timely manner.

Looking forwards, the Council will be conducting a contract management health check driven by directors and Heads of Service and working with internal audit to look at spend compared to the contract register (for contracts over £10k), in order to understand if any contracts are more expensive than expectations. This will help to provide assurance to management that contracts are driving value for money. Given the concerns regarding the Council's financial position, tight control on expenditure is critical. A lack of control over contract management practices could result in increased costs as contract managers responsible for variations to prices and costs do not have appropriate expertise or support to ensure that they are securing best value for money.

The Council is also signed up to the Government's Continuous Commercial Improvement Assessment Framework (CCIAF) and has been making use of the resources available. The playbooks and training are being used to identify where procurement practices and processes could be improved or run differently.

Improving economy, efficiency and effectiveness

Core Services - Waste

Due to media attention around a comparatively expensive recycling service within the Council, we looked at some of the challenges faced by the Waste Management directorate. The Private Finance Initiative (PFI) program for waste services was approaching the end of its 25-year contract in 2023, which prompted an initial assessment by the Council team to develop a variation to extend the contract for two more years up to 2025 while options for the future of the service were considered. This was approved by a review panel of experienced offices within the directorate and support services. While the Council had started preparing for the PFI re-procurement several years ago, external challenges, including the impact of COVID-19 and the uncertainty in the market, prevented it from going to market at an earlier stage and therefore the extension has been a sensible step to ensure service continuity while the next steps are considered. The Council is continuing to manage performance issues in this area which had previously suffered from recruitment challenges during 2022/23, and we note have now largely been resolved. Plans are now in place to achieve savings, focusing on reducing subsidies, rationalizing centres, and collaborating with re-use partners while a longer-term solution is found.

Core Services - Adult and Children's Social Care

Our conversations with Children's Social Care indicate that the relatively low benchmarked unit cost of the service was driven by changes made in response to the Inadequate Ofsted finding in 2016. A commissioner was previously brought in and a formal partnership developed with Leeds City Council to aid improvement. In 2019 the service was found to no longer be inadequate. One of the main strategies which has helped to reduce costs is to move away from reliance on an agency workforce and there are now very limited numbers of agency workers in Kirklees Children's Services. In addition, there has been increased investment in early help and family support prevention strategies, which has been successful in managing to keep children and young people out of the care system where appropriate and beneficial. However, in 2022/23 and 2023/24 we have seen cost pressures starting to push up the cost of the service, although it remains relatively efficient in comparison to other Councils. We note that the Council has previously had lower levels of looked after Children than its peers, but this is now adding to the cost pressures as demand gradually increases, although still at a comparatively low level. This includes relatively low levels of external placements. However due to the national shortage of places and rapid increase in private provider costs, cost pressures are being driven by a small number of additional placements. The service is continuing to work on managing demand and unit costs through additional controls and manging demand pressures.

In regard to Adult Social Care, although a relatively high-cost service in terms of benchmarking this is reflective of the level of demand and the local provider market. With regard to financial performance, the service has generally been well managed with a relatively small overspend in 2022/23 (approximately 1%) and a small overspend also forecast for 2023/24. The service has made some good progress in integrating adult social care with housing strategy. The service continues to work closely with NHS partners and has good relationships, including in areas such as intermediate care. The service has had some notable success in revieing social worker pay and reducing the reliance on agency workers, which has helped to maintain stability in the workforce. Work has been ongoing with external consultants to look for further efficiencies, opportunities to control costs and demand. The Council has yet to be notified of when the CQC is likely to resume inspections but is making preparations for this.

Improving economy, efficiency and effectiveness

Partnership working

Partnership working is central to the delivery of many local authority services. The Council works with a range of statutory partners, commissioned providers, private businesses, the education sector and the voluntary and community sector (VCS).

Kirklees Council is able to clearly articulate their key strategic partners, which include among others Kirklees Health & Care Partnership, Kirklees College, Huddersfield University, Fire, Police and a range of sector leaders from across the VCS. The Partnership Executive brings together these district wide partners. Current conversations are focussed on outcomes but also on future funding decisions across the locality, particularly how savings decisions of all organisations will impact on partners and how these can have a domino effect throughout the locality. This is particularly important when it comes to the voluntary and community sector as many smaller community organisation depend upon temporary pots of money so any changes to the scale of support via the Council or NHS bodies could have a big impact on the sector and on outcomes for residents. Internally conversations around savings proposals include discussions about the impact on external organisations and partnership arrangements. It is imperative that as part of the continuous financial decision-making, that the partnership working impacts continue to form part of the discussion and the Council is open and transparent with key partners in this area.

The Council's Annual Governance Statement outlines that partnership governance and development of key relationships remains an area for further development. Whilst some partnership working has progressed, particularly within the health arena, partnerships at the local level require continued work, and the Council will focus on ensuring delivery for prioritised community needs, with the understanding that delivery of key outcomes is only possible with input from key partners.

Integrated Care Systems (ICS) were created as part of the Health and Care Act 2022 and became statutory from July 2022. Local authorities are required to be members of the ICS as key partners. Kirklees Health and Care Partnership is one of the five place-based partnerships operating within the West Yorkshire Integrated Care System. Other health and care partnerships within the ICS include Bradford District and Craven, Calderdale, Leeds and Wakefield, who work alongside 4 service specific provider collaboratives. In 2022, the West Yorkshire Integrated Care System was recognised nationally by the Health Service Journal as 'integrated care system' of the year citing that "there was clear evidence of relationships that had been established over a number of years. The trust and respect that system leaders had for one another and the authenticity of the 'in it together' ethos shone through." The Joint Forward Plan was published in June 2023 and links to the 5 local place plans for each of the localities. Our discussion with officers highlighted that relationships with ICB are good, with a focus on more effective ways of working. This has included discussions around complementary working and accountability for tackling cost of living and the future of the Health & Wellbeing Board in delivering best value in the new health landscape.

Conclusion

We have not identified any significant weaknesses in the Council's arrangements to achieve economy, efficiency and effectiveness in the use of its resources. The performance monitoring which is in place provides councillors and the public with sufficient oversight of Council performance. The year-end report highlighted progress against all 9 key delivery areas during 2022/23. The procurement function continues to make improvements both in procurement and in supporting wider improvements in contract management. The Council continues to work closely with partners as is demonstrated by the various partner relationships outlined. These partnerships continue to produce strategies to focus improvement efforts and deliver for local people. The consideration of the impacts of future financial decision-making on local organisations and residents will be key looking forward, and maintaining open and transparent communication with partners during this time is imperative.

Improvement recommendation 6

Improvement Recommendation 6	Performance management could be improved with more effective use of data and insights.
Improvement opportunity identified	The Council has access to a lot of meaningful data but it is currently not presented in the most accessible format to be able to properly interrogate the information. There are currently limited benchmarks or targets against which to measure performance. The data shows what is happening but does not assess whether this performance is 'good' or 'bad.' The Council should put effort toward determining what quality of service it would like to deliver, put arrangements in to review that regularly and then report against that position. The current performance reports demonstrate a good foundation to build on but there is room for improvement.
Summary findings	The use of data and insights such as benchmarking could be improved throughout the Council. This has been recognised and highlighted in the Annual Governance Statement. The Council has approved a Data and Insight Strategy, and the Council are working through implementation of this, overseen by the Modern Organisation Board. As part of this embedding use of data and insights within performance reporting will be important to for understanding further the Council's achievements.
Criteria impacted	Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements. There is evidence of some use of data and insights, and the strategy development is a good first step, however this could be improved upon to enable a better understanding of performance.
Management comments	This will be considered but needs to be balanced with other improvement priorities across the Council.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Optimise outcomes for the Council in the current round of Department for Education Safety Valve Group discussions, including approval for the Special Educational Needs (SEND) Transformation Plan in order to seek a long term solution to the Dedicated Schools Grant (DSG) overspend.	Improvement	March 2022	The position in regard to the DSG deficit has deteriorated and the Council is in discussion with DfE to develop a revised recovery plan. We have therefore raised a significant weakness in this area for 2022/23.	No	See Key Recommendation 2.
2	Consider publishing the Member and Senior Officer's registers of interests and gifts and hospitality more clearly on the Council website.	Improvement	March 2022	These are clearly displayed on the Council's website, with the Gifts & Hospitality register table as one document. The individual declarations of interests for each Councillor are also available to download.	Yes	No
3	We recommend the Council reviews its group company and investment governance arrangements.	Improvement	March 2022	This is ongoing. Our discussion with the Head of Internal Audit highlighted that there have been a number of reports on the Council's associated parties and specifically Kirklees Community Association. At the time of writing specific action against the recommendations of these reviews had not yet been taken. During 2022/23 reports were taken to Cabinet on the governance arrangements of Kirklees Stadium, it is clear work is progressing in this area, but needs to continue.	Partly	Whilst the Council has reviewed some of the arrangements in relation to its arrangements, it is clear that further work is needed in order to ensure governance arrangements are effective and risks are reduced to the Council.
4	We recommend that quarterly performance reporting is reinstated.	Improvement	March 2022	Performance reporting currently takes place bi-annually with a mid-year and year-end report produced. This is an improvement on the prior year where no Corporate Performance reports had been submitted to Cabinet.	Partly	The Council should consider whether its current arrangement of bi-annual reporting is sufficiently often for updating councillors and mitigating poor performance in a timely manner.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	The Council should take a more proactive and committed approach to improving risk management with a particular focus on improving directorate and project-based risk management. The Council should enhance the current level of training and use of better practice to aid the organisations knowledge and practise.	Improvement	July 2023	Whilst there have been some improvements to risk management throughout the year, it is clear that it is not yet fully embedded throughout all areas of the Council, particularly below strategic level. The Council continues to use spreadsheets to manage risk, which our discussions with officers have highlighted are not always well kept and regularly updated.	No.	Yes
6	The Council should focus on updating a centralised version of the declaration of interests/This will aid transparency within the Council and improve ability for public inspection and accountability.	Improvement	July 2023	There is not yet a centralised register of declaration of interests available for public inspection.	No	The Council may consider publishing one complete central register of all declared interests.
7	The Council should focus on creating a revised "Fraud Strategy" that helps to rebuild the processes and policies in place at the Council, alongside a clear Fraud Work Plan to focus their work. This should include improved training for fraud awareness and prevention.	Improvement	July 2023	During the 2022/23 financial year, responsibility for fraud was taken over by the Internal Audit team.	Partly	The fraud strategy and action plan will require further development.
8	The Council has in place a Procurement Action Plan. To ensure this achieved, this needs to be developed further.	Improvement	July 2023	The Procurement Team has been delivering the Procurement Action Plan and has been recognised nationally for its procurement activity.	Yes	Continuation of action plan activities
9	The Council should ensure that procurement and contract management training is rolled out across the Council and all contract managers are aware of their roles and responsibilities, with regular reporting to directorate management teams.	Improvement	July 2023	Central procurement and contract management training have been available. The Council is making use of playbooks and have been taking advantage of national training which is now available, with cohorts signed up to the continuous commercial improvement assessment framework.	Yes	No

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We issued an unqualified opinion on the Council's financial statements on 07 December 2023.

The full opinion will be included in the Council's Annual Report for 2022/23 and published the Council's website.

Further information on our audit of the financial statements is set out overleaf.

Opinion on the financial statements

Timescale for the audit of the financial statements

- Our Audit Plan was issued and presented to the Corporate Governance and Audit Committee in July 2023.
- Our audit work took place between July and October, with final procedures and quality control taking place in November.
- The Council provided draft financial statements in line with the internal timetable for June 2023, noting the national deadline had been brought forward to 31 May 2023.
- There were no significant issues that had an impact on the timely completion of the audit that were within the Council's control. In early November 2023 the audit team were awaiting assurances from the Council's HRA valuer and the auditor of the West Yorkshire Pension Fund.
- The opinion on the financial statements was issued on 07 December 2023, following the CGAC meeting in November 2023. We were not able to complete the audit in line with the national deadline of 30 September 2023.

Findings from the audit of the financial statements

We identified significant risks of material misstatement in relation to:

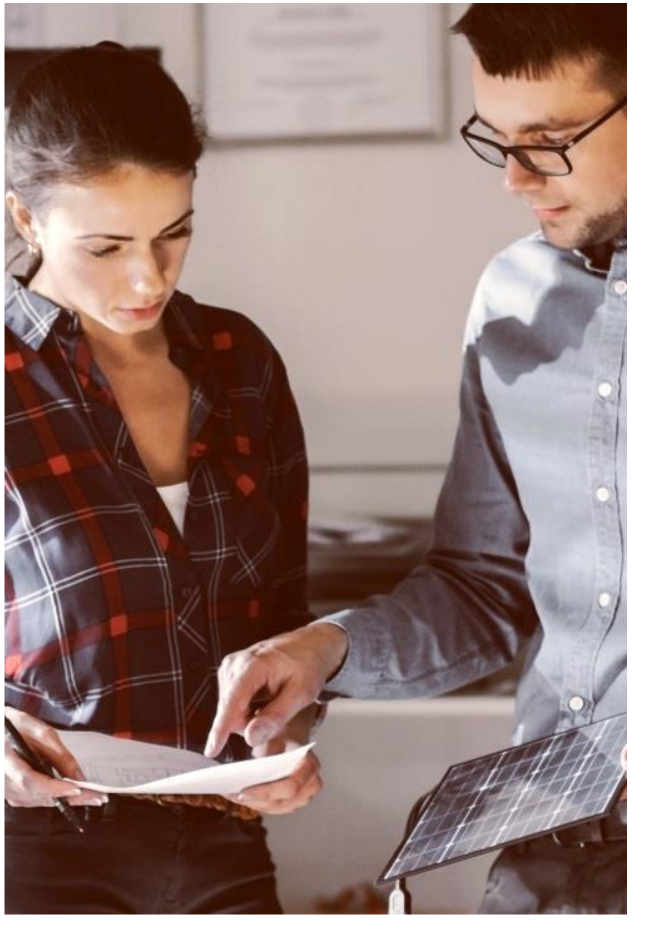
- Management override of control (assumed risk in all entities)
- Valuation of land and buildings, including council dwellings and investment property
- Valuation of the net pension asset relating to the Council's membership of the West Yorkshire Local Government Pension Scheme

At the time of publication of this interim report, audit work was still ongoing in relation to the valuation of council dwellings and the net pension asset.

There have so far been no significant adjustments made to the financial statements submitted for audit.

We have made internal control recommendations arising from the financial statements audit.

More detailed findings are set out in our Audit Findings Report, which was presented to the Council's Corporate Governance and Audit Committee on 24 November 2023. Requests for this Audit Findings Report should be directed to the Council.

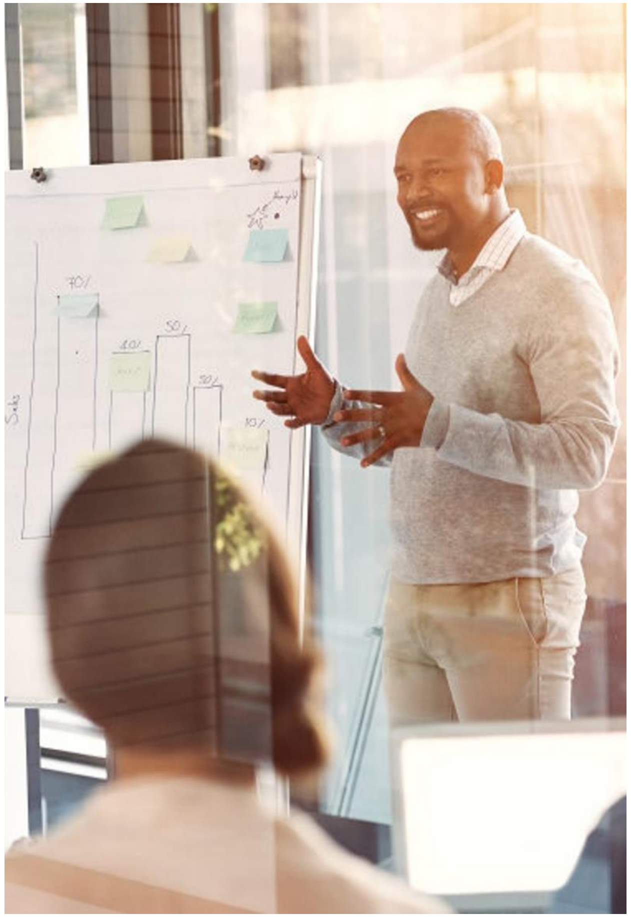


Other reporting requirements

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Our work will be completed once our work on the financial statements opinion has concluded.



Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

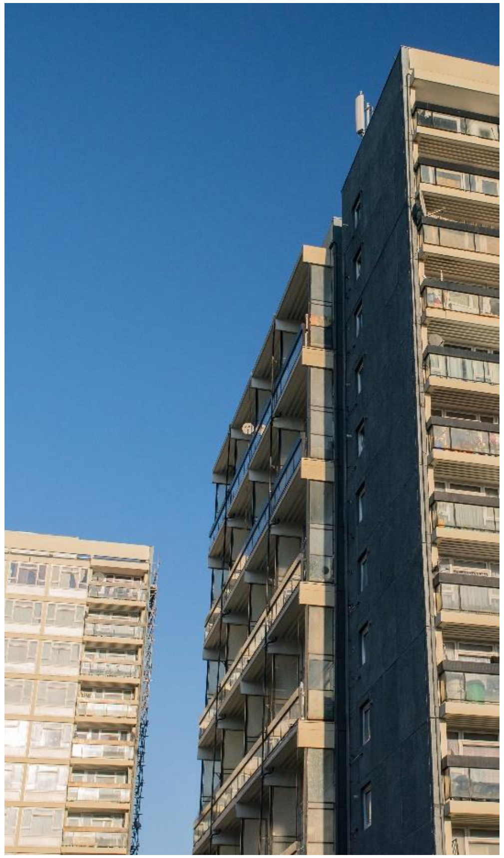
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B:
An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	9-10
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	20-22, 26-27, 32

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Name and date of meeting: Corporate Governance and Audit Committee
19 January 2024

Cabinet
13 February 2024

Council
6 March 2024

Title of report: Treasury Management Strategy and Investment Strategy 2024/25

Purpose of report

Under the CIPFA Code of Practice on Treasury Management (2021) and accompanying Prudential Code 2021 the Council must present a Treasury Management Strategy at the start of each financial year. Alongside the Treasury Management Strategy, the Annual Investment Strategy must also be approved by Council.

