

# Public Document Pack



**Service Director – Legal, Governance and  
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Thursday 12 June 2025

## 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 **10.30 am** on **Friday 20 June 2025**.

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

A handwritten signature in black ink, appearing to read "S Lawton".

**Samantha Lawton**

**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 John Taylor (Chair)  
Councillor James Homewood  
Councillor Caroline Holt  
Councillor Harry McCarthy  
Councillor Kath Pinnock  
Councillor Imran Safdar  
Councillor Angela Sewell  
Nicholas Booth (Co-Optee)  
Andrew North (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**

<b>Conservative</b>	<b>Green</b>	<b>Labour</b>	<b>Liberal Democrat</b>	<b>Community Alliance</b>	<b>Kirklees Community Independents</b>
D Bellamy	K Allison	B Addy	PA Davies	A Anwar	A Arshad
D Hall	A Cooper	M Ahmed	J Lawson	C Scott	JD Lawson
M Thompson	S Lee-Richards	M Crook	D Longstaff	A Zaman	
		E Firth	A Marchington		
		J Rylah	A Munro		
		M Sokhal	A Pinnock		
		S Ullah	A Robinson		
			A Smith		

### **Ex Officio Members**

Councillor Cahal Burke - Chair of Overview and Scrutiny Management Committee  
Councillor Bill Armer - Chair of Standards Committee  
Councillor Nosheen Dad – Portfolio Holder for Corporate

# Agenda

## Reports or Explanatory Notes Attached

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### 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.

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**2: Minutes of Previous Meeting**

1 - 4

To approve the Minutes of the meeting of the Committee held on 25 April 2025.

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**3: Declaration of Interests**

5 - 6

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.

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**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.

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**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.

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## **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.

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## **7: Annual Report on Treasury Management 2024/25**

7 - 34

To receive the Annual Report on Treasury Management 2024/25.

Contact: James Anderson, Head of Accountancy

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## **8: District Heating Update**

35 - 52

To receive an update on the District Heating Programme.

Contact: Janet Sharpe, Interim Service Director for Homes and Neighbourhoods.

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## **9: Culture of Financial Challenges and Maximising Income**

To receive a presentation.

Contact: Rachel Spencer-Henshall, Deputy Chief Executive and Executive Director for Public Health and Corporate Resources.

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## **10: Review of Procurement Practices**

53 - 60

To receive the outcome of the review of Procurement Practices in

accordance with the Council Motion resolved on 13 November 2024.

Contact: Ruth Calladine, Head of Procurement

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**11: The Audit Plan 2024/25** 61 - 118

To receive the Audit Plan 2024/25.

Contact: Grant Thornton, External Auditors

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**12: Internal Audit Annual Report 2024/25** 119 - 132

To receive the report on Internal Audit activity during 2024/25, and assurance opinion from the Head of Internal Audit & Risk.

Contact: Martin Dearnley, Head of Audit & Risk

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**13: Draft Annual Governance Statement 2024/25** 133 - 170

To receive the Draft Annual Governance Statement 2024/25.

Contact: Simon Straker, Audit Manager

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**14: Internal Audit Quarterly Report 4 2024/25 January 2025 to March 2025** 171 - 196

To receive the report of Internal Audit activity during the final quarter of 2024/25.

Contact: Martin Dearnley, Head of Audit & Risk

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**15: Agenda Plan** 197 - 198

To review the 2025/26 Agenda Plan.

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**16: 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.

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**17: Internal Audit Quarterly Report 4 2024/25 January 2025 to March 2025**

199 -  
202

Exempt Information in relation to Item 14.

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Contact Officer: Nicola Sylvester

## KIRKLEES COUNCIL

### CORPORATE GOVERNANCE AND AUDIT COMMITTEE

**Friday 25th April 2025**

Present: Councillor John Taylor (Chair)  
Councillor James Homewood  
Councillor Angela Sewell  
Councillor Kath Pinnock  
Councillor Jane Rylah  
Councillor Imran Safdar

Co-optees Chris Jones

In attendance: Rachel Spencer-Henshall, Deputy Chief Executive and Executive Director for Public Health and Corporate Resources,  
Samantha Lawton, Service Director, Legal, Governance and Commissioning,  
Janet Sharpe, Interim Service Director, Homes and Neighbourhoods,  
Leigh Webb, Head of Governance,  
Martin Dearnley, Head of Risk,  
James Anderson, Head of Finance and Accountancy,  
Graham Sykes, Housing Services Strategic Manager,  
Sam Whitaker, Senior Finance Officer,  
Councillor Carole Pattison, Leader of the Council,  
Greg Charnley, Grant Thornton.

Apologies: Councillor Caroline Holt  
Councillor Bill Armer (ex-Officio)

**1 Membership of the Committee**

Apologies were received from Councillor Caroline Holt and Councillor Bill Armer (Ex-Officio).

**2 Minutes of Previous Meeting**

**RESOLVED-** That the minutes of the meeting held on 7<sup>th</sup> March 2025 be approved as a correct record.

**3 Declaration of Interests**

No Interests were declared.