Key Decision - Is it likely to result in spending or saving £500k or more, or to have a significant effect on two or more electoral wards?	**Yes (for Cabinet)**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	**Key Decision: Yes** **Private Report/Private Appendix: N/A**
The Decision - Is it eligible for call in by Scrutiny?	**No**
Date signed off by Strategic Director and name **Is it also signed off by Service Director – Finance** **Is it also signed off by the Service Director Legal, Governance and Commissioning**	**N/A** **Isabel Brittain – 8 January 2024** **Julie Muscroft – 8 January 2024**
Cabinet member portfolio	**Corporate** **Cllr Graham Turner**

Electoral wards affected: **All**
Ward councillors consulted: **N/A**
Public or Private: **Public**
GDPR: This report contains no information that falls within the scope of General Data Protection Regulations.

1 Summary

1.1 Treasury risk management at the Council 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 Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy. This is attached at Appendix F.

1.2 Cabinet is responsible for the implementation and monitoring of the treasury management policies. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management. The last training for members of this Committee was provided in January 2023 by the Council's treasury management advisors/consultants, Arlingclose. Further training is planned for January 2024.

1.3 This report will:

(i) outline the outlook for interest rates and credit risk, and in light of this, recommend an investment strategy (Treasury Management Investments) for the Council to follow in 2024/25;

(ii) outline the current and estimated future levels of Council borrowing and recommend a borrowing strategy for 2024/25;

(iii) review the methodologies adopted for providing for the repayment of debt and recommend a policy for calculating the Minimum Revenue Provision (MRP);

(iv) review other treasury management matters including the policy on the use of financial derivatives, prudential indicators, the use of consultants, and the policy on charging interest to the Housing Revenue Account;

(v) recommend an annual Investment Strategy (Non-Treasury Investments) for the Council in 2024/25.

2 Information required to take a decision

The following paragraphs 2.1 to 2.5 have been provided by our Treasury Management external advisors, Arlingclose:

Economic Background

2.1 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, will be major influences on the Council's treasury management strategy for 2024/25.

2.2 The Bank of England (BoE) increased the Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping the Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%. The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

2.3 Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

2.4 The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong, but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

2.5 ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

Interest Rate Forecast

2.6 Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

2.7 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Borrowing and Investments – Local context

2.8 On 31st December 2023 the Council held £721.4 million of borrowing and £99.3 million of treasury investments.

2.9 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 investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing.

2.10 Table 1 below sets out the forecast CFR position for the Council as at 31 March 2024 and estimated CFR and borrowing requirements over the next 3 years. CIPFA's Prudential Code recommends that the Council's total debt should be lower than its highest forecast CFR over the next 3 years. Table 1 shows that the Council expects to comply with this recommendation.

Table 1: Balance Sheet Summary and Forecast

	31.03.23 Actual £m	31.03.24 Forecast £m	31.03.25 Estimate £m	31.03.26 Estimate £m	31.03.27 Estimate £m
Capital Financing Requirement	**863.2**	**905.5**	**945.4**	**1,010.5**	**1,045.3**
Less: PFI liabilities*	78.2	74.2	69.3	64.1	58.8
Less: Other deferred liabilities*	3.5	3.5	3.5	3.5	3.5
Loans CFR	**781.5**	**827.8**	**872.6**	**942.9**	**983.0**
Less: External borrowing**	613.8	673.1	614.9	567.0	549.4
Internal (over) borrowing	**167.7**	**154.7**	**257.7**	**375.9**	**433.6**
Less: Balance sheet resources	210.6	144.0	144.0	144.0	144.0
New borrowing (Treasury investments)	**-42.9**	**10.7**	**113.7**	**231.9**	**289.6**

** Leases and PFI debt liabilities that form part of the Council's total debt.*
*** Shows only loans to which the Council is committed and excludes optional refinancing.*

2.11 There is a marked increase in the CFR due to increases in the capital programme, in particular the proposed Cultural Heart and town centre regeneration programme as part of the Huddersfield Blueprint. The Council will be required to borrow up to £155.2 million to fund the increase in the Loans CFR over the 3 year period.

2.12 As Council balance sheet resources are forecast to reduce in line with planned commitments, the use of funding the CFR with internal borrowing will decrease resulting in further external borrowing. The Council is estimated to borrow a total of £289.6 million to fund the CFR along with reduction in reserves, as shown in the table above.

Liability Benchmark

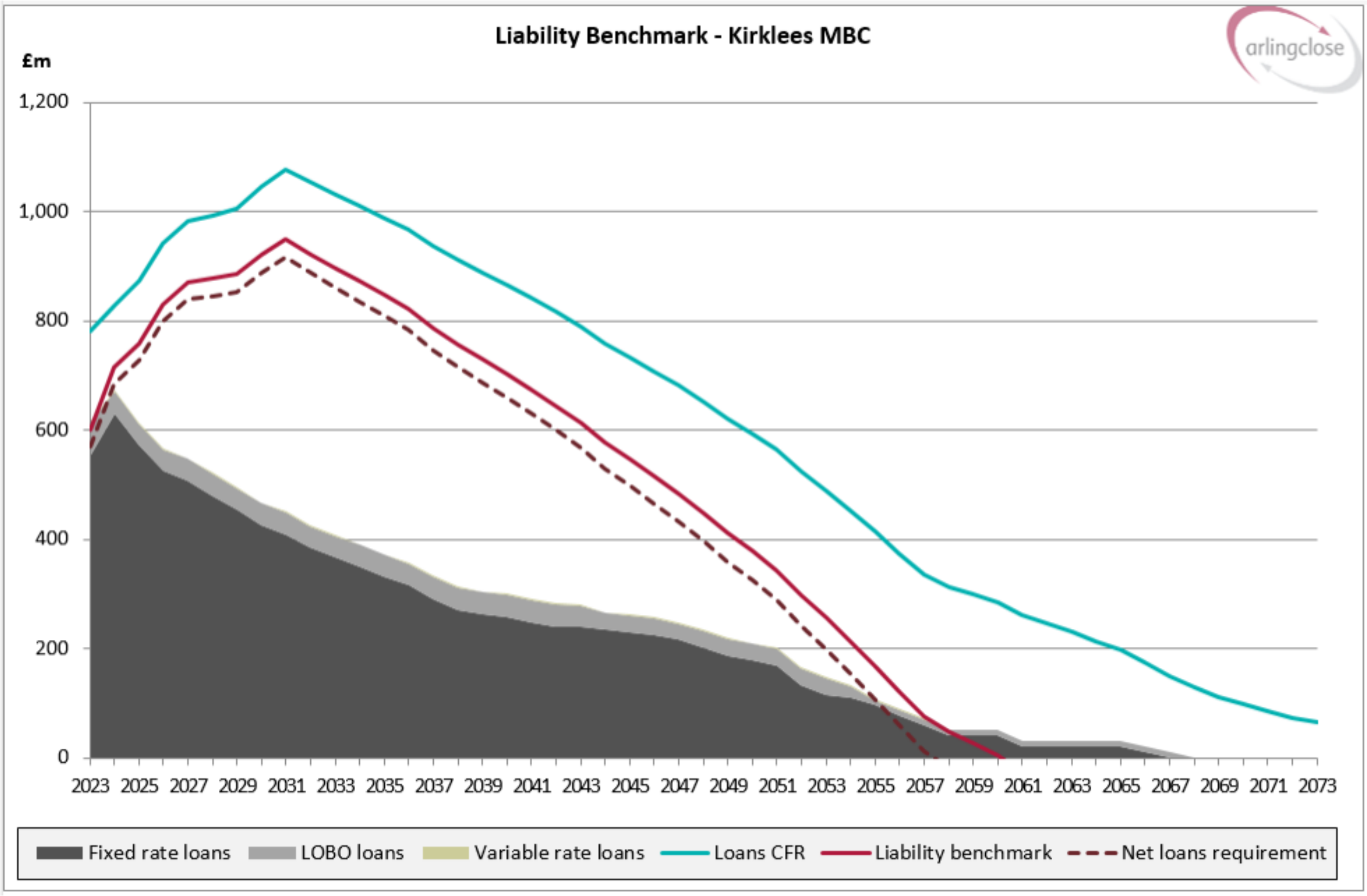
2.13 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £30.0 million at each year-end to maintain sufficient liquidity but minimise credit risk.

2.14 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. The liability benchmark estimates the Council will hold £869.0 million of borrowing at 31 March 2027.

Table 2: Prudential Indicator: Liability Benchmark

	31.03.23 Actual £m	**31.03.24 Estimate £m**	**31.03.25 Forecast £m**	**31.03.26 Forecast £m**	**31.03.27 Forecast £m**
Loans CFR	**781.5**	**827.8**	**872.6**	**942.9**	**983.0**
Less: Balance sheet resources	210.6	144.0	144.0	144.0	144.0
Net loans requirement	**570.9**	**683.8**	**728.6**	**798.9**	**839.0**
Plus: Liquidity allowance	30.0	30.0	30.0	30.0	30.0
Liability benchmark	**600.9**	**713.8**	**758.6**	**828.9**	**869.0**

2.15 The total liability benchmark is shown in the chart below together with the maturity profile of the Council's existing borrowing. The red line is the liability benchmark which reaches a peak in 2031 highlighting the gap between current borrowing identified in grey, which is reducing over time with repayments, and the additional borrowing required to fund the capital plan.



Borrowing Strategy

2.16 The Council is forecast to hold around £713.8 million of external borrowing at 31 March 2024, an increase of £100.0 million on the previous year, as part of its strategy for funding previous years' capital programmes. Other long-term liabilities forecast of £77.7 million, a reduction of £4.0 million on the previous year. The balance sheet forecast in table 1 shows the Council expects to borrow up to £113.7 million during 2024/25.

2.17 The Council'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 when funds are required. Given the significant cuts to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

2.18 The Council has previously raised most of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities, 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 Council intends to avoid this activity in order to retain its access to PWLB loans.

2.19 The approved sources of borrowing are:

- HM Treasury's PWLB lending facility
- Any bank or building society authorised to operate in the UK
- Any other UK public sector body
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds
- UK Infrastructure Bank Ltd

2.20 The Council's strategic approach over the last few years has been to gradually replace some of the short-term borrowing with long-term borrowing to ensure a more balanced risk approach. Over the past year, the Council has taken £120.0 million long-term EIP borrowing from the PWLB, and £30.0 million maturity loans ranging from 4 to 6 years, also from the PWLB.

2.21 As the Council has a significant borrowing need due to the increasing CFR and depleting reserves, the internal borrowing used to fund the CFR will be converted to external borrowing. The Council needs to lock in the costs to minimise risks of fluctuating interest rates and provide certainty on costs for the treasury budget.

2.22 Short-term rates are currently at a 15-year high but are expected to fall in the coming years, and longer-term rates from the PWLB are significantly higher than previous norms but are cheaper than short-term. In order to be more cost-effective over the medium-term, the Council will therefore take a combination of long, medium and short-term loans, diversifying the borrowing and maturity structure of the loans.

2.23 In addition the Council may borrow short-term loans to cover unplanned cash flow shortages.

2.24 Short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring long-term borrowing into future years when long-term borrowing rates are forecast to reduce modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

2.25 The Council currently holds LOBO (Lender's Option, Borrower's Option) loans, where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. With interest rates having risen recently, there is now a good chance that lenders will exercise their options. If they do, the Council will take the option to repay loans to reduce refinancing risk in later years. At 31 December 2023 the Council had repaid £20.0 million of LOBO loans during 2023/24. Total borrowing via LOBO loans is currently £40.0 million which is 5.7% of debt.

2.26 One alternative source of funding to the PWLB is the Municipal Bonds Agency established in 2014 by the Local Government Association. It issues bonds on the capital markets and lends the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may 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 subject of a separate report to full Council.

2.27 The Council may arrange forward starting loans, with alternative lenders as these are not available through the PWLB, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

2.28 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. The Council 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.

2.29 Borrowing policy and performance are monitored throughout the year and are reported to Members via a Half Yearly Report and also an Outturn Report in line with approved guidance.

Treasury Investment Strategy

2.30 The Council holds around £30.0 million of invested funds, an amount considered to meet the day-to-day cashflow requirements of the Council, and representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £15.8 million and £109.8 million, and similar levels are expected to be maintained in the forthcoming year.

2.31 The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking a higher rate of return or yield, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The Council's objective when investing money is to strike an appropriate balance between risk and return. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

2.32 As demonstrated by the liability benchmark in table 2 above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cashflows using short-term low risk instruments. The existing portfolio of £10.0 million in the strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

2.33 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 Council'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 Council 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.

2.34 The Council's investment criteria are detailed in Appendix A, maintaining a low risk strategy giving priority to security and liquidity, and as such invest an average of around £20.0 million externally in short-term liquid investments through the money markets.

2.35 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The Council uses credit ratings from the three main rating agencies - Fitch, Moody's and Standard & Poor's to assess the risk of investment defaults (Appendix B). The lowest credit rating of an organisation will be used to help determine credit quality. Long term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade.

2.36 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 rating is on review for possible downgrade ("negative watch") so that it is likely to fall below the required 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.

2.37 Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the approved criteria.

2.38 Annual cash flow forecasts are prepared which are continuously updated to determine the maximum period for which funds may prudently be committed.

Statement of Policy on the Minimum Revenue Provision (MRP)

2.39 MRP is the statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital

Financing Requirement – CFR), the borrowing taken out in order to finance capital expenditure.

2.40 Prior to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008, which came into force on 31 March 2008, the set aside was specified as a percentage of a Council's CFR (2% for HRA debt, 4% for General Fund). The current Regulations are less prescriptive with a requirement to ensure the amount set aside is deemed to be prudent, although there is accompanying current DLUHC guidance which sets out possible methods a Council might wish to follow.

2.41 Current DLUHC guidance recommends that Council's prepare a statement of policy on making MRP in respect of the forthcoming year, with approval by full Council before the start of the financial year. If these proposals subsequently need to be varied, a revised statement should be put to full Council. Appendix C details the Council's policy for the provision of MRP.

Policy on the Use of Financial Derivatives

2.42 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.

2.43 The Council 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 financial risks that the Council is exposed.

2.44 Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

2.45 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Treasury Management Prudential Indicators

2.46 The Council is asked to approve certain treasury management prudential indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs. The indicators are set out in Appendix D.

Other Matters

2.47 Full implementation of the updated CIPFA Prudential Code 2021 is to be adopted for strategies from 2024/25.

2.48 The new Code stipulates restrictions on borrowing primarily for financial return, including commercial property. The Council's current and proposed capital plans do not include any capital investment funded by borrowing primarily for commercial return, that may otherwise have restricted access to PWLB borrowing going forward. The new Code does not introduce restrictions on Council's borrowing for purposes essential to their core aims, such as for housing and regeneration projects, or for treasury management purposes.

2.49 The CIPFA Code also requires the Council to note the following matters each year as part of the treasury management strategy:

(i) *Investment Consultants*

The Council's adviser is Arlingclose Limited. The services received include:

- Advice and guidance on relevant policies, strategies and reports;
- Advice on investment and debt management;
- Notification of credit ratings and other information on credit quality;
- Reports on treasury performance;
- Forecasts of interest rates and economic activity; and
- Training courses.

The quality of the service is monitored on a continuous basis by the Council's treasury management team.

(ii) *Investment Training*

As part of the MiFID II requirements, the needs of the Council's treasury management staff for training in investment management are assessed on a continuous basis. Additionally training requirements are assessed when the responsibilities of individual members of staff change. Staff attend training courses and seminars as appropriate.

(iii) *Investment of money borrowed in advance of need*

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. However, as this would involve externally investing such sums until required and thus increasing exposures to both interest rate and principal risks, it is not believed appropriate to undertake such a policy at this time.

(iv) Policy on charging interest to the Housing Revenue Account (HRA)

Following the reform of housing finance, the Council is free to adopt its own policy on sharing interest costs and income between General Fund and the HRA. The CIPFA code recommends that authorities state their policy each year in the strategy report.

On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed will be assigned in their entirety to one pool or the other. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. Interest will be applied to this balance using the Council's average investment rate.

3 Implications for the Council

3.1	Working with People:	N/A
3.2	Working with Partners:	N/A
3.3	Placed based working:	N/A
3.4	Climate Change and Air Quality:	N/A
3.5	Improving Outcomes for Children:	N/A
3.6	Financial Implications for the people living or working in Kirklees:	N/A

3.7 Other (e.g. Legal/Financial or Human Resources)

The revenue implications of the strategies outlined have been reflected in the Council's annual budget report 2024-29.

The Council must have regard to the CIPFA Code of Practice on Treasury Management; the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) 2021 the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

The Council has the power to borrow under section 1 of the Local Government Act 2003 and the Council has powers to invest under section 12 of the Local Government Act 2003.

4 Consultees and their opinions

Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Next steps

Treasury management performance will be monitored and reported to members during the year.

Following consideration at Corporate Governance & Audit Committee, this report will be presented to Cabinet on 13 February 2024 and then full Council on 6 March 2024 for approval.

6 Officer recommendations and reasons

That Corporate Governance & Audit Committee recommend the following for consideration by Cabinet and then approval by full Council:

1. the treasury management strategy incorporating: the borrowing strategy outlined in paragraphs 2.16 to 2.29;
2. the investment strategy (treasury management investments) outlined in paragraphs 2.30 to 2.38 and Appendices A and B;
3. the policy for provision of repayment of debt (Minimum Revenue Provision) outlined in paragraphs 2.39 to 2.41 and at Appendix C;
4. the treasury management prudential indicators in Appendix D and
5. the investment strategy (non-treasury investments) at Appendix E.

Reasons:

1. Section 151 of the Local Government Act 1972 requires the Council to make arrangements for the proper administration of its financial affairs.

2. The Council must have regard to the CIPFA Treasury Management Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) 2021 and the Statutory guidance on Local government Investments (2018) when performing its duties under Part 1 of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

7 Cabinet Portfolio Holder recommendation

The report and recommendations be submitted to Cabinet on 13 February 2024 and Council on 6 March 2024.

8 Contact officers

James Anderson	Head of Accountancy	01484 221000
Rachel Firth	Finance Manager	01484 221000

9 Background Papers and History of Decisions

CIPFA's Code of Practice on Treasury Management in the Public Services
CIPFA's Prudential Code for Capital Finance in Local Authorities
CIPFA's Treasury Management in the Public Services – guidance notes
Guidance on Local Government Investments (MHCLG 2018)
The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (Amended 2008); Localism Act 2011.

10 Service Director (Interim) responsible

Isabel Brittain 01484 221000

Investment Policy for 2024/25

Investment Limits:

- The Council is able to invest an unlimited amount with the UK Government for up to 6 months.
- The Council is able to invest up to £10.0 million and up to three months with UK banks and building societies with a "high to upper medium grade" credit rating.
- The Council is able to invest up to £10.0 million and up to two months with foreign banks with a "high to upper medium grade" credit rating.
- The Council is able to invest up to £10.0 million and up to three months with individual local authorities.
- The Council is able to invest up to £10.0 million in individual MMFs (instant access or up to 2 day notice). There will be an overall limit of £40.0 million for MMFs (non-government funds), plus up to £10.0 million invested in a fund backed by government securities.
- The Council is able to invest up to £10.0 million in Local Authority Pooled Investment Funds.

The maximum limits apply to any one counter-party and to a banking group rather than each individual bank within a group.

Note:

The limits set out above exclude any amounts held on the Council's behalf by the Yorkshire Purchasing Organisation (YPO). The YPO (a consortium in which the Council has an interest) invest funds as part of their treasury management processes. For the avoidance of doubt, this element does not form part of the limits set above. For context, the Council's proportion of YPO's maximum investment with any given counterparty is approximately £155k.

Liquidity management:

The Council uses purpose-built cash flow forecasting models 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 Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

	Short-term Credit Ratings / Long-term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at 30 Nov 2023
	Fitch	**Moody's**	**S & P**	**£m**	**Period (2)**	
UK Banks / Building Societies (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10.0	<3mth	HSBC Lloyds Group Santander UK Barclays Bank of Scotland Handelsbanken Nationwide BS
	AAA,AA+,AA, AA-,A+,A, A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-			
Foreign Banks (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10.0	<2mth	Various
	AAA,AA+,AA, AA-,A+,A,A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-			
MMF (1)	-	-	-	10.0	Instant access/ up to 2 day notice	Aberdeen Deutsche Bank Aviva Goldman Sachs
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth	
UK local authorities (Fixed term deposits) (2)	-	-	-	10.0	<3mth	
Local Authority Pooled Investment Funds	-	-	-	10.0	>6mth	

(1) Overall limit for investments in MMFs of £50.0 million – the assets the funds invest in are securities and structures secured on government securities
(2) The investment period begins from the commitment to invest, rather than the date on which funds are paid over.

Credit ratings

<table>
<tr><th colspan="2">Moody's</th><th colspan="2">S&P</th><th colspan="2">Fitch</th><th></th></tr>
<tr><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th></th></tr>
<tr><td>Aaa</td><td rowspan="6">P-1</td><td>AAA</td><td rowspan="4">A-1+</td><td>AAA</td><td rowspan="4">F1+</td><td>Prime</td></tr>
<tr><td>Aa1</td><td>AA+</td><td>AA+</td><td rowspan="3">High grade</td></tr>
<tr><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>A1</td><td>A+</td><td rowspan="2">A-1</td><td>A+</td><td rowspan="2">F1</td><td rowspan="3">Upper medium grade</td></tr>
<tr><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A3</td><td rowspan="2">P-2</td><td>A-</td><td rowspan="2">A-2</td><td>A-</td><td rowspan="2">F2</td></tr>
<tr><td>Baa1</td><td>BBB+</td><td>BBB+</td><td rowspan="3">Lower medium grade</td></tr>
<tr><td>Baa2</td><td rowspan="2">P-3</td><td>BBB</td><td rowspan="2">A-3</td><td>BBB</td><td rowspan="2">F3</td></tr>
<tr><td>Baa3</td><td>BBB-</td><td>BBB-</td></tr>
<tr><td>Ba1</td><td rowspan="14">Not prime</td><td>BB+</td><td rowspan="6">B</td><td>BB+</td><td rowspan="6">B</td><td rowspan="3">Non-investment grade speculative</td></tr>
<tr><td>Ba2</td><td>BB</td><td>BB</td></tr>
<tr><td>Ba3</td><td>BB-</td><td>BB-</td></tr>
<tr><td>B1</td><td>B+</td><td>B+</td><td rowspan="3">Highly speculative</td></tr>
<tr><td>B2</td><td>B</td><td>B</td></tr>
<tr><td>B3</td><td>B-</td><td>B-</td></tr>
<tr><td>Caa1</td><td>CCC+</td><td rowspan="5">C</td><td rowspan="5">CCC</td><td rowspan="5">C</td><td>Substantial risks</td></tr>
<tr><td>Caa2</td><td>CCC</td><td>Extremely speculative</td></tr>
<tr><td>Caa3</td><td>CCC-</td><td rowspan="3">In default with little prospect for recovery</td></tr>
<tr><td rowspan="2">Ca</td><td>CC</td></tr>
<tr><td>C</td></tr>
<tr><td>C</td><td rowspan="3">D</td><td rowspan="3">/</td><td>DDD</td><td rowspan="3">/</td><td rowspan="3">In default</td></tr>
<tr><td>/</td><td>DD</td></tr>
<tr><td>/</td><td></td></tr>
</table>

APPENDIX C

CURRENT MINIMUM REVENUE PROVISION POLICY

1. Background

1.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 requires authorities to make an amount of MRP which the authority considers "prudent".

1.2 The regulation does not itself define "prudent provision". However, guidance issued alongside the regulations makes recommendations on the interpretation of that term.

2 Policy for 2024/25 onwards

2.1 The Service Director - Finance recommends the following policy for making prudent provision for MRP:

(i) General Fund Prudential Borrowing – Provision to be made over the estimated life of the asset for which borrowing is undertaken. Provision to commence in the year following when the asset is operational. Where large loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

(ii) HRA Borrowing - Provision to be made for debt repayments equal to its share of any scheduled external debt repayments.

(iii) PFI schemes - Provision to equal the part of the unitary payment that writes down the balance sheet liability, together with amounts relating to lifecycle costs incurred in the year.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

Gross Debt and the Capital Financing Requirement (CFR)
The Code requires that where gross debt is greater than the CFR, the reasons for this should be clearly stated in the annual strategy. This does not apply to this Council as its gross debt will not exceed the CFR over the forecast period (see the 'Gross Debt and the Capital Financing Requirement table within the Capital Strategy).

Interest Rate Exposures
While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio.

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2024/25, 2025/26 and 2026/27 of £950.4 million, £1,015.5 million, £1,050.3 million of its net principal. It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2024/25, 2025/26 and 2026/27 of £200 million of its net principal.

Maturity Structure of Borrowing
This indicator is designed to prevent the Council having large concentrations of fixed rate debt* needing to be replaced at times of uncertainty over interest rates. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed rate		
	Upper Limit (%)	**Lower Limit (%)**
Under 12 months	20	0
Between 1 and 2 years	20	0
Between 2 and 5 years	60	0
Between 5 and 10 years	80	0
More than 10 years	100	20

Long-Term Treasury Management Investments
The purpose of this indicator is to control the Council'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	**2024/25**	**2025/26**	**2026/27**	**No Fixed Date**
	£m	**£m**	**£m**	**£m**
Limit on principal invested beyond year end	0	0	0	10.0

Long-term investments with no fixed maturity date is the Local Authority Property Fund.

Glossary of Treasury Terms

Authorised Limit	The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the *Operational Boundary* to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.
Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Basis Point	1/100th of 1%, i.e. 0.01%
Bill	A certificate of short-term debt issued by a company, government or other institution, tradable on the financial market
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund).
Capital receipts	Money obtained on the sale of a capital asset.
Certainty Rate	The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.
CIPFA	Chartered Institute of Public Finance and Accountancy
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes/pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI ***Also see RPI***	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Cost of carry	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
Counterparty List	List of approved financial institutions with which the Council can place investments.
Credit Default Swap (CDS)	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Debt Management Office (DMO)	The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Fund (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
ECB	European Central Bank
Fair Value	Fair value is defined as a sale price agreed to by a willing buyer and seller, assuming both parties enter the transaction freely. Many investments have a fair value determined by a market where the security is traded.
Federal Reserve	The US central bank. (Often referred to as "the Fed")
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting.
GDP	Gross domestic product – also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
General Fund	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the Housing Revenue Account).
Gilts (UK Govt)	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Housing Revenue Account (HRA)	A ring-fenced account of all housing income and expenditure, required by statute.
IFRS	International Financial Reporting Standards.
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'.
Local Authority Property Fund (LAPF)	A pooled property collective investment scheme for Churches, Charities and Local Authorities. (see Collective Investment Scheme).
Liability Benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
LOBOs	LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.
Maturity	The date when an investment or borrowing is repaid.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
MiFID II	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Minimum Revenue Provision (MRP)	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Net Asset Value (NAV)	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
Operational Boundary	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
Pooled funds	See Collective Investment Schemes (above).
Premiums and Discounts	In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate. *The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.
Private Finance Initiative (PFI)	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
Investment Property	Property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
Risk	**Credit and counterparty risk** The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. **Liquidity risk** The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised. **Refinancing risk**

	The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time. **Interest Rate risk** The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. **Legal risk** The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly. **Operational risk** The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk. **Market Risk** The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.
RPI	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing	Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest).
Treasury (T) -Bills	Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in 2021.
Treasury Management Practices (TMP)	Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Usable Reserves	Resources available to finance future revenue and capital expenditure.
Variable Net Asset Value (VNAV)	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
Working Capital	Timing differences between income/expenditure and receipts/payments
Yield	The measure of the return on an investment instrument.

Investment Strategy 2024/25

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash resulting from 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).

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.

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 Council 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 Council'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

The Council typically receives its income in cash (eg. from taxes and grants) before it pays for its expenditure in cash (eg. through payroll and invoices). It also holds reserves for future expenditure. 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 average £30.0 million with fluctuations between £20.0 million and £60.0 million during the 2024/25 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2024/25 for treasury management investments are covered in the treasury management strategy report 2024/25 to which this Investment Strategy is appended.

Service Investments: Loans

Contribution: The Council makes investments to assist local public services, including making loans to a variety of organisations, mainly local businesses, the local education college, and local residents to support local public services and stimulate local economic growth.

The Council provided a significant loan to Kirklees College to help facilitate a new campus in Huddersfield and the delivery of a successful further education provision for post 16 students and adults across the district.

The Council has recently provided a loan to HD1 Living to renovate the building at 103 New Street to become modern student accommodation in the town centre as part of the Huddersfield regeneration plan.

Smaller loans have also been provided to local residents to be able to provide energy efficient heating within their own homes. The Council is part of the Leeds City Region Investment Fund where all local authorities contribute to the fund which provides individual loans to support infrastructure and construction projects which help deliver economic growth and job creation.

Existing capital plans provide for further development finance loans to support major town centre regeneration and economic growth, up to a Council approved £7.6 million (per the 5-year Capital Plan 2023/24 to 2027/28) through the Property Investment Fund. Amounts have been set aside in the capital plan for this type of investment.

The Council will continue to roll forward from last year's Investment Strategy, the option to provide financial loans to support 3rd sector partners and anchor organisations, along with loans and/or match funding in support of community asset transfers. The Council would underwrite this provision from within the existing earmarked reserves.

Security: The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. Investment Strategy guidance states that to limit this risk and ensure that total Council exposure to loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have to be set and approved annually by Council. The proposed upper limits for Council loans are set out at Table 1 below:

Table 1: Loans for service purposes in £ millions

Category of borrower	**31.03.2023 actual**			**2024/25**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Further education college	14.0	-0.7	13.3	**14.0**
Leeds City Region revolving investment fund	3.0	0.0	3.0	**4.2**
Local businesses and charities	16.4*	-6.1	10.3*	**24.0**
Local residents	2.2	-0.1	2.1	**2.2**
TOTAL	**35.6**	**-6.9**	**28.7**	**44.4**

* This is made up of numerous investments, the largest of which is £12.1 million towards 103 New Street.

Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding loans. This will include the nature of the market/sector to which the loan relates, and loan security against business/sector assets. The single largest current loan relates to Kirklees College which is a public sector entity and considered to be a viable going concern. The strength of the Council's partnership with key anchor organisations in the district like the College, and ability to influence, support and monitor the College's ongoing financial position, are also key factors, including Council senior finance representation on the College's finance committee.

Development finance loans such as Property Investment Fund (PIF) will allow the Council to offer loans to development projects which offer significant economic benefits to the Council and the wider Kirklees district.

Any funding offers made will be on the basis that the loan repayments made by the recipient will cover the Council's financing costs and allow for an appropriate margin on cost of funds reflecting the level of risk involved and consistent with State Aid principles. All funding offers made will be subject to appropriate due diligence, including external specialist advice where appropriate, availability of credit ratings in respect of any potential loanee where appropriate, and loan security arrangements. Each individual loan offer will be the subject of a further Cabinet report.

It would not be the intention for the Council to directly compete with existing providers of investment funding. The Council would only look to invest, at its discretion, when there was a clear and demonstrable added value case to be made in terms of local economic benefits for development finance involvement. In many instances the Council investment would be short term to cover the construction phase of development which is the most critical period for schemes to locate finance that is timely and on reasonable terms.

Once out of the development phase there is sufficient liquidity at an appropriate risk margin in the existing investment markets for schemes to be refinanced at which point the Council investment would be repaid. Any investment from the PIF would be on terms that allowed the Council to fully cover its costs, including the costs of borrowing to fund any advance, and creation of an appropriate risk contingency.

<u>Service Investments: Shares</u>

Contribution: The Council invests in the shares of local businesses to support local public services and stimulate local economic growth. The main share investment (£0.9 million) is a 9.9% holding in Kirklees School Services Ltd which operates 20 schools on our behalf on a 32 year contract under PFI. The Council also has a 40% shareholding in Kirklees Stadium Development Ltd (£0.1 million), a 14% holding in QED KMC Holdings Ltd (£0.2 million) and a 50% shareholding in Kirklees Henry Boot Partnership Ltd (£0.1 million).

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. To limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	**31.03.2023 actual**			**2024/25**
	Amounts invested	**Gains or losses (-)**	**Value in accounts**	**Approved Limit**
Local businesses	1.4	-0.1	1.3	**1.4**

Risk assessment: The Council entered into these shareholdings for the purposes of participating in the governance and control of organisations that it considered to be important for the purposes of securing economic benefits to the borough. The Council is also the sole client in respect of one of these investments. The Council assessed the risk of participation taking account of the financial and public benefits, including the opportunity to make a potential gain in the event of the business being successful, although this was not the core purpose for initial participation. The Council assesses the risk of loss before entering into and whilst holding shares by continued oversight and involvement in the strategic and operational aspects of the business, and participation in decision making, although the financial risk of the investment is perhaps lower than the operational and or reputational impacts of any failure by the companies in which the Council holds share based investments.

Liquidity: The Council has entered into these shareholdings for the purposes of delivery of its public service and community leadership obligations and the investments are considered to be long term. Viability of the investments in the long term is an important part of the strategy, but as the Councils share ownership and participation is strategic rather than financial the daily or periodic value is of less concern than the overall long-term health of the organisation in which the investment is held.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

<u>Commercial Investments: Property</u>

Contribution: The Council invests in local commercial property such as retail town centre shops and buildings with the intention of making a profit that will be spent on local public services.

These assets fall under the definition of Investment Properties in the CIPFA Accounting Code and are valued at fair value in the accounts in accordance with IFRS13. Fair value is when an asset is valued at its highest and best use.

Table 3: Property held for investment purposes in £ millions

Property type	**Actual**	**31.03.2023 actual**		**31.03.2024 expected**	
	Purchase cost	**Gains or losses (-)**	**Value in accounts**	**Gains or losses (-)**	**Value in accounts**
Commercial Property	*See below	0.8	21.8	**0.0**	**21.8**

*The purchase cost cannot be ascertained as the majority of these assets have been owned by Kirklees for many years and purchased by Huddersfield Corporation during the 1920's from Ramsdens Estate. There is a signed legal document and a 'book of acquisition' which is a hard-backed ledger held in legal services.

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2023/24 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.

At this stage, the George Hotel is considered a regeneration project and not counted as an investment, however once redevelopment work has been completed this will be re-assessed.

Risk assessment: The Council's current commercial asset portfolio held for investment purposes is largely a historical portfolio. It is monitored and reviewed annually as part of the Council's wider asset strategy including potential future appreciation and potential receipt value.

It is not the Council's intention to invest in any new commercial portfolio investments at this time. If any new investments are identified a risk assessment would be performed.

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 will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives. Cash flow projections are prepared on a regular and timely basis.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not have any loan commitments, however there are some guarantees that the Council holds including a guarantee on outstanding contributions to the Pension Fund in the event of a default by certain bodies and a guarantee to the Homes & Communities Agency (HCA) in the event of a default by Kirklees Community Association (KCA) on the redevelopment of the Fieldhead Estate. The Council also acts as a guarantor to a loan of £0.9 million that KSDL hold in the event of default.

Capacity, Skills and Culture

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director - Finance is a qualified accountant with extensive local government experience, the Strategic Director - Growth and Regeneration has experience of major Council regeneration schemes and partnerships with major business and third-party partners, as do key Service Directors. The Council pays for staff to study towards relevant professional qualifications including CIPFA and AAT.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Cabinet is responsible for the implementation and monitoring of any investment policy. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to investment. Regular training for members of the Committee is provided by our treasury advisors to enable them to make decisions to ensure accountability and responsibility on investment decisions within the context of the Council's corporate values. Any new investment decisions are also approved at full Council.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure arising from its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 4: Total investment exposure in £ millions

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	34.0	30.0	**30.0**
Service investments: Loans	35.5	42.0	**44.4**
Service investments: Shares	1.3	1.3	**1.3**
Commercial investments: Property	21.8	21.8	**21.8**
TOTAL INVESTMENTS	**92.6**	**95.1**	**97.5**
Commitments to lend	0.0	0.0	**0.0**
Guarantees issued on loans	0.9	0.9	**0.9**
TOTAL EXPOSURE	**93.5**	**96.0**	**98.4**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council 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 Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 5: Investments funded by borrowing in £ millions

Investments funded by borrowing	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Service investments: Loans	33.8	39.4	**40.8**

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 6: Investment rate of return (net of all costs)

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Treasury management investments	2.0%	4.9%	**4.7%**
Service investments: Loans	1.6%	0.8%	**0.8%**

Service investments: Shares	None	None	**None**
Commercial investments: Property	7.1%	5.0%	**5.0%**

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Kirklees COUNCIL

Name of meeting: Corporate Governance and Audit Committee

(Reference to Council – 7 February 2024)

Date: 19 January 2024

Title of report: Dates of Council Meetings – 2024 to 2025 Municipal Year

Purpose of report: To determine dates and times for meetings of Council for the 2024-2025 municipal year

Key Decision - Is it likely to result in spending or saving £500k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the [Council's Forward Plan (key decisions and private reports)?]	No
The Decision - Is it eligible for "call in" by Scrutiny?	No
Signed off by Director Is it also signed off by the Service Director for Financial Management, IT, Risk and Performance? Is it also signed off by the Service Director - Legal Governance and Commissioning	Rachel Spencer-Henshall 18/12/23 N/A Julie Muscroft 18/12/23
Cabinet Member portfolio	Not applicable

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or Private Status: Public

GDPR Implications: Not applicable

1. Summary

Council Procedure Rule 2 (1) advises that the dates of ordinary Council Meetings in each Municipal Year will be determined by the Council following recommendations made by the Corporate Governance and Audit Committee.