**4 Admission of the Public**

All items were considered in public session.

**5 Deputations/Petitions**

No Deputations or Petitions were received.

**6 Public Question Time**

No questions were asked.

**7 Council Meetings - 2025/26 Municipal Year**

The Committee received a report relating to 2025/26 Municipal Year Meetings of Council. Council procedure Rule 2 (1) advised that the dates of ordinary Council Meetings in each Municipal Year would be determined by the Council following recommendations made by this committee. Council Procedure rule 5 (1) stated 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) set out the requirement that the Elected Mayor of West Yorkshire Combined Authority shall attend at least one meeting each municipal year.

Following the request from this committee to reduce the gap in ordinary meetings of the Council between February and July 2026, dates had been scheduled, taking into account the start of the pre-election period for the 2026 elections, which will commence on 12 March 2026. Having the budget meeting revert to February allowed an ordinary Council meeting to be held in March in advance of the pre-election period.

**RESOLVED-** That the schedule of Council Meetings for the 2025/26 Municipal Year be submitted to Council with a recommendation of approval.

**8 Housing Tenancy Allocation Audit**

The Committee received a report on the Housing Tenancy Allocation Audit. A previous audit of Tenancy Allocations had been carried out in November 2020 and received a 'Substantial Assurance' audit opinion. It was noted that the previous audit focused on the choose 'n' move allocations and did not include the other areas of tenancy allocations that had been expanded on as part of the review.

The audit of Tenancy Allocations was undertaken as part of the Homes and Neighbourhoods Audit Plan and focused on Compliance with Allocations Policy in respect of successions, the efficiency and effectiveness of service performance and key controls, the reasons for any discretionary changes in banding if found during testing and the documented audit trails in place for all lettings.

The audit report made findings in four areas where a "Limited Assurance" opinion was given. It was noted that several areas would be addressed when the new computer system CX was implemented, which was currently planned for Autumn 2025.

During discussion of this item, the Committee were invited to view the new CX system in 2026, once implemented and in use. The Committee also requested that the service provide a report at a future committee meeting on the improvements made due to the Audit.

**RESOLVED-** That the Housing Tenancy Allocation Audit Report be noted.

**9 Informing the Audit Risk Assessment for Kirklees Council**

The Committee received a report on Informing the Audit Risk Assessment for Kirklees Council. The Council's External Auditors, Grant Thornton, asked that council officers complete an 'Inquiries of management and those charged with Governance document' which consisted of a schedule of questions from Grant Thornton. Appendix A in the report provided the questions and responses from Kirklees officers. Grant Thornton would consider the responses and use in providing their opinion on the Audited Statement of Accounts and Annual Governance Statement which was to be presented to this committee for approval by 30 November 2025. Grant Thornton requested that the Committee affirm that they believe the assertions to be true (or have no reason to believe that they were untrue).

During discussion, the Committee suggested that for future reports, Planning be included in the Fraud and Corruption section as a high-risk post, along with adding comments around Senior Officers in the related party's section. Grant Thornton advised that there was higher risk around Members as controls regarding officers would be through procurement. The planning risk could be included in the internal audit plan and Grant Thornton would look at this through the Value for Money report.

**RESOLVED-** That the Audit Risk Assessment document be agreed and formally submitted to Grant Thornton.

**10 Minimum Revenue Provision Explanatory Note**

The Committee received an explanatory note on Minimum Revenue Provision. At the meeting in January 2025 of this Committee, a request was made by members for an explanatory paper on the Minimum Revenue Provision policy be submitted to a future meeting. It was noted that where the Council funds capital expenditure with debt (borrowing), it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as the Minimum Revenue Provision, although there has been no statutory minimum since 2008.

**RESOLVED-** That the Minimum Revenue Provision Explanatory Report be noted.

**11 Audit progress and sector updates**

The Committee received the Audit progress and sector update report from Grant Thornton which included an Audit progress report, progress as of 2<sup>nd</sup> April 2025, Audit deliverables, Sector updates and Audit Committee resources.

The Committee noted that the audit cycle for 2024/25 was underway with good dialogue taking place with finance officers. A draft audit plan would be submitted to the first meeting of the municipal year.

**RESOLVED –** That the Audit Progress and Sector Update report be noted.

**12 Internal Audit Charter, Strategy & Plan for 2025/26**

The Committee received the Internal Audit Charter, Strategy and Plan for 2025/26. The Internal Audit Charter and Strategy document was in fulfilment of the requirements of the Institute of Internal Auditors Global Internal Audit Standards and the UK Public Sector application note. A risk-based audit plan was necessary to achieve maximum assurance from a limited level of resource.