Council Procedure Rule 5(1) states that there shall be two types of Ordinary meeting of the Council, one which focuses on Holding the Executive to Account, and the other for Key Discussions. No less than four ordinary meetings must be designated as Holding the Executive to Account. Council Procedure Rule 5(6) sets out the requirement that the Elected Mayor of West Yorkshire Combined Authority shall attend at least one meeting each municipal year.

The following dates/times are proposed, all meetings to be held at 5.30pm.

The meeting of Annual Council, scheduled for 21 May 2025, will commence (with a civic ceremony) at 12.30pm.

Date	Council Meeting
2024	
Wednesday 17th July	Holding Executive to Account
Wednesday 18th September	Key Discussion
Wednesday 16th October	Holding Executive to Account
Wednesday 13th November	Key Discussion
Wednesday 11th December	Holding Executive to Account
2025	
Wednesday 15th January	Key Discussion
Wednesday 12th February	Holding Executive to Account
Wednesday 5th March	Budget Council
Wednesday 21st May	Annual Council

2. Information required to take a decision

Not applicable

3. Implications for the Council

3.1 Working with People

Not applicable

3.2 Working with Partners

Not applicable

3.3 Place Based Working

Not applicable

3.4 Climate Change and Air Quality

Not applicable

3.5 Improving Outcomes for Children

Not applicable

4. Consultees

- Group Leaders have been advised of the proposed dates.

5. Next steps

That the proposed dates for the 2024-2025 municipal year be considered by Council.

6. Officer recommendation

That the schedule of Council meetings for the 2024-2025 municipal year be submitted to the Meeting of Council on 7 February 2024 with a recommendation of approval.

7. Cabinet portfolio holder recommendation

Not applicable.

8. Contact officer

Leigh Webb, Acting Head of Governance

9. Background Papers and History of Decisions

Not applicable.

10. Service Director responsible

Julie Muscroft, Service Director - Legal, Governance and Commissioning

Name of meeting: **CORPORATE GOVERNANCE AND AUDIT COMMITTEE**

Date: **19 JANUARY 2024**

Title of report: **RISK MANAGEMENT ANNUAL REPORT 2023-24**

Purpose of report:

To provide information on the Council's strategy for Risk Management and its governance arrangements to deliver in line with the approved strategy

To outline priority actions for development during 2024-25

For Corporate Governance and Audit Committee to consider the content of the report, and to advise if they have any comment on the work plans moving forward.

Key Decision - Is it likely to result in spending or saving £500k or more, or to have a significant effect on two or more electoral wards? Decisions having a particularly significant effect on a single ward may also be treated as if they were key decisions.	**Not Applicable**
Key Decision - Is it in the <u>Council's Forward Plan (key decisions and private reports)?</u>	**Not Applicable**
The Decision - Is it eligible for call in by Scrutiny?	**Not Applicable**
Date signed off by <u>Strategic Director</u> & name **Is it also signed off by the Service Director for Finance?** **Is it also signed off by the Service Director for Legal Governance and Commissioning?**	**Not Applicable** **Yes -** **Yes -**
Cabinet member <u>portfolio</u>	**Cllr Paul Davies**

Electoral wards affected: **N/A**

Ward councillors consulted: **N/A**

Public or private:
One of the appendices to this report is recommended for consideration in private because the information contained in it is exempt information within part 1 of Schedule 12A of the Local Government Act 1972 namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in disclosing the information and providing greater openness in the Council's decision making.

Has GDPR been considered? **N/A**

1. Summary

1.1. Robust Risk Management is a central feature of good governance and the Council's approach to risk management has built on the successes of the previous year with proactive risk management continuing. The current risk management arrangements were found in a recent internal audit to be reasonable and provide assurance that, in general, relevant risks are identified, assessed, monitored and managed appropriately.

1.2. Although significant progress has been made, there remains a level of inconsistency in the extent that risk management is embedded within the day-to-day operations and the culture of the Council. It is still necessary to drive greater improvements in this area but these need to be both realistic and proportionate (as set out in the report below- at section 4 and 5).

1.3. Whilst organisational priorities are focussed on addressing immediate financial challenges it is important that effective risk management is seen as an intrinsic part of this process, and not an optional or additional requirement.

1.4. Priority actions that have been identified for progress in 2024-25 include ensuring Risk Management continues to inform and integrate with other relevant assurance frameworks and broader strategy development plans.

1.5. The report below provides additional information

2. Introduction

2.1 The Accounts and Audit Regulations 2015 require that a relevant authority must ensure that it has a sound system of internal control which: a) facilitates the effective exercise of its functions and the achievement of its aims and objectives; b) ensures that the financial and operational management of the authority is effective; and c) includes effective arrangements for the management of risk.

2.2 The Terms of Reference of the Corporate Governance and Audit Committee state the committee has responsibility to review the adequacy of the Council's arrangements for managing internal control and risk management. Day to day responsibility rises through operational to executive management, overseen and directed by Cabinet with risk visibility as a part of the Scrutiny process. This distinction should avoid duplication of effort.

2.3 This report summarises the risk management activity undertaken during the previous 12 months to support the Corporate Governance and Audit Committee in discharging its responsibilities to review their adequacy.

3 Reporting and Governance arrangements

3.1 Service Director and Heads of Service are responsible for assessing and monitoring risks and implementing effective and proportionate mitigants to control identified risks, where required.

3.2 Risk Registers are used to record and track the above information, the Service and / or Directorate level risk registers are submitted on a quarterly basis for review and challenge by relevant officers, and then used to update and inform the Corporate Risk Matrix and an Emerging Risk List

3.3 The Risk Management Group, with representatives from Services and corporate support functions, meets on a quarterly basis to assess risk holistically across the organisation. The group also challenge and approve the corporate risk matrix and identify specific risk items to include on the Emerging Risk list

3.4 The Emerging Risk report lists items of note or concern that do not feature in the Corporate Risk Matrix but that those charged with governance need awareness of. Actions in place to monitor and / or address these Emerging Risks are detailed and the extent and appropriateness of these actions is asked to be considered. These risks are aligned to the 10 Key Corporate Risks.

3.5 Reporting on Risk Management forms a central part of the quarterly Performance & Assurance meeting of the Executive Leadership Team, with onward escalation to Executive Board and Cabinet. The risk reports are discussed in other Member forums, either on a formal or informal basis, including the Overview & Scrutiny Management Committee which has informally reviewed the matrices on several occasions during the year. Additionally, during 2023, we have started to present relevant extracts from the corporate risk register to Scrutiny Panels to ensure panels have full visibility of risks under management and actions in place to mitigate.

3.6 Opportunities continue to be used to highlight the benefits of integrating risk management into business-as-usual management processes, rather than it being perceived as a discrete activity.

3.7 Risk Profile

	2022-23 Q3	**2022-2023 Q4**	**2023-24 Q1**	**2023-24 Q2**
KCR 1: Financial Sustainability	20	20	20	20
KCR 2: Effective Governance	9	9	9	12
KCR 3: Statutory Obligations	16	16	16	16

KCR 4: Third Party Management	12	12	12	12
KCR 5: People Management	20	20	20	20
KCR 6: Safeguarding	12	12	12	8
KCR 7: Resilient Operational Processes	15	15	12	12
KCR 8: Climate Change	12	12	12	12
KCR 9: Community Wellbeing & Resilience	16	16	12	12
KCR 10: Physical Assets & Infrastructure	12	12	12	16

Note Q2 is the most recent risk management available at the time this report was prepared.

3.8 Selected points to note that have impacted movements in risks tabled above are detailed below:

- Greater granularity within the recording of financial risks has been introduced, reflecting the challenges and complexity of maintaining a sustainable financial position (considering: in year budget, medium term financial plan, capital programme, inflationary pressures, income challenges, demand pressures, reserve depletion, lending and investment performance)
- Increased prevalence and success of hostile cyber-attacks on public sector organisations triggered an internal review of the processes in place to ensure data sharing with third parties takes place in a safe and controlled way. Recommendations have been identified and remedial activity will commence in 2024 to further enhance our assurance over data sharing agreements with third parties
- Challenges in maintaining the required levels of SEND provision have multiple causes (lack of capacity with services, lack of existing local provision, increases in demand led services, cost increases, funding levels, increasing complexity in clients needs etc) with significant financial and reputational consequences. The SEND Transformation Programme is in place to drive the improvements required. However, it is expected the risk will remain elevated for some time
- The risk assessments associated with the sustainability of the Adult Social Care market have recently improved reflecting strengthened partnerships and more collaborative working which, whilst not preventative, would enable market failures to be managed in a more controlled way
- Inclusion of contract management (generally) as a risk, recognising that whilst procurement processes are robust and well controlled there is a lack of

capacity and capability in some areas to maintain the focus on lifecycle contract management with multiple risks associated.

- Deterioration of the Associated Party risk, reflecting the governance and / or financial challenges of some of the specific relationships that the Council is managing
- Improvement to Community Wellbeing & Resilience risk assessment driven by effective management of Cost-of-Living interventions, both short term and longer term, and the introduction of the Inclusive Communities Framework
- Effective assessment of risks associated with residential property management is reliant on accurate and up to date data across the property portfolio. Concerns have been raised about the integrity and robustness of the asset data which have become apparent in the process of addressing recent challenges relating to damp, mould & condensation and fire safety remedial actions
- The administration of elections was included as a risk prior to the May 2023 local elections, which were the first elections to be administered under the Elections Act 2022. This was removed as a strategic risk; however continues to be monitored at a Service level

4. Internal Audit Review

During 2023, an internal audit review was carried out, for the purpose of providing an assessment on the effectiveness of risk management arrangements. An “Adequate Assurance” opinion was given, acknowledging that “significant progress has been made in some areas since the last audit carried out in 2020” but recognising that “service response is still varied with some providing more assurance than others that risk management assessment and governance is adequate. This is not to say that these activities do not take place but that the assurance and documentation does not support an adequate level of assurance.”

Six recommendations were identified and are being progressed. Phase 1 actions are nearing completion, with the formal approval of updated documentation, following which phase 2 actions will commence.

PHASE 1	
R1: The Risk Management Statement documentation should be updated.	Risk Management Policy has been reviewed and updated. Currently progressing through governance for approval
R2: The Risk Management Statement and subsequent guidance should clearly define where responsibility for Contract/Grant, Programme/Project and Partnership risk governance lies and set out how risk assurance should be evidenced.	New Risk Management Guidance document has been written and clarifies roles and responsibilities across these areas. Currently progressing through governance for approval

R3: Guidance including the required governance arrangements and risk register templates should be reviewed to ensure a minimum level of data is received to facilitate the strategy set out in the revised Risk Management Statement.	New Risk Management Guidance document has been produced to provide further explanation for risk owners. Risk Register template has been reviewed and updated.
R6: Consideration should be given to updating details of expectations of Service Risk Representatives in the review of strategy and guidance.	Risk Management Guidance document clarifies roles & responsibilities of Service Risk Representatives.
PHASE 2	
R4: Consideration should be given to making available basic training materials on 'Microsoft Teams' Corporate Risk Management folder once strategy and guidance has been updated.	Creation of the Risk Management Guidance document will meet some training needs. Additional training needs will be assessed following roll out of the Guidance document.
R5: Workshop style sessions should be developed in line with strategy and guidance that are service centred to provide relevant and practical training.	Training as agreed on embedding culture and new processes

5. Priorities for 2024-25

In addition to addressing the recommendations that were identified as part of the Internal Audit review, additional actions will be delivered to ensure the

Objective	Action
Ensure council objectives and corporate plan are aligned to organisational risk appetite	• Debate and agree organisational risk appetite for each risk category • Establish target risk score for key corporate risks
All officers and members are clear on the risk management process and relevant accountabilities	Approve and communicate updated: • Risk Management Policy • Risk Management Guidance document
Improve consistency and clarity in risk articulation and scoring	• Supporting information provided in the Risk Management Guidance document

	• Individual feedback provided where appropriate
Drive robustness and efficiencies in process delivery	Review options for utilising a Corporate Risk Management System or for developing capability internally
Ensure Risk Management Group representatives are informed and empowered to fully contribute to process	• Review of Terms of Reference, including attendance, of the Risk Management Group • Escalate where concerns exist / persist
Greater focus on control identification and monitoring of effectiveness	• Supporting information provided in the Risk Management Guidance document • Individual feedback provided where appropriate
Drive distinction between 'Risks' and 'Issues' to ensure clarity on required actions	Consider the appropriate reporting mechanism for 'Issues under management', where risks have crystallised and are now being actively managed
Contribute to the development of an organisational wide assurance framework	Consider multiple sources and a broad assessment of risk indicators, not limited to those contained within risk registers: • Internal Audit • Fraud • Complaints • Business Resilience
Continue to develop partnership working with Internal Audit, ensuring key processes are subject to appropriate review	Work collaboratively with Internal Audit to drive continual improvements in service delivery / process controls • Risk documentation to inform development of the Internal Audit plan • Risk registers to be reviewed as part of pre-audit preparatory work • Audit recommendations to be reflected in risk registers where appropriate
Corporate Plan to consider insight from risk management activity	Work with the Corporate Planning team to ensure the process to develop the Corporate Plan considers relevant inputs from risk management activity
Build Horizon Scanning capability	Work with Corporate Planning, and other relevant teams, to develop organisational approach to completing horizon scanning activity
Complete risk maturity assessment	Consider different strategies for completing an assessment of organisational risk maturity

6. Implications for the Council

6.1 Working with People

No direct impact although risks impact on the entire organisation, and affect this category

6.2 Working with Partners

No direct impact although risks impact on the entire organisation, and affect this category

6.3 Place Based Working

No direct impact although risks impact on the entire organisation, and affect this category

6.4 Climate Change and Air Quality

No direct impact although risks impact on the entire organisation and affect this category.

6.5 Improving outcomes for children

No direct impact although risks impact on the entire organisation, and affect this category

6.6 Financial Implications for the people living or working in Kirklees

No direct impact although risks impact on the entire organisation, and affect this category

6.7 Other (e.g. Integrated Impact Assessment (IIA)/Legal/Financial or Human Resources)

No direct impact although risks impact on the entire organisation, and particularly affect this category, as the crystallisation of most risk will have a financial impact, and on occasions legal impacts.

7. Consultation

None on this report directly. The reports created through the risk management process are subject to a complex interactive consultation processes as described in this report

8. Engagement

Not applicable

9. Next steps and timelines

Not applicable directly

10. CGAC are asked to

a. To consider the report and indicate if they are content with the risk management processes as described, and currently operated.
b. Make comments on the risk information included in the reports within the appendix, or on any risks not addressed here

11. Contact officer

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12. Background Papers and History of Decisions

Risk management strategy 2018

13. Service Director responsible

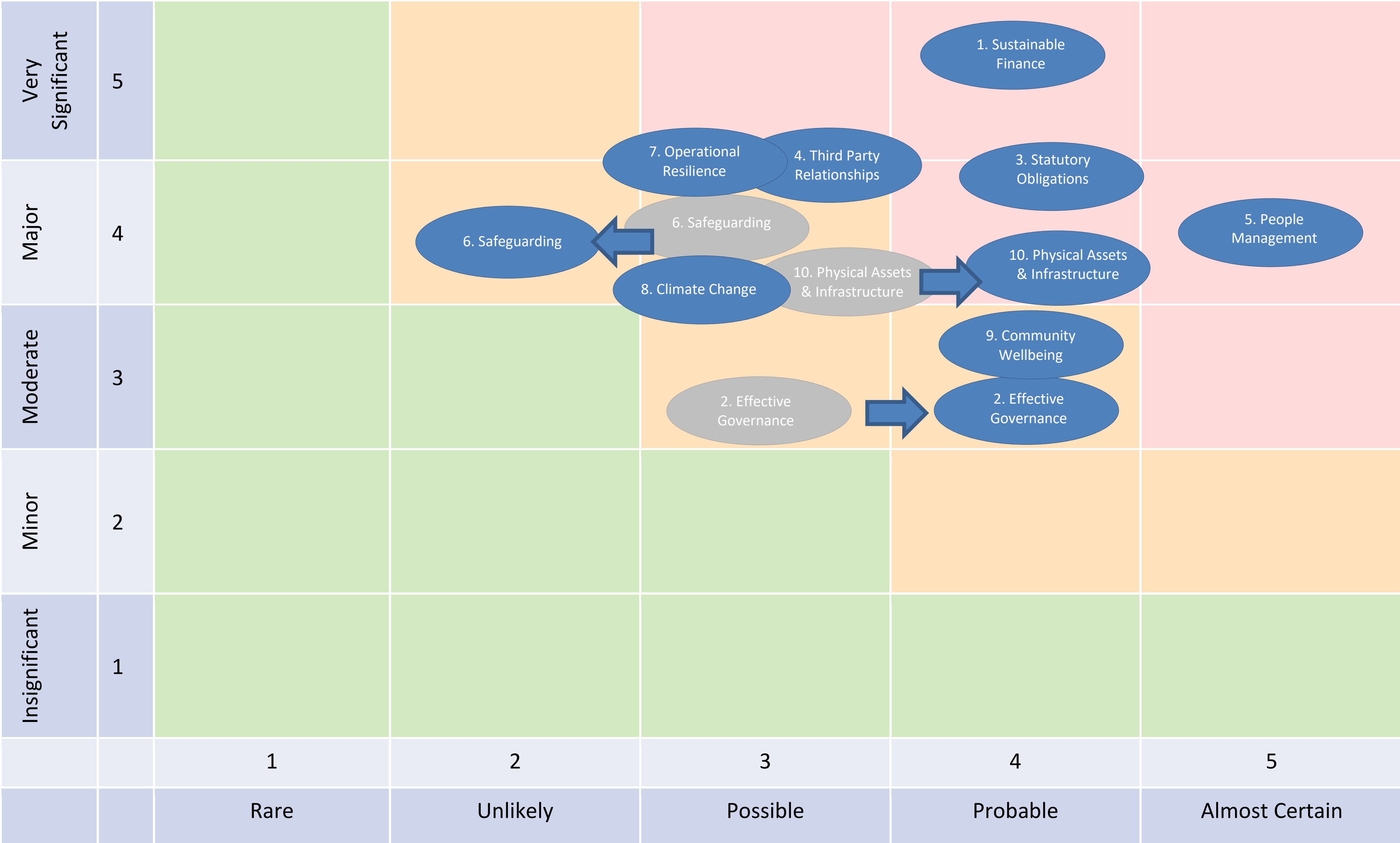
Julie Muscroft	Director Legal, Governance and Commissioning
Isabel Brittain	Director Finance

14. Appendices

Quarterly risk reports from 2023-24 Q2

Appendix 1	Summary and Heat Map
Appendix 2	Corporate Risk Matrix
Appendix 3	Emerging Risks (private)

RISK HEAT MAP & SUMMARY Q2 2023/24



Where Risks have changed probability and / or impact score their previous position is shown by the grey circle

		Previous quarter	Current quarter	Drivers of change
KCR 1	**Sustainable Finance**	20 (4x5)	20 (4x5)	Increased risk of not delivering against the 23-24 agreed budget outturn position, despite enhanced monitoring and management focus. Greater assurance is required over the deliverability of some of the savings proposals for 24-25, both in isolation and as a cumulative package, acknowledging that initiatives identified still do not meet the required savings target.
KCR 2	**Governance Frameworks**	9 (3x3)	12 (4x3)	The Council needs to balance corporate control and strong oversight with a risk that this creates delays over implementation affecting the effectiveness of achieving the savings targets. The extent of public consultation activity that is required to support implementation of savings proposals is resource intensive and provides additional challenge.
KCR 3	**Statutory Obligations**	16 (4x4)	16 (4x4)	Close partnership working and strengthened relationships across the market has reduced the risk associated with service provider failure - whilst the risk still exists processes to ensure early visibility are in place. Demand continues to be high and meeting statutory deadlines for SEND assessments is challenging with associated financial and reputational risks
KCR 4	**Third Party Management & Oversight**	12 (3x4)	12 (3x4)	The external economic environment continues to present challenges to operators within the third sector with impacts on service provision on behalf of the Council, coupled with increased demand. Activity is underway to validate the control framework that exists across contract management within the council and highlight areas for improvement.
KCR 5	**People Management**	20 (5x4)	20 (5x4)	For the roles which the council chooses to recruit to the labour market pressure has eased somewhat however key specialised roles remain in high demand. Capacity issues challenge the ability of the organisation to deliver required outcomes particularly where they are dependent on key individuals.
KCR 6	**Safeguarding**	12 (3x4)	8 (2x4)	Safeguarding risks continue to be well controlled, with embedded processes and procedures in place to ensure vulnerable adults and young people are safe from harm. Reassessment of the adequacy and effectiveness of the controls in place across Adult Social Care has resulted in a reduction to this risk score.
KCR 7	**Operational Resilience**	12 (3x4)	12 (3x4)	Management of Health & Safety continue to be well controlled with a focus on maximising the benefits of the new council wide online reporting system both centrally and within operational areas. Work continues on an ongoing basis to ensure the Council's defences are operating effectively to identify, prevent and recover from any hostile cyber activity.
KCR 8	**Climate Change**	12 (3x4)	12 (3x4)	Progress continues to be made on the Environmental Sustainability Strategy and the prioritisation of actions agreed as part of the Climate Change Action Plan. The need to identify further budget savings is expected to have an impact on the extent to which climate adaptations and mitigations can be prioritised in the short term.
KCR 9	**Community Wellbeing**	12 (4x3)	12 (4x3)	Weekly monitoring continues to suggest that issues around violent extremism and community tension are well controlled. Continuing cost of living issues will impact on demand for services provided by the community sector and some council services. The ability of the council to provide additional support is constrained by its financial position.
KCR 10	**Physical Assets & Infrastructure**	12 (3x4)	16 (4x4)	There are still concerns about elements of fire safety in residential properties and ability to demonstrate sufficient progress. Emergence of concerns about the use of RAAC in all types of council property creates the need to undertake specialist investigation and depending on outcomes to potentially take action to mitigate, with associated costs.

KEY CORPORATE RISK MATRIX OCTOBER 2023

KCR 1	Financial Sustainability		Previous	Current
Risk Owner: Director of Finance		**Risk Type: Financial**	**20**	**20**

Risk of failing to maintain a sustainable financial position due to the Council facing ongoing financial pressures with multiple causes; Government funding cuts, the impact and subsequent recovery from Covid-19, and the macroeconomic situation which is driving increases in both demand for services and costs to deliver services, as well as increasing borrowing costs across the financial plan period.

Q2 update: Increased risk of not delivering against the 23-24 agreed budget outturn position, despite enhanced monitoring and management focus. Options for early implementation of future years savings proposals have been considered however limited opportunities have been identified. Greater assurance is required over the deliverability of some of the savings proposals for 24-25, both in isolation and as a cumulative package, acknowledging that initiatives identified still do not meet the required savings target.

Sources of risk Mitigating controls / actions		**Responsible Officer**	**Previous**	**Current**
1.1	**Failure to maintain sufficient level of priority and focus that could lead to in year (23-24) savings not being achieved, resulting in budget overspend and rollover of overspend to future years budget (24-25)**	**Director of Finance**	**3x5 = 15**	**5x5 = 25**
1.1.1	Established governance arrangements are in place to achieve planned outcomes at Cabinet and officer level including quarterly reporting to Cabinet / ET and escalation processes as required			
1.1.2	Resilience tracking			
1.1.3	Forecasts reviewed and updated on a monthly basis with updated year end position			
1.1.4	Ongoing budget monitoring takes place in conjunction with budget holders, responsibility for budgetary control is aligned to Strategic and Service Directors there are dedicated finance managers for each service area and income management teams	Weekly Budget Delivery Group in place to provide oversight		
1.1.5	Regular meetings and ongoing engagement as required between Service Directors and Finance, there are regular links to performance meetings, monitoring KPIs and contract compliance			
1.1.6	Internal Finance business meetings to share knowledge and best practice take place fortnightly			
1.1.7	Virements are used where appropriate to ensure budgets and spend are aligned accurately			
1.2	**Risk of medium-long term financial instability caused by failure to develop or adhere to robust financial planning processes and procedures leading to reductions in service provision, possible government intervention and reputational damage**	**Director of Finance**	**3x5 = 15**	**3x5 = 15**
1.2.1	Agreed 5 year capital plan with 2 year savings plan and 3 year headline spend and income forecasts. HRA to deliver a balanced 30 year plan			
1.2.2	Documented governance process for determining adequacy of reserves and the utilisation of reserves, if required, to balance the budget			
1.2.3	Corporate capital plan review			

1.2.4	Income assumption challenge and validation process in place with robust rationale for significant increase			
1.3	**Risk of prolonged inflationary pressures resulting in cost increases, which impact on the council directly, and on the ability of contractors to deliver activities of the specified quality at the agreed price**	**Head of Finance / Procurement / Contract Managers**	**5x4 = 20**	**5x4 = 20**
1.3.1	Ongoing and effective communication with service providers and suppliers about likely impact on prices (e.g., 5-year expectation of cost increases by one quarter on construction projects)			
1.3.2	Contract procedure rules followed, investigate where opportunity exists to renegotiate or retender contracts			
1.3.3	Ensure that budgets anticipate likely cost impacts with allowances built into budget to cover inflation risk. Recognise that even where inflation linked cost impact are permitted contractually, they may not be acceptable politically / reputationally			
1.3.4	Regular review of priorities and available resources, informed by ongoing monitoring of expenditure and updated forecast position			
1.3.5	Ongoing review of project business cases to consider how changes to assumed costs (borrowing / raw materials / contractor) impact overall viability. Similarly, to revisit benefits case where project outcomes deliver reduced energy consumption.			
1.4	**The risk of a reduction in expected income as tenants, residents and businesses are unable to meet financial commitments resulting in a failure to meet budgeted income targets for Council Tax, Business Rates and other payments.**	**Head of Welfare and Exchequer**	**4x4 = 16**	**4x4 = 16**
1.4.1	Continue to migrate customers to cheaper, more effective methods of payment (e.g. Direct Debit).			
1.4.2	Process work in timely manner ensuring that correct bills are issued to customers as soon as possible and benefits are paid in line with expectations			
1.4.3	Adhere to the recovery timetable for issuing reminders and summonses.			
1.4.4	Continue to drive 'digital by design' improvement of business processes to reduce waste and deliver improved processing times			
1.5	**The risk of external intervention by DLUCH (and subsequent required actions) which will impact on the Councils ability to deliver key services and investment priorities, increase borrowing costs and cause reputational damage**	**CEO**	**4x5 = 20**	**4x5 = 20**
1.5.1	Delivery of identified savings, maximise income opportunities			
1.5.2	Deferral, reduction or removal of borrowing commitments to reduce capital requirements			
1.5.3	Prepare for DLUCH intervention be engaging Members and Senior Officers, actively manage reputational impact			
1.5.4	Review of corporate objectives (Must do, Should do, Stop)			
1.6	**The sustainability of the Housing Revenue Account (HRA) Business Plan in the context of a significant repair backlog, legislative obligations arising from Grenfell, remediation of DM&C issues and tightening regulatory framework**	**Director of Finance**	**3x5 = 15**	**3x5 = 15**
1.6.1	Robust governance arrangements in place to ensure common understanding of and agreement to priority actions			
1.6.2	Review of the Business Plan and scenarios linked to asset data, stress testing of assumptions and participation in benchmarking activity			
1.6.3	Proposals for annual rent increase based on government formula and approved by Cabinet			
1.6.4	Annual rent return to regulator			
1.6.5	Budget monitoring and review of the capital plan and savings requirements in line with the General Fund			
1.7	**Demand pressures on key services such as Adults and Childrens Services result in unbudgeted additional costs that the Council does not have the financial capacity to meet**	**Director of Finance**	**3x5 = 15**	**3x5 = 15**

1.7.1	Monthly budget monitoring to flag up any pressures and trends with services so that action can be taken			
1.7.2	Procurement of contract amounts to be linked to budgets, monitored and extensions / overspends to be reported through agreed governance			
1.7.3	Financial Procedure Rules, Contract Procedure Rules and Scheme of Delegation in place. Relevant training and briefings in place for appropriate staff.			
1.8	**Risk that budget estimates are not considered robust**	**Director of Finance**	**3x5 = 15**	**3x5 = 15**
1.8.1	2024-25 savings template proposals must detail assumptions and be supported by an achievable delivery plan			
1.8.2	Challenge sessions at relevant SLT and ET meetings to validate assumptions and estimates			
1.8.3	Budget proposals are validated by internal audit			
1.9	**Risk that the Capital Programme is not sustainable due to either reliance on borrowing at a time of rising interest rates, or reliance on capital receipts from asset disposals that are not guaranteed**	**Head of Commercial Finance**	**4x5 = 20**	**4x5 = 20**
1.9.1	Review of Capital Plan with Defer / Stop as potential outcomes			
1.9.2	Council Corporate Property Strategy has identified an initial register of surplus property, which is not required to support organizational delivery requirements			
1.9.3	Oversight of the Corporate Property Strategy is provided by the Corporate Property Board with assurance of progress and review of issues and risks	Corporate Property Board to be established		
1.10	**Risk that Council reserves are utilised to such an extent that action is required to return them to adequate levels and / or that the Council is forced to seek funding externally with rising borrowing costs**	**Head of Comercial Finance**	**4x5 = 20**	**4x5 = 20**
1.10.1	Review of Corporate Plan to identifying activity that can be stopped / reduced			
1.10.2	Review of Capital Plan with Defer / Stop as potential outcomes			
1.11	**The risk of delay in repayment or default of loans that the Council has entered into with third party organisations due to poor lending decisions and / or deterioration in market conditions leading to write offs**	**Head of Accountancy**	**3x5 = 15**	**3x5 = 15**
1.11.1	Annual review of the position relating to in scope loans and a provision made for any forecast loss			
1.12	**The deterioration in the capital value of the Council's investments that, without the statutory override, would otherwise have to be charged to the Council's revenue account**	**Head of Accountancy**	**3x5 = 15**	**3x5 = 15**
1.12.1	Regular monitoring of the investments in place and a provision set aside to provide for any potential loss			
1b ER	**Safety Valve Commitments (Funding to support SEND transformation activity)**	**SD Children & Families**	**Raised: July 22**	
1c ER	**Identification of Budget Savings**	**CEO**	**Raised: Jan 23**	
1d ER	**Kirklees Apprenticeships for All**	**SD Growth & Regeneration**	**Raised: July 23**	
1e ER	**Equal Pay Claim**	**SD Corporate Strategy & Commissioning**	**Raised: Oct 23**	

1f ER	**Taxi Licensing Fees**	**SD Corporate Strategy & Commissioning**	**Raised: Oct 23**

KCR 2	Effective Governance		Previous	Current
Risk Owner: Strategic Director Corporate Strategy, Commissioning & Public Health		**Risk Type: Compliance / Legal / Reputational**	**9**	**12**

Failure to effectively design, implement and maintain fit for purpose governance frameworks could lead to statutory breaches, poor allocation of resources and reputational damage for the Council. Given the breadth of activity and speed of delivery it is crucial that decision making and service delivery activity is well controlled to demonstrate value for money and be sufficiently agile to respond to resetting of priorities at a strategic or operational level.

Q2 Update: The Council needs to balance corporate control and strong oversight with a risk that this creates delays over implementation affecting the effectiveness of achieving the savings targets. The extent of public consultation activity that is required to support implementation of savings proposals is resource intensive and provides additional challenge, we have also seen an increase in the volume of Freedom of Information requests. Activity is underway to ensure appropriate controls are in place when we enter into data sharing agreements with third parties.

Sources of risk and Mitigating controls / actions		**Responsible Officer**	**Previous**	**Current**
2.1	**Failure to ensure that effective processes, frameworks and training are in place and adhered to, by officers and members, in order to facilitate ethical, compliant and legally sound decision making, to avoid subsequent challenge and reputational damage.**	**Director of Legal, Governance & Commissioning**	**2x4 = 8**	**2x4 = 8**
2.1.1	Agenda planning process is embedded with regular reminders issued			
2.1.2	Scheme of delegations has been approved			
2.1.3	General online and bespoke training available on CPRs, FPRs, Working in a Political Environment and Decision Making			
2.1.4	Effective stakeholder engagement and appropriate challenge (between officers, officers and members, and between member), with sufficient time for adequate consideration and scrutiny (e.g. timely publication of Key Decision Notices) is required			
2.1.5	Carefully following all rules and requirements, particularly those related to Financial Procedures Rules and Contract Procedure Rules			
2.1.6	Clear processes for recording officer decisions are in place, with an increase in the number of decisions that are being recorded			
2.1.7	Series of SLT briefings have taken place to ensure requirements are understood	Complete		
2.1.8	Review of decision-making templates to ensure the requirement to identify and document the associated risks is included. This could be existing risks that will be mitigated, the introduction of new risks, or a combination of both.			
2.2	**Management of information from loss or inappropriate destruction or retention and the risk of failure to comply with the Council's obligations in relation to Data Protection, Freedom of Information legislation and the General Data Protection Regulations (GDPR) leading to reputational damage, rectification costs and fines.**	**Head of Legal**	**3x4 = 12**	**4x4 = 16**
2.2.1	Information Governance Policy and Strategy in place and regularly reviewed through appropriate governance			
2.2.2	Information Governance Board in place to provide oversight of IG issues and risks			
2.2.3	Comprehensive mandatory training in place required to be completed by all members of staff. Completion rates monitored through Information Governance Board (IGB)	Training is no longer mandatory Completion rates are not available		

2.2.4	Reference material available via the Intranet (eg. Quick guides developed) and regular drop-in sessions to access expert guidance			
2.2.5	Online reporting functionality for information security incident.			
2.2.6	Procurement documentation (eg. Business Case, Contract Award Notification <£25k, IT Systems Assessment) requires assessment of IG risk to be considered.			
2.2.7	Undertake a review of current process for completing due diligence of third parties cyber security controls when entering into data sharing agreements	Proposal to enhance assurance over third party data sharing agreemnts to go to November IGB		
2.3	**Failure to implement effective controls to prevent and identify fraudulent activity resulting in potential misuse of council resources leading to unfair outcomes for service users, poor value for money and reputational damage**	**Head of IA and Risk**	**3x4 = 12**	**3x4 =12**
2.3.1	Anti-Fraud, Bribery & Corruption Policy in place and reviewed regularly through approved governance.			
2.3.2	Fraud Risk Forum meets quarterly to review risks and issues.			
2.3.3	Introduction of organisation wide Fraud training	On track for introduction in Q3 23-24		
2.3.4	Fraud team in place to advise on fraud risk areas and investigate where there is evidence of fraud			
2.4	**Insufficient visibility of the council-wide change delivery programme incorporating both transformation and project activity, concerns that the organisational capacity to deliver is insufficient to cope with the ambitious change agenda, coupled with challenging 'steady state' conditions.**	**SD Strategy & Innovation** **SD Skills & Regen**	**3x3 = 9**	**3x3 = 9**
2.4.1	Corporate Transformation priorities are required to follow agreed project methodology and are subject to prioritisation where the higher benefit projects are given seniority.	A review of capacity and prioritisation is being taken forward by the PMO function. Organisational capacity to support delivery is being assessed.		
2.4.2	Clear and effective governance models and reporting routes in place, for Corporate Transformation Priorities, to include • Individual Programme Board meetings, as appropriate • In view Corporate Transformation Priorities are considered at Monthly Modern Organisation Board and/or Bi-Monthly TPB meetings • Programme Assurance Sessions for corporate transformation led priorities, enabling opportunity for challenge and support on risk management. • Corporate PMO to have oversight of Corporate Transformation Priorities performance and progress tracking	All in-view Transformation programmes/projects that are reported into Modern Organisation Board, Transformation Portfolio Board or Budget Delivery Programme Board continue to be reviewed by the portfolio management office (PMO) including 1:1 meetings with the HoS. In addition, all programmes being led by the CTO are under a schedule of assurance sessions that take place quarterly.		
2.4.3	Implementation of robust benefits realisation planning to ensure that both financial and non-financial outcomes are delivered in line with expectations, across all in-view programmes	Expect to have a full baseline that has been subject to CTO assurance by the end of Q3 FY 23/24.		
2c ER	**Senior leadership transition**	**CEO / Leader**	**Raised: April 23**	

KCR 3	**Statutory Obligations**	**Previous**	**Current**
Risk Owner: Chief Executive	**Risk Type: Legal / Compliance**	**16**	**16**

The risk that the Council, or their delivery partners, are unable to meet statutory obligations due to changes in funding models and / or changes external market conditions (difficulty in recruiting, increasing costs inc NMW) or the emergence of new, unfunded government burdens. Where statutory obligations are delivered by external bodies (eg. West Yorkshire Joint Services) the process for obtaining ongoing assurance must be agreed and monitored through robust governance frameworks.

Q2 update: Whilst the council's statutory obligations are ringfenced and prioritised in the current review of corporate budgets and objectives, there is a requirement to think differently about how these services are delivered. Demand continues to be high and meeting statutory deadlines for SEND assessments is challenging with associated financial and reputational risks. Close partnership working with Kirklees Care Association and strengthened relationships across the market has reduced the risk associated with service provider failure - whilst the risk still exists processes to ensure early visibility are in place.

Sources of risk and Mitigating controls / actions		**Responsible Officer**	**Previous**	**Current**
3.1	**Risk that new statutory obligations create additional resource requirements that are not covered by existing government / other funding allocations and impact on the councils current policies and strategies.**	**CEO / ET**	**4x3=12**	**4x3 = 12**
3.1.1	Horizon scanning and work to ensure that the local impacts of national legislation, or other changes are fully understood as soon as practical			
3.1.2	Strategic Leaders participate in regional and national forums. Joint responses to emerging issues are coordinated through these forums			
3.1.3	Continue to lobby, through appropriate mechanisms, for additional resources e.g., Local Government Association (LGA)			
3.1.4	Be aware of underlying issues through effective communication with citizens, partners, service providers and suppliers about likely impact on resources			
3.1.5	Understand, scenario plan and monitor financial implications so that budgets can anticipate likely impacts			
3.3	**Sustainability of the Social Care Market: Service provider failures and \ or market exits resulting from increasingly difficult operating circumstances including, increasing costs, challenges with recruitment and retention and maintaining service quality**	**SD Adults & Health**	**4x5 = 20**	**3x4 = 12**
3.3.1	Working in partnership with Kirca (Kirklees Care Association) and continuous engagement with the wider provider base via forums to increase channels of communication and build stronger relationship within the market.			
3.3.2	Robust escalation procedures to address quality and sustainability issues in a timely manner via CHESP. Where quality issues exist/emerge with the sector, steps are taken with system partners and CQC to ensure safety of residents.			
3.3.3	Escalation of issues where necessary to senior leaders and portfolio holder where provider failure is an issue.			
3.3.4	Sharing intelligence across the system through ourselves partner agencies allowing us to look for early signs of possible failure so we can intervene early and address issues at the earliest opportunity			

3.3.5	Co-ordinating proactive quality assurance good practise events (consultation with providers focusing on issues identified as needing addressing.			
3.3.6	Working in partnership with KirCA on funding and grants for providers in the market.			
3.3.7	Engagement with providers to understand how they operate and where we can work in partnership to focus on concerns and to build stronger relationship with partners in the market.			
3.3.8	2 monthly CQC engagement meetings to discuss issues identified in inspections and areas of focus or concerns.			
3.4	**Inability to maintain sufficient SEND provision due to lack of capacity within services, lack of existing local provision, increases in demand led services, increasing costs and increasing complexity in clients' needs**	**SD Childrens & Families**	**4x4 = 16**	**4x4 = 16**
3.4.1	SEND Transformation will address the lack of specialist education provision through: 1) the rebuild of two existing Special Schools 2) expanding Additionally Resourced Provision 3) creating special school Satellite Provision 4) Refreshing the Alternative Provision offer			
3.4.2	Safety Valve funding agreement planned to eliminate cumulative deficit in DSG by year end 26/27, enhanced monitoring and support now in place to ensure delivery	See Emerging Risk 1b		
3b	**Revised CQC regulatory framework**	**SD Adults & Health**	**Raised: Jan 23**	
3c	**EHCP pipeline / delays complaints risk**	**SD Children & Families**	**Raised: Oct 23**	

KCR 4	**Third Party Relationship Management**		**Previous**	**Current**
Risk Owner: Chief Executive		**Risk Type: Operational / Reputational / Financial**	**12**	**12**

Failure to develop and manage relationships with third parties (including grant awarding bodies and government agencies) to ensure council priorities are considered and outcomes delivered. Provision of services to residents and communities is no longer the sole preserve of 'the council', from the allocation of funding to end user delivery it is to be expected that there will be a multitude of third parties involved. These range from other public sector bodies, private suppliers / contractors, commercial partners to voluntary organisations. It is imperative that the Council nurture and maintain effective and influential working relationships with these third parties demonstrating robust governance and oversight.

Q2 Update: The external economic environment continues to present challenges to operators within the third sector with impacts on service provision on behalf of the Council, coupled with increased demand. Work is underway to assess the impact of budget challenges on voluntary sector organisations. Activity is underway to validate the control framework that exists across contract management within the council and highlight areas for improvement. Additionally, we are undertaking an external assessment of the Councils own arrangements across the procurement lifecycle which will be peer reviewed by another Local Authority.

Sources of risk and Mitigating controls / actions		**Responsible Officer**	**Previous**	**Current**
4.1	**Risk that the Council agrees contracts with suppliers / commissioned service providers that either do not meet the requirements of the council, or do not maximise the economic, social and environment benefits that procurement can bring**	**Head of Procurement**	**3x5=15**	**3x5 = 15**
4.1.1	Procurement Strategy 2022-2026 and associated Action Plan details how KC will become an attractive partner to do business with, whilst maximising the economic, social and environmental benefits through our approach to social value			
4.1.2	Contract Procedure Rules regularly reviewed, communicated and adhered to			
4.1.3	Adherence to procurement processes, including the agreed governance framework, to ensure the risks associated with approvals are documented and escalated appropriately			
4.1.4	Rules to prevent / limit reliance on single suppliers and contracting with firms that derive large proportions of their business from the public sector.			
4.1.5	Proactively encourage and stimulate interest in tendering for council contracts by developing and publishing market position statements and procurement pipeline opportunities, undertake regular dialogue with market.			
4.1.6	Instigate early consultation with existing suppliers about arrangements to be followed at the end of existing contractual arrangements			
4.1.7	We have elected to undertake the Commercial Continuous Improvement Assessment Framework (via Gov't commercial function) The assessment framework applies to how public sector organisations manage commercial delivery and capability.	New Action		
4.2	**Risk that suppliers do not provide goods / service in line with contractual agreement due to lack of robust oversight and governance arrangements leading to delays, requirement to re-contract, possible legal costs and potential reputational damage**	**All contract managers**	**3x4 = 12**	**3x4 = 12**

4.2.1	Undertake robust contract management - ensuring suppliers are performing and delivering against any key performance indicators and plans in place to manage external pressures such as changes to NMW, recruitment / retention challenges, supply chain disruption	Training options provided to contract managers		
4.2.2	Ensure contractual documentation includes sufficient clarity on specifications.			
4.2.3	Ensure outcome measures / Key Performance Indicators to monitor performance are agreed pre contract completion	Work underway by Procurement to develop contract handover document to support contract managers.		
4.2.4	Contract management health checks to take place – Procurement to undertake these 'temperature checks' to identify areas of best practice and areas for improvement	New Action		
4.3	**Risk that external agencies become increasingly influential and impose additional governance arrangements / policy and processes on to KC leading to protracted decision / delivery timelines, conflicting priorities, extra costs and political pressure, including but not limited to:** • **West Yorkshire Combined Authority (WYCA)/Leeds City Region Local Enterprise Partnership (LEP)** • **West Yorkshire Police and Crime Commissioner** • **WYJS** • **Government departments e.g. DLUHC, BEIS** • **NHS West Yorkshire Integrated Care Board / Kirklees Integrated Care Board**	**CEO / ET**	**4x3=12**	**4x3 = 12**
4.3.1	Maintain senior officer engagement eg, Strategic Director currently Chair of 'Directors of Development' group,			
4.3.2	Ensure that Kirklees are represented on all relevant boards and relevant officer groups with appropriate briefing			
4.3.3	Ensure effective use of WY Chief Executives and WY Leaders groups to escalate issues / concerns			
4.3.4	Work with partners to co-design governance processes / funding agreements etc.. to reduce the risk of additional and unnecessary provisions which add cost or delays			
4.3.5	WY ICB Monthly meeting attended by senior officers (CEO, SD Adults & Health and Director of PH)			
4.4	**A failure by an associated party creates financial or reputational issues for the council**	**CEO / Head of Risk & Internal Audit**	**3x3 = 9**	**4x3 = 12**
4.4.1	Adequate monitoring of activities of associated parties			
4.4.2	Robust and task-based approach to selection of appropriate persons to act in governance roles within those organisations			
4.4.3	Clear governance of decision making, including approval by Cabinet where agreements in principle on way forward has been reached			
4a ER	**Associated Parties**	**SD Growth & Regeneration**	**Raised: July 22**	

KCR 5	People Management		Previous	Current
Risk Owner: Strategic Director Corporate Strategy, Commissioning and Public Health		**Risk Type: Colleague / Operational**	**20**	**20**

Risk that delivery of services is negatively impacted through a reduction in number and / or capability of council workforce. We are reliant on maintaining a suitably qualified, capable and motivated workforce in order to meet the expectations of our partners and communities.

Q2 Update: Focus on support to service redesign activity and ensuring a reduction in required headcount is managed through redeployment and natural turnover where possible. For the roles which the council chooses to recruit to the labour market pressure has eased somewhat however key specialised roles remain in high demand. Capacity issues challenge the ability of the organisation to deliver required outcomes particularly where they are dependent on key individuals. We continue to monitor sickness levels to understand if recent increase is in excess of normal seasonal variances.

Sources of risk and Mitigating controls / actions		**Responsible Officer**	**Previous**	**Current**
5.1	**Failure to attract / recruit / retain staff to meet the demands of the organisation due to significant broader labour market challenges, expectations relating to pay & reward and national / regional shortages in some specialist areas leading to increased costs if agency / contracted staff are required and implications for operational service delivery.**	**Head of People Services**	5x4 = 20	5x3 = 15
5.1.1	Recruitment strategy to promote the range of employee benefits and emphasise the job satisfaction factors, specifically from service employment	Refocussed to target essential roles only		
5.1.2	Recruitment initiatives include working with the job centre, launch of careers site, working with employment and skills and social media campaigns. Marketing / Comms activity focussing on essential roles only			
5.1.3	Embedding flexibility into the recruitment process where possible and responding to changing candidate expectations. Eg. Application form has been further simplified.	In place and condiate experience excellence recognised through award shortlisting		
5.1.4	Engage and encourage younger people through targeted apprenticeships, training and career development opportunities as well as support into employment programmes (Project Search, Kickstart and work experience)	BAU. People Panel commitment to champion support into emplyment intitiatives		
5.1.5	Refreshed People Strategy now in place, with regular monitoring of workforce data at ET and SLTs, introduction of dashboards and lead and lag indicators across People Services	Ongoing – monthly reporting in place		
5.1.6	Appropriate oversight and scrutiny in place through updates provided to Personnel Committee and Corporate Scrutiny Panel, specifically on recruitment and retention challenges	Ad hoc.		
5.1.7	Dedicated resource is in place to support services with the most acute need, utilising more creative approaches such as talent banks, alternative advertising approaches and bespoke events.	Capacity and appetite more limited through current essential only recruitment		
5.1.8	Piloting workforce planning approaches and benchmarking. Development of a workforce planning approach to consider long term plans as well as short term solutions;	WFP team working with most council services		
5.1.9	My Learning (MiPod Xtra replacement) has now launched making learning easier to access for everyone. My Space, new employee portal launched, making accessing employee content easier from personal devices	Increase in take-up of My Space following F/F workshops for front-line staff as part of digital Upskilling project		

5.1.10	Review and monitor use of market rate/retention supplements	Full review to take place with report to ET in October	
5.1.11	Focus on Mental Health Awareness, including stress, with promotion of Wellbeing surveys, Wellbeing network and dedicated support service	Pilots underway as part of People Strategy phase 2	
5.1.12	Revitalising exit interviews and developing 'stay' interviews to drive understanding	Stay interviews in place across A&H	
5a ER	**Potential for industrial action**	**SD Governance & Commissioning**	**Raised: July 22**

KCR 6	Safeguarding			Previous	Current
Risk Owner: Strategic Director Children & Families and Strategic Director Adults & Health		**Risk Type: Reputational**		**12**	**8**

Failure to keep vulnerable people in our communities safe from harm is a key priority for the Council. The consequence of a safeguarding failure are serious and long-lasting at both an individual and organisational level.

Q2 update: Safeguarding risks continue to be well controlled, with embedded processes and procedures in place to ensure vulnerable adults and young people are safe from harm. Reassessment of the adequacy and effectiveness of the controls in place across Adult Social Care has resulted in a reduction to the 'likelihood' score.

Sources of risk and Mitigating controls / actions		**Responsible Officer** Target Date	**Previous**	**Current**
6.1	**The council does not adequately safeguard children because of increased complexity, referral volumes and a lack of service capacity to respond to the assessed need.**	**SD Children & Families**	**2x4 = 8**	**2x4 = 8**
6.1.1	Disclosure & Barring Service (DBS) checking, staff training, supervision, protection policies kept up to date and communicated			
6.1.2	Robust Safeguarding board partnership is in place, shared accountability across key strategic partners ensures oversight and management of safeguarding risks			
6.1.3	Effective management of social work (and related services); rapid response to any issues identified and from any Safeguarding Practice Reviews (Children), Ofsted focus visits have evidenced practice is improved with no children considered at risk of significant harm. LADO procedures, process and training issues have been addressed as a result of the 2019 Ofsted inspection.			
6.1.4	16+ Unregistered/unregulated provision procedure in place and communicated to staff mitigates against inappropriate use of the above provision.	Insufficient capacity to meet demand has resulted in use of unregulated provision. Volumes are decreasing and additional assurance operated throughout placement		
6.1.5	Continued focus on strengthening practice - Recording Assessment and Planning with regular, high quality supervisions in place.			
6.1.6	Recruitment practices and a focus on developing staff has stabilised the social care workforce and addressed capacity issues.			
6.1.7	Monthly directorate wide QA meetings focusing on key areas, giving assurance of grip, management oversight, quality of practice and performance.			
6.1.8	Service Practice learning days and auditing in place contributing to children's services objective of being a learning organisation			
6.1.9	Caseloads are monitored as part of the embedded performance culture; action is taken promptly to allocate and balance workloads.			
6.1.10	Phased plan in design stage to address McCallister recommendations which will see some CiN cases held at a lower level, this will help rebalance caseloads.			

6.2	**The council does not adequately safeguard vulnerable adults, and those subject to elder abuse, because of increased complexity, referral volumes and a lack of service capacity to respond to the assessed need.**	**SD Adults & Health**	**3x4 = 12**	**3x3 = 9**
6.2.1	The Safeguarding front door and the social care hubs regularly review back logs, and the level of complexity, prioritising cases to ensure people are safe			
6.2.2	Escalation process in place through the Safeguarding Service Manager where there may be unmitigated risk and/or media interest			
6.2.3	The teams are currently working on a risk basis and triaging/monitoring cases			
6.2.4	Staff access training appropriate to their role. Risk identified relating to safer recruitment and training requires addressing			
6.2.5	Regular supervision is in place where caseloads are discussed, and actions set			
6.2.6	Recruitment and retention issues are managed through recruitment drives, rolling adverts, and a review of social work grades			
6.2.7	The self-neglect policy and pathway now in place. Self-neglect cases are being managed through the multi-agency risk escalation conferences			
6.2.8	Person in Position of Trust (PIPOT) process in place			
6.2.9	Completion of the development of the Corporate Safeguarding Policy (approved by Cabinet March 2022) has resulted in raised awareness. Ongoing involvement from ASC with action planning			
6.2.10	Adult's representation on all strategic and operational groups related to safeguarding (such as; Prevent, Domestic Abuse and Modern Slavery)			
6.2.11	Advice, and information and guidance is available to support with the impact of the cost of living crisis			
6.3	**Legacy issues of historical childcare management practices, and particularly, the heightened national attention to Child Sexual Exploitation and historical abuse cases leads to reputational issues, and resource demands to address consequential matters.**	**SD Children & Families**	**2x4 = 8**	**2x4 = 8**
6.3.1	Additional resources and expertise allocated to new and historical Child Sex Exploitation (CSE) and other legacy work, as required.			
6.3.2	The 2022 JTAI inspection observed there is a well embedded strategic partnership approach to CSE & CCE. This focus has enabled the historical childcare management practice issues to be addressed.			
6.3.3	Two exploitation subgroups that focus on strategic and operational matters relating to the exploitation of children are in place which has mitigated resource demands to address consequential matters.			
6.3.4	Risk matrix and risk management approach implemented with the police and partners.			
6.3.5	Understand relationship with the Prevent strategy, and issues linked to counter terrorism			
6.3.6	Continue to monitor external developments and engage with other LA's / relevant bodies			
6.3.7	Develop and embed an approved multi-agency model to address CSE	New KRASAC contract in place from September 2023 for 12 months.		
6a ER	**Unregulated provision**	**SD Children & Families**		

KCR 7	Resilient Operational Processes		Previous	Current
Risk Owner: Strategic Director Corporate Strategy, Commissioning & Public Health		**Risk Type: Operational**	**12**	**12**

Failure to develop and maintain resilient operational processes and controls resulting in an inability to keep our communities and colleagues safe. Statutory obligations include, but are not limited to, the Civil Contingencies Act and Health & Safety at Work Act.

Q2 Update: Management of Health & Safety continue to be well controlled with a focus on maximising the benefits of the new council wide online reporting system both centrally and within operational areas. Work continues on an ongoing basis to ensure the Council's defences are operating effectively to identify, prevent and recover from any hostile cyber activity. The external environment threat level remains high and we continue to review and take learnings from impacted organisations, updating our control framework as required.

Sources of risk and Mitigating controls / actions		**Responsible Officer** Target Date	**Previous**	**Current**
7.1	**The risk of a data breach and / or impaired system functionality caused by a malicious cyber-attack leading to inability to deliver council services, costs to recover / compensate and associated reputational damage**	**Head of Technology**	**4x4 = 16**	**4x4 = 16**
7.1.1	Documented and approved Cyber Strategy	Implementation of all actions complete		
7.1.2	Penetration tests and PSN accreditation is maintained on an annual basis			
7.1.3	Business continuity procedures (in various scenarios) including recognising that some solutions may involve a return to paper-based solutions and records			
7.1.4	Access to core systems restricted through Privileged Access Management			
7.1.5	Adherence to NCSC guidance			
7.1.5	Controls validated on a regular basis through industry benchmarking and review by external auditors.	All actions identified through Grant Thornton review completed		
7.1.6	Undertake a review of current process for completing due diligence of third parties cyber security controls when entering into data sharing agreements (eg. commissioned services)	Action transferred		
7.2	**The risk that the Council's incident management / emergency planning is insufficient to manage a serious incident or series of related incidents leading to short term or prolonged impacts on the Kirklees community and Council employees and operations. Potential risk causes include, but are not limited to: Weather related events; Industrial accident; Infectious disease outbreak; Terrorist attack**	**Head of Health Protection**	**3x4=12**	**3x4 = 12**
7.2.1	The Council has an embedded emergency management system that aligns to the NHS Emergency Preparedness, Resilience and Response. Readiness and competencies are monitored through completion annually of a self-assessment audit	2022 self assessment outcome: 'Substantial assurance'		
7.2.2	All our plans are subject to regular review as per work programme. We also regularly train people in their roles and test these via exercises			
7.2.3	Governance is provided via Kirklees Health Protection Board			
7.2.4	Debriefing following incidents so that lessons can be identified, and plans modified where necessary			

7.3	**Health and safety measures are inadequate leading to harm to employees or customers and possible litigious action from them personally and/or the Health and Safety Executive with the potential for prosecution and reputational damage.**	**Head of Health Protection**	**2x4=8**	**2x4 = 8**
7.3.1	Regular (6 monthly) monitoring through Health and Safety Oversight Board chaired by a member of the Executive Team			
7.3.2	Completion of Bi-annual corporate performance reports			
7.3.3	Audit of the health and safety management systems of Services within the Council, carried out in accordance with HSE guidance Successful Health and Safety Management (HSG (65))			
7.3.4	Management review and inspection of high risk premises at 3 yearly intervals and medium risk premises at 5 year intervals.			
7.3.5	Council wide online accident and incident reporting system (Claim Control) was implemented during 2022. The system can provide statistical information to managers at agreed intervals.	Further improvements to the system in last quarter resulted in the introduction of functionality that allows managers to interrogate the data for their service area and run off reports.		
7.3.6	Mandatory health and safety training matrix developed to specify the minimum level of training dependent on role within the Council. A well-managed training programme will help to develop a positive health and safety culture as well as helping to ensure that the Council meets its legal duty to protect its employees	There are currently data anomaly issues when running reports from the new MyLearning system. Learning and Development has reported this to the provider, and they are seeking to resolve the situation as soon as possible.		
7.3.7	Accident, incident and near miss reports monitored and followed up and or investigated as necessary.	There have been 13 reportable incidents in this quarter.		

KCR 8	Climate Change		Previous	Current
Risk Owner: Strategic Director Corporate Strategy, Commissioning & Public Health		**Risk Type: Operational / Reputational / Financial**	**12**	**12**
Failure to consider and adequately respond to Climate Change (emission reduction and resilience building) at an immediate operational level, as longer-term strategic risk and at a community level, resulting in not achieving our 'Net Zero and Climate Ready" target and insufficient resilience to the current and future climate change risks outlined within Kirklees' district-wide Climate Change Risk and Vulnerability Assessment (CCRVA), which portrays consequential local, physical environmental / social impacts (e.g. Flood risk, overheating), disruption to delivering statutory obligations and business continuity, financial impacts (predominantly restrictions on funding, cost of response and recovery) and reputational damage. **Q2 Update:** Progress continues to be made on the Environmental Sustainability Strategy and the prioritisation of actions agreed as part of the Climate Change Action Plan. The need to identify further budget savings is expected to have an impact on the extent to which climate adaptations and mitigations can be prioritised in the short term. We continue to use external organisations to benchmark our activities. Recognition that the organisations financial and environmental priorities may be in conflict in the short term.				

Sources of risk and Mitigating controls / actions		**Responsible Officer** Target Date	**Previous**	**Current**
8.1	**Failure to deliver statutory services and disruption to business continuity due to climate change.**	**TBC**	3x5=15	3x5 = 15
8.1.1	Operational and response plans designed to minimise impacts (e.g., gully cleansing for those areas which are prone to flooding, winter maintenance budgets are supported by bad weather contingency, gritting deployment plans etc..)	Ongoing		
8.1.2	Consultant-led work, completed in August 22, to understand Kirklees' climate change risks and vulnerabilities and identifying possible adaptation measures.	Complete		
8.1.3	Development of the Council wide 'Environmental Strategy; Everyday Life' to provide a mandate for the integration of best-practice climate and environmental considerations into all council decision-making and processes as business as usual.	Council approval due February 2023.		
8.1.4	Council participating in Yorkshire and Humber Climate Commission Adaptation Framework, which has the objective of developing a framework for consistently integrating the climate change risks outlined in Kirklees' CCRVA into Corporate and Service Area risk assessments with associated mitigations	January to December 2023		
8.1.5	Emergency planning includes necessary considerations for climate change influencing the severity and frequency of natural events (i.e., floods, storms, heatwaves).	Ongoing		
8.2	**Not delivering on the Net Zero target due to scope and scale of the programme exceeding the funding and delivery capability as currently allocated. There is no Council budget for the climate change programme from 2025/26, with grants increasingly requiring match funding and active demonstration of climate commitments, including resource.**	**Director of Environmental Strategy & Climate Change**	3x4=12	3x4 = 12
8.2.1	PCAN (Placed-Based Climate Action Network) and University of Leeds led work, completed in Jan 22, outlining the pathways to Net Zero for Kirklees, in-line with the district's 2038 net zero target and UK's 2050 net zero target.	Complete		

8.2.2	Funding officer employed and fund finding toolkit being utilised Council wide to signpost teams to specific funding opportunities. 'Think Funding' model applied across capital and project delivery teams. Partnership funding opportunities being utilised including WYCA Gainshare and other funding in addition to economies of scale achieve through consortium funding partnerships, bid applications and regional project delivery.	Ongoing		
8.2.3	Phase 2 Climate Change Action Plan published in December 2022, detailing how we will become carbon neutral and climate ready by 2038	Complete – approved by Council December 22		
8.2.4	Establish Climate Change Board to track progress against the CCAP	On-hold subject to review.		
8.2.5	Action workshop delivered with Kirklees-wide partners to identify high priority actions for business case development (18th May 2023)	Summer 2023, engagement completed, and the findings are being written up.		
8.2.6	Development of business cases for the priority actions identified by the place-based prioritisation process (dependent on obtaining necessary external funding)	Mid 2024 subject to financial support for developing the business cases.		
8.2.7	Delivery and implementation of the businesses cases that require Council ownership, subject to obtaining funding to deliver.	Mid 2024 subject to financial support for developing the business cases.		
8.2.8	Ongoing Monitoring & Evaluation, with annual reporting of progress to CDP and implementing a 3-yearly reporting process for our CCAP once V2.0 is published.	Annual CDP Reporting – July 2023 CCAP reporting due to commence mid 2024		
8.2.9	External funding bids continue to be submitted and alternative sources of funding are applied for where available, to support project delivery and to fund the climate change programme delivery staff in the absence of council budget funding.	Ongoing		
8.2.10	Option for Directorate SLTs to mandate and monitor actions and impacts of decisions and operational activity against our Net Zero and Climate Ready goal.	Opportunity		
8.3	**Immediate financial pressures leading to impactful decision-making council-wide, delaying, halting, or reversing progress made towards our Net Zero and Climate Ready target, compounding future risks and leading to medium and longer-term financial, operational, and reputational challenges.**	**Director of Finance**	**New**	**4 x 4 = 16**
8.3.1.	Climate change considerations are included within the Integrated Impact Assessment (IIA), which all new Council projects need to complete. There is a lack of confidence in this impact of this process, as considerations are not mandatory, with no expectation or standard set to the quality and the impact of any necessary interventions.			
8.3.2	All decisions that go through the Council governance process are asked to fill out a section in the Cabinet report on Climate Change. There is a lack of confidence in this impact of this process, as considerations are not mandatory, with no expectation or standard set to the quality and the impact of any necessary interventions.			
8.3.3.	Environment and Climate Change Scrutiny Panel is in place to check and challenge.			
8.4	**Climate change thinking and approaches insufficiently integrated within policies, procedures, and decision-making throughout the council, compounding future risks and leading to medium and longer-term financial and reputational challenges.**	**Strategy & Innovation Director**	**New**	**3x4 = 12**
8.4.1	Climate related modules have been offered to Executive officers and Councillors with an unknown degree of uptake			
8.4.2	Development of the Environment Strategy; Everyday Life, is due to Cabinet in January 2024, to set an organisational mandate for more ambitious climate change thinking and approaches.			

KCR 9	Community Wellbeing & Resilience		Previous	Current
Risk Owner: Strategic Director Adults & Health		**Risk Type: Operational / Reputational**	**12**	**12**

Risk of declining community wellbeing and resilience caused by lack of engagement with communities directly and partner organisations, insufficient understanding of community needs and wants, poorly targeted interventions / service developments, persistent reduction in funding.

Q2 update: Weekly monitoring by Safer Kirklees continues to suggest that issues around violent extremism and community tension are reasonably well controlled. Continuing cost of living issues will impact on demand for services provided by the community sector and, if these cannot be met, then on demand for some council services. The ability of the council to provide additional support to individuals / organisations / businesses is constrained by its financial position.

Sources of risk and Mitigating controls / actions		**Responsible Officer** Target Date	**Previous**	**Current**
9.1	**Failure to address matters of violent extremism and related safer stronger community factors, including criminal exploitation, or national or international incidents (e.g. terrorism), create significant community tension, with the risk of public disorder, and threats to councillors going about their duties.**	**Service Director Communities & Access Services**	**4x3=12**	**4x3 = 12**
9.1.1	Dedicated community tensions monitoring process and a clear procedure to process intelligence related to protests and tensions. Procedure includes Police and Emergency planning colleagues.	Risk level pending the opening of the private new large-scale site possibly in October, awaiting communication from Home Office. VCS/ health and police response is significant, and planning is required to manage this effectively.		
9.1.2	Weekly tensions monitoring (tactical threat) meetings are held with all relevant partners – these can quickly switch to daily if required. Escalations are reported into Police Silver and via Safer/EP internally dependent on issue. Silver/Gold groups in place for oversight.			
9.1.3	Prevent Action Plan addresses community engagement, critical thinking and ideological issues and seeks to mitigate risk	The plan is due to be revised in line with a reduction in capacity of prevent engagement officers.		
9.1.4	Channel Panel process is subject to ongoing self-assessment, internal audit review and external assurance by the Home Office	From April 2024 monitoring will move from Kirklees Council to the WY Police		
9.1.5	Implementation of the Inclusive Communities Framework to build resilience to extremist narratives, ensuring people feel listened to and that they belong	Annual report on progress and summary recommendations submitted to the Communities Board		
9.1.6	The Cohesion Team engage with communities and enable opportunities for communities to build relationships and mix to counter extremist narratives			
9.1.7	Protect and Prepare obligations to mitigate terrorism risk on publicly accessible locations (PAL). The Protect Duty will introduce additional responsibilities with a short implementation date anticipated.	Protect & Prepare group have been established to oversee implementation		
9.1.8	Assurance processes re ensuring appropriate understanding associated with the use of public and client access to the internet (terrorism and extremism related)			
9.2	**The impact of the "cost of living crisis" (specifically inflationary pressure leading to increased prices for food and fuel) on individuals, the community, partners and the business sector, and on their priorities, and their consequent demands for**	**Head of Policy, Partnerships &**	**4x3=12**	**4x3 = 12**

	council service. Impact on the voluntary sectors may reduce their ability to support communities, with a consequent impact on the council.	**Corporate Planning, Head of Improving Population Health**		
9.2.1	Interventions and support put in place to mitigate some of the effects of the Cost of Living crisis are being coordinated and monitored through the Cost of Living Programme Board. Recognising the urgency of the need, the action plan is primarily focussed on accelerating and scaling up existing work rather than establishing completely new projects. There is Representation from all relevant services with weekly reporting to Cllr Davies (as portfolio lead).	Programme Board meeting reduced to monthly. All bar one workstreams reporting GREEN		
9.2.2	Priority 1: Emergency response with focus on direct support for people already in crisis - Communications - Access to Support for residents - Support for and from businesses	On track to spend HSF4 within the grant period (01/04/23 - 31/03/24) Government £300 CoL payment to be made to those in recepit of qualifying benefits – Nov 2023		
9.2.3	Priority 2: Building resilience within and across our communities - Housing Services - Community Response - Community Power	Digital inclusion projects in North Kirklees commencing in October 2023		
9.2.4	Priority 3: Preventative action to address medium-long term challenges - Economic Strategy & Long term recovery - Working, Volunteering, Participating, Aspiring - National & Regional Lobbying			
9e ER	**Housing stock availabilty**	**SD Growth & Regeneration**	**Raised: Jan 23**	
9f ER	**Fusion Housing**	**SD Growth & Regeneration**	**Raised: Oct 23**	
9g ER	**Large scale asylum site**	**SD Adults & Health**	**Raised: Oct 23**	

KCR 10	**Physical Assets and Infrastructure**		**Previous**	**Current**
Risk Owner: Strategic Director Growth & Regeneration		**Risk Type: Compliance / Reputational**	**12**	**16**

The exposure to increased liabilities arising from property ownership and management, including both the councils residential portfolio and corporate portfolio (inc schools, community buildings) with reputational and financial implications.

Q2 Update: A more consistent approach to evaluating future approach to premises retention is being implemented across the corporate portfolio. There are still concerns about elements of fire safety in residential properties and ability to demonstrate sufficient progress. Emergence of concerns about the use of RAAC in all types of council property creates the need to undertake specialist investigation and depending on outcomes to potentially take action to mitigate, with associated costs.

Sources of risk and Mitigating controls / actions		**Responsible Officer** Target Date	**Previous**	**Current**
10.1	**Exposure to increased liabilities arising from the Council's ownership and management of corporate assets, including dangerous structures and asbestos, cladding and fire controls with reputational and financial implications**	**Director of Development**	**3x4 = 12**	**3x4 = 12**
10.1.1	Building Safety Assurance Board - Corporate manages corporate compliance with statutory regulations and other guidance including ongoing management of building compliance risks, with escalation to the Health & Safety Oversight Board	Next meeting: November 23		
10.1.2	Compliance testing matrix in place identifying sources of risk, test requirement as detailed in legislation and test frequency			
10.1.3	Embedded programme of fire risk assessments, inspections and audits in place, as documented in Corporate Fire Safety Policy. New fire log has been produced for site trial before full roll out.			
10.1.4	Approved Asset Strategy in place	Asset disposals list agreed		
10.1.5	Procurement and integration of new asset management database to monitor and report our asset management activity	Implementation targeted for Q4 23-24		
10.1.6	Development and implementation of processes and procedures to support delivery of prioritised actions based on condition surveys and defects reported during servicing & maintenance			
10.2	**Exposure to increased liabilities arising from residential property ownership and management, focussing on the 6 components of building safety (fire, asbestos, gas, electric, water, lifts) and latterly DMC (Damp, Mould and Condensation)**	**Director of Homes & Neighbourhoods**	**3x4 = 12**	**3x4 = 12**
10.2.1	Building Safety Assurance Board (Housing) established to provide oversight of controls and governance in place, reporting into the Housing Improvement Board and the Health & Safety Oversight Board			
10.2.2	There are regular programmes of inspection and re-inspection for all six-building safety workstreams including asbestos and water hygiene, whilst the work on strengthening processes and data integrity is supporting a stronger internal framework of assurance.	Third party appointed to validate integrity of building safety compliance data and develop Landlord Compliance Data Management Plan		
10.2.3	Regular onsite audits, detailed training programme and dedicated HSE team ensure robust H&S culture with officers clear on duties related to H&S compliance			
10.2.4	For Fire Risk Assessment (FRAs) remedial actions, completion of every high priority action is tracked and those to high rise blocks notified to the Regulator.	The Regulator will review progress in late November and the Consumer Panel in early December – at this point there needs to		

		demonstrable progress in the completion and resolution of outstanding and overdue fire risk actions.	
10.2.5	Programme of activity to ensure housing stock meets the Decent Homes Standard. Stock condition validation and data cleansing activity is underway, focus now on development of a long term asset management strategy, including benchmarking of cost data	The first draft of the Asset Strategy has been produced. Stock condition surveys are being undertaken in house to support the development and delivery of 23/24 and 24/25 programmes of work.	
10b ER	**Damp, Mould & Condensation Strategy**	**SD Homes & Neighbourhoods**	**Raised: Jan 23**
10c ER	**Reinforced Autoclaved Aerated Concrete (RAAC)**	**SD Growth & Regneration**	**Raised: Oct 23**

Name of meeting: **CORPORATE GOVERNANCE & AUDIT COMMITTEE**
Date: **19th JANUARY 2024**
Title of report: **QUARTERLY REPORT OF INTERNAL AUDIT Q3 2023/24 OCTOBER 2023 TO DECEMBER 2023**

Purpose of report.
To provide information about internal audit work in quarter 3 of 2023/24

Key Decision - Is it likely to result in spending or saving £500k or more, or to have a significant effect on two or more electoral wards?	**not applicable** .
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	**not applicable**
The Decision - Is it eligible for call in by Scrutiny?	**not applicable**
Date signed off by Strategic Director & name. **Is it also signed off by the Service Director for Finance IT and Transactional Services?** **Is it also signed off by the Service Director for Legal Governance and Commissioning Support?**	**not applicable** **not applicable**
Cabinet member portfolio	**not applicable**

Electoral wards affected: **All**

Ward councillors consulted: **None**

Public or private: **Public with a private appendix**

The appendix to this report is recommended for consideration in private because the information contained in it is exempt information within part 1 of Schedule 12A of the Local Government Act 1972 namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in disclosing the information and providing greater openness in the Council's decision making.

Have you considered GDPR? Yes

1. **Summary**

1.1 The attached report sets out the activities of Internal Audit and RIPA in the third quarter of 2023/24.

2. **Information required to take a decision.**

2.1 The detail of the audit work performed this quarter is contained within the report, with a small amount of additional detail in a private Appendix.

2.2 There were no Regulation of Investigatory Powers Act (RIPA) authorisation in the period.

3. **Implications for the Council**

3.1 **Working with People –** None directly

3.2 **Working with Partners –** None directly

3.3 **Place Based Working –** None directly.

3.4 **Improving outcomes for children–** None directly

3.5 **Climate change and air quality-** None directly

3.6 **Impact on the finances of local residents-** None directly

3.7 **Other (e.g., Legal/Financial or Human Resources)-** Although each of the sub categorisations above suggest no direct implications, the work of internal audit covers all aspects of the Council's operations, including elements of the above, either specifically, indirectly or on a commissioned basis. The main issues relate to those areas highlighted above- where there are risks associated with basic processing arrangements and delivering sound governance and control.

4. **Consultees and their opinions**

There are no consultees to this report although heads of service/directors participate in and respond to individual pieces of work.

5. **Next steps and timelines**

5.1 To consider if any additional activity is sought. (Limited assurance audit outcomes are routinely followed up).

6. **Officer recommendations and reasons**

6.1 Members are asked to note the Internal Audit Quarterly Report and determine if any further action is sought on any matter identified.

6.2 Members are also asked to note that there has been no Regulation of Investigatory Powers Act activity during the period quarter 3 2023/24.

7. **Cabinet portfolio holder's recommendations**
Not applicable

8. **Contact officer**
Martin Dearnley, Head of Risk & Internal Audit (01484 221000 x73672)

9. **Background Papers and History of Decisions**
Previous Quarterly Reports, Audit Plan, and confidential appendix.

10. **Service Director responsible**
Not applicable

Kirklees COUNCIL

Internal Audit & Counter Fraud Quarterly Report

Quarter 3 2023/24
Oct to Dec 2023

1 Introduction

This report sets out the work of Internal Audit completed in the period shown above, including the remainder of work relating to last year's Plan plus that for the current one approved at the April 2023 and September 2023 meetings.
All work included has reached a finalised state and, except where shown otherwise, management have accepted the findings and agreed to implement the recommendations, or, in the case of employee investigations, any disciplinary action has been through the required stages and any appeal time. A number of audits are awaiting finalisation and will be reported in the next quarter.

Where an assurance opinion was appropriate these reflected the standard framework below

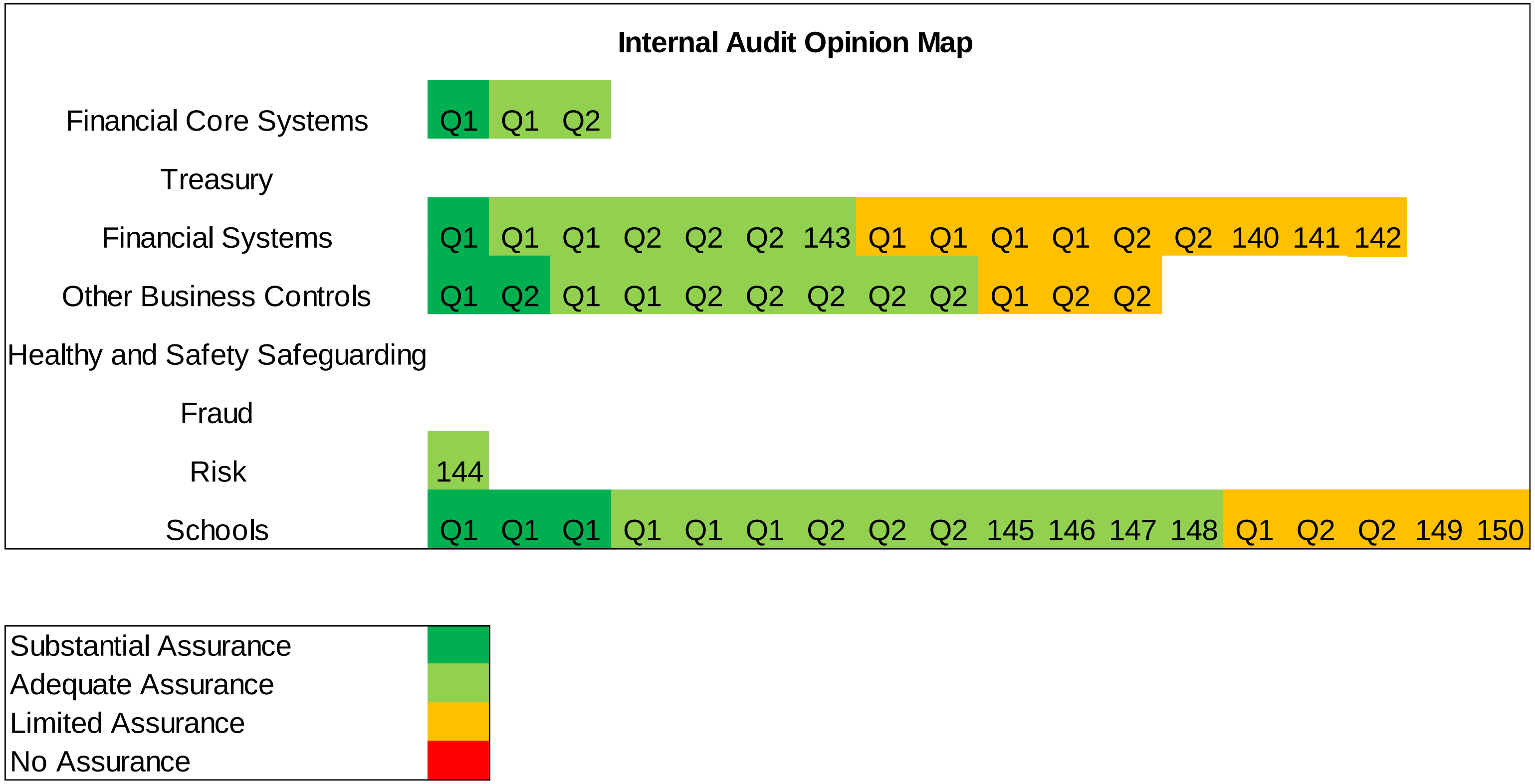
Opinion	Definition - Control Adequacy	Definition - Control Application
Substantial Assurance	A robust framework of all key controls exists that is likely to ensure that objectives will be achieved.	Controls are applied continuously or with only minor lapses.
Adequate Assurance	A sufficient framework of key controls exists that is likely to result in objectives being achieved but the overall control framework could be stronger.	Controls are applied but with some lapses.
Limited Assurance	Risk exists of objectives not being achieved due to the absence of a number of key controls in the system.	Significant breakdown in the application of a number of key and/or other controls.
No Assurance	Significant risk exists of objectives not being achieved due to the absence of key controls in the system.	Serious breakdown in the application of key controls.

All audit work attracts recommendations intended to achieve at least an adequate level of control. All audits resulting in a negative - "limited assurance" or "no assurance" - opinion are followed up as a matter of course, whereas confirmation of progress in implementing agreed recommendations in other reports is sought periodically.

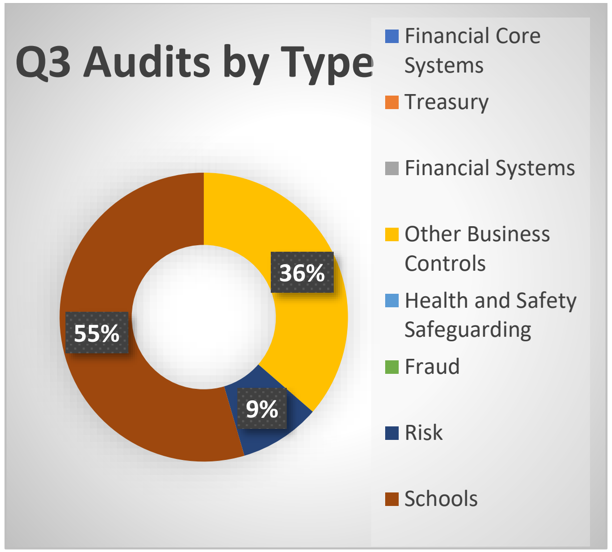
2 Internal Audit Assurance Map and Quarterly Dashboard

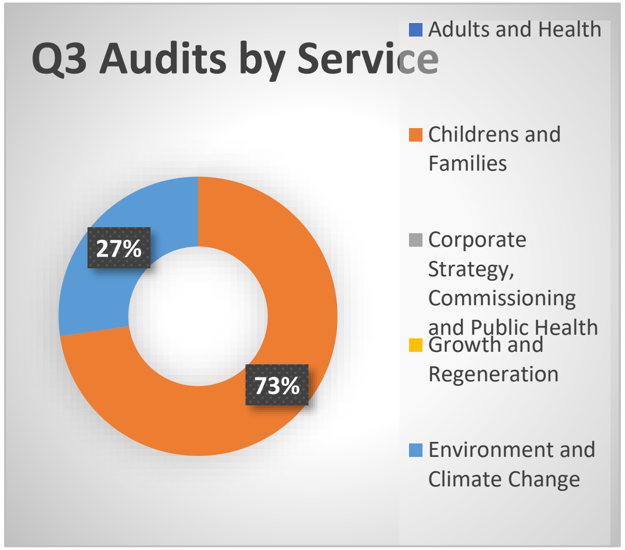
2.1 ASSURANCE MAP

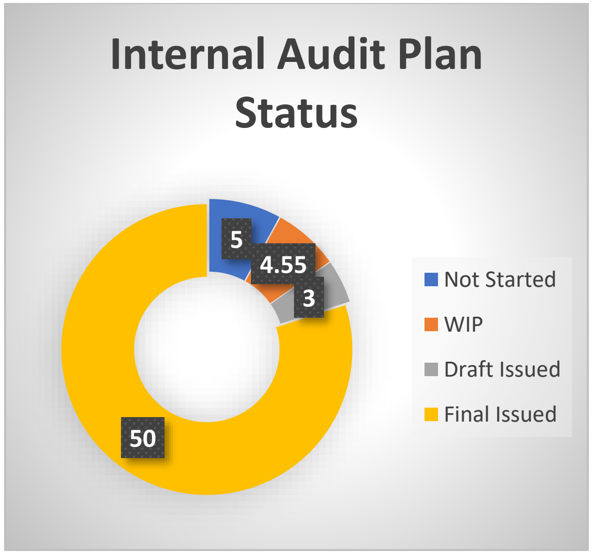
This Tableau presents a summary of third line assurance that relates to this year.
The section below shows the levels of assurance from different areas of council activity.
Green colours show areas of positive assurance. Yellow/red shows limited/no assurance.
The “numbers” link to matters included in this report. Those marked Q1 were reported in the last report.

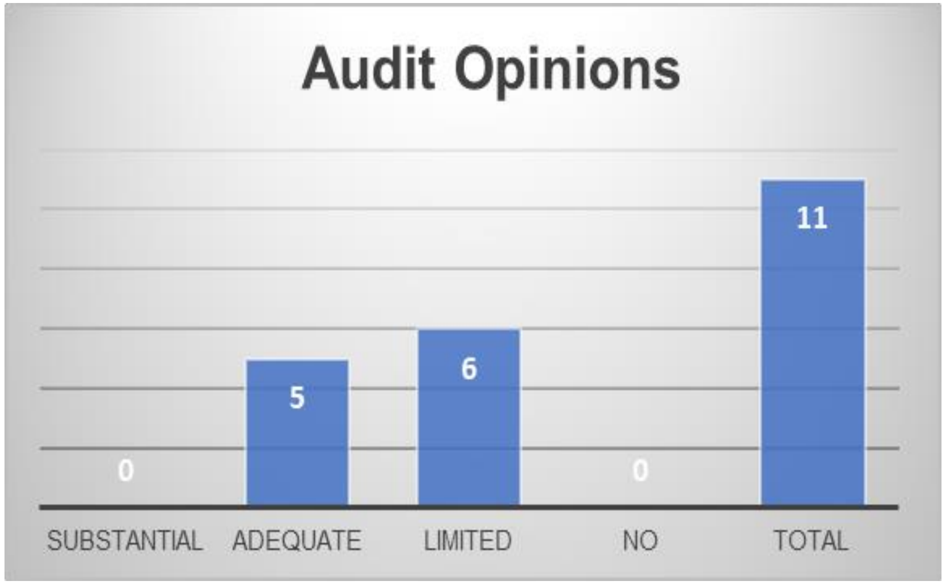


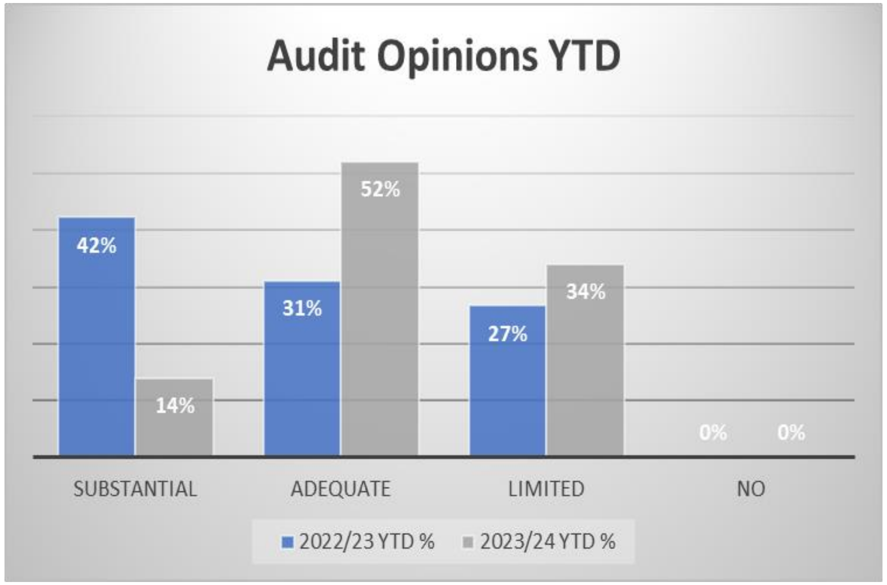
2.2 Q3 INTERNAL AUDIT DASHBOARD











3 Planned Audit Work Completed in the Period

3.1 Financial System and Service Audits

	Audit	Opinion	Recommendations		
			Fundamental	**Significant**	**Merits Attention**
	Key Financial Systems				
	None during this period.				
	Other Financial Systems and Processes				
	Environmental Strategy & Climate Change				
140	School Transport Contract Management	**Limited Assurance** In view of ongoing significant budget pressures, management requested a review of systems and processes to ensure that increasing demand was the primary cause, rather than non-compliance or inefficiency. The outcome of this review did not provide assurance that overspends relate solely to increased demand and higher charges rather than poor internal procedures. Whilst increase in demand is a primary factor in the overspend, inconsistent internal processes and lack of a transport IT system application are highly likely to be significant contributory factors. Recommendations have been agreed in a number of areas to: • improve the transparency and rigour of decision making and payment for call-off work • improve recording and filing of decisions taken	0	12	0

		• review swiftly the provision of single use taxis to and from the same venues to enable efficiency savings to be achieved by considering alternative provision • improve financial monitoring and control of commitments in the ordering process • introduce sample checking of payments to actual attendance • ensure consistent application of parent pay arrangements.			
141	Energy Supply Contract Management	**Limited Assurance** Despite significant and inescapable price increases in the international market for gas and electricity, the review identified a lack of clear bill monitoring, usage monitoring and limitations of the Utilidex software, providing limited assurance that energy usage and payment in the corporate estate is managed robustly. Improvements to existing processes are required to rectify the issues and errors found, especially on gas billing, to provide clarity as to the roles and responsibilities of the various teams involved.	1	5	1
	Childrens Services				
142	SENDACT	**Limited Assurance -** SENDACT face a number of issues some of which are a symptom of the SEND landscape and beyond its control and others that have escalated over a period of time. Increase in volume from Education Health Care Plan new assessment requests and annual reviews post-COVID have placed an unsustainable strain on SENDACT resources and the council's budget, impacting on compliance. It was therefore decided at an early point of the audit there would be a focus on transformation to help the process of reforming practice rather than stating what is already evident. Current compliance and budgetary findings would normally warrant a no assurance opinion. The opinion awarded is because of the transformation work that is currently being undertaken to address the situation. Rather than a follow-up audit in a specified amount of time, as transformation is in its infancy, it is suggested that ongoing feedback is obtained through oversight on a quarterly basis with a subsequent larger follow-up audit as per the action plan.	1	8	7

		In the first meeting it was found that compliance has reduced since the final report was issued and there has been a high turnover of staff. It should be note that it is going to take a significant period of time to see any real improvement in this area due to the interlinking with wider SEND and school pressures having a direct impact on the service.			
143	School Admissions	**Adequate Assurance**	-	2	2

3.2 Business Risk Audits

	Audit	Opinion	Recommendations		
			Fundamental	**Significant**	**Merits Attention**
	Culture & Visitor Economy / Development				
144	Memorial Safety	**Limited Assurance** Two Services are involved regarding 14 Council active cemeteries and 43 closed ones respectively. Long standing management with maintenance by an external provider occurs in the former, albeit this has fallen into abeyance recently. Little or no oversight has occurred in the latter and yet the risk is the same in both types of location. Bereavement Services have determined the management of this risk is best served by an in-house solution but this has not been progressed due to budget constraints and their inspection system has effectively come to a halt, placing it on a par with closed cemeteries where little work has ever been undertaken. A risk based assessment of each cemetery and priority monitoring of the key structures appears to be the best way forward and management are working towards delivery of such an approach.	1	9	2

3.3 Follow - Up Audit Work Completed in the Period

	Follow Up Audit	Opinion	Outstanding Recommendations		
			Fundamental	Significant	Merits Attention
	None during this period.				

3.4 School Audits

	Substantial Assurance	
145-148	**Adequate Assurance**	**4**
149-150	**Limited Assurance**	**2**
	No Assurance	

4 Investigations and other Audit Activity

4.1 Adults and Social Care

Learning Disabilities Investigation

An investigation was undertaken regarding an employee acting outside of their permissions. A report was compiled that contained recommendations relating to the department in question.

4.2 Skills & Regeneration

Modify Scheme – Grant Return

An unplanned review of Scheme compliance with WYCA requirements was requested and performed, no issues were found, enabling the return to be signed off by the S151 Officer.

4.3 Family Support & Child Protection

Stronger Families Programme

As reported in quarter 2, there has been a change in qualifying criteria for this claim and it was found through audit that data integrity was not adequate and on this basis most of the claim had to be rejected. A smaller claim than forecasted was therefore submitted. Other local authorities have experienced a similar issue. The extraction of data was outsourced for the quarter 3 return, but they were unable to have a sufficient data set by the deadline. Subsequently, two claims have been scheduled for quarter 4. The service assures audit that the associated financial risks have been considered in relation to this grant.

4.4 Legal & Governance

Complaints System

Complaints System Benchmarking to the New Ombudsman Code of Practice

Audit work on draft Ombudsman proposals completed and presented; Those which are considered simple to implement and good practice irrespective of any obligation are being implemented. Others, that involve practice change, awaiting publication of final requirements by LG Ombudsman’s service

Information Governance Board

Ongoing support to the Board and relevant task and finish groups.

4.5 Highways & Streetscene

WYCA Grants Verification

Verification has been undertaken of the first tranche of various Schemes funded by WYCA to provide assurance for the S151 Officer sign-off.

4.6 Corporate

Final Annual Governance Statement 2022/23

Compilation of the Final Statement following the annual review of the effectiveness of governance and control arrangements and update on progress with the Significant Governance Issues therein.

4.7 Schools

An investigation was undertaken into the compliance and governance arrangements of a diocese bank account at Cumberworth First School.

5. Counter Fraud Work

5.1 Housing and Blue Badge Fraud

Investigation Type	New Referrals	Ongoing	Closed Prosecutions	Closed No Fraud Proven or Warning Issued	Applications Cancelled	Properties Returned
Right To Buy	8	22	-	7	3	-
Tenancy Fraud	-	11	-	-	-	-
Blue Badge	39	46	18	31		

5.2 Adult Social Care – West Yorkshire Financial Exploitation and Financial Abuse Team

August YTD (December figures have not been received yet)

Referrals Received	Investigations	Pre-Investigations	Safeguarding Only	Yet to be designated	Closed	Value (£)
11	4	1	2	-		107,770

6. Regulation of Investigatory Powers Act investigations

None this period.

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