The Institute of Internal Auditors, an international-USA based organisation had published standards for internal audit. The standards were then adopted into United Kingdom Public Sector Internal Audit Standards and further interpreted by CIPFA for the use by local authorities. In Early 2024, the Institute of Internal Auditors published new Global Internal Audit Standards which were substantially more specific and complex which took effect globally from January 2025 where there were some obligations or expectations about governance, reporting and involvement codified in more detail. There were changes added by the UK Government in some areas, by way of a UK public sector application note, but issues of quality, competence, ethics, and most aspects of governance remained unchanged. The date of applicability for UK public bodies was from 1 April 2025 which were summarised in Appendix 1 of the report. The new standards applied to the governance of the internal audit function – to the Audit Committee specifically, and the internal audit's relationship with management of the organisation. The expectations about what an Audit Committee should do were set out in the detail.

During consideration of this item the committee observed the planning and resourcing of Internal Audit and were concerned around recruitment to the team. It was noted that specialist HR support would be sought to recruit to the roles. The Committee requested that a report be submitted to a future meeting providing an update on progress of recruiting to the Internal Audit Roles.

**RESOLVED-**

- 1) That the Internal Audit Charter and Audit Strategy, including the areas where the Council's arrangements may be assessed as not fully compliant be approved.
- 2) That the proposed audit plan for 2025/26 be approved.
- 3) That the resourcing position be noted.
- 4) That the Head of Risk and Internal Audit be delegated authority to make changes to the Audit Plan as they consider reasonable, reflecting the needs of the organisation, subject to being reported back to this Committee.

**13 Agenda Plan 2024/25**

**RESOLVED-** That the updated agenda plan for 2024/25 be noted.

<b>KIRKLEES COUNCIL</b>				
<b>COUNCIL/CABINET/COMMITTEE MEETINGS ETC</b>				
<b>DECLARATION OF INTERESTS</b>				
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.



**Report title:** Annual Report on Treasury Management 2024/25

<b>Meeting:</b>	<b>Corporate Governance and Audit Committee</b>
<b>Date:</b>	<b>20 June 2025</b>
<b>Cabinet Member (if applicable)</b>	<b>Councillor Graham Turner</b>
<b>Key Decision Eligible for Call In</b>	<b>Yes Yes</b>
<p><b>Purpose of Report</b> The report to this committee reviews borrowing and investment 2024/25 performance before it is considered by Cabinet and Council.</p>	
<p><b>Recommendations</b> Corporate Governance and Audit Committee are asked to note the treasury management performance in 2024/25 as set out in this report, prior to its submission to Cabinet and Council.</p> <p><b>Reasons for Recommendations</b> Financial Procedure Rules (Section 9.5) require that the Council receives an annual report on Treasury Management activities for the previous financial year.</p>	
<p><b>Resource Implications:</b> There are no additional resource implications required as part of this report as it relates to Treasury Management activities undertaken in 24/25.</p>	
<p><b>Date signed off by <u>Executive Director</u> &amp; name</b></p> <p><b>Is it also signed off by the Service Director for Finance?</b></p> <p><b>Is it also signed off by the Service Director for Legal Governance and Commissioning?</b></p>	<p><b>N/A</b></p> <p><b>Kevin Mulvaney – 05/06/2025</b></p> <p><b>Sam Lawton –05/06/2025</b></p>

**Electoral wards affected:** N/A

**Ward Councillors consulted:** N/A

**Public or private:** Public

Have you considered GDPR: Yes – there is no personal data within the budget details and calculations set out in this report and accompanying Appendices

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## 1. Executive Summary

- 1.1 The Council's treasury management operation for the year has followed the strategy approved by Council on 6 March 2024 (see paragraph 2.1.4 below).
- 1.2 The treasury management budget underspent by £0.8m against a budget of £27.9m. The variations in the budget are summarised below:-

	Budget (£m)	Actual (£m)	Variation (£m)
Interest payable	25.7	26.5	0.8
Investment income	(2.1)	(4.7)	(2.6)
MRP	4.3	5.3	1.0
<b>Total</b>	<b>27.9</b>	<b>27.1</b>	<b>(0.8)</b>

During the year interest costs increased due to rising interest rates on the back on increased gilt yields, and the amount and timing of borrowing compared to budget assumptions. The increased interest costs have been offset by gains on investment income along with slippage in the capital plan.

- 1.3 The Council complied with its treasury management prudential indicators in the year (see Appendix 5).
- 1.4 Investments averaged £64.5 million and were largely deposited in instant access accounts earning an average interest rate of 4.86%.
- 1.5 Total external borrowing at 31 March 2025 increased by £66.7 million to £774.0 million (£707.3 million as at 31 March 2024). This was in line with expectations and planned borrowing as per forecasted update. The Council took £98.0 million new Government long term loans from the Public Works Loan Board (PWLB) (see paragraph 2.6.4 for more detail) and an additional £25.0 million Local Authority medium term 2 to 3 year loans (see paragraph 2.6.5 for more detail).
- 1.6 The large increase in long term loans was a result of borrowing for the capital plan, re-financing existing borrowing maturing during the year and a reduction in internal borrowing.
- 1.7 The Council fixed rate loans account for 95.71% of total long-term debt (see paragraph 2.6.6) which gives the Council stability in its interest costs and minimising exposure to fluctuating short term rates.

## 2 Information required to take a decision

### 2.1 Introduction

- 2.1.1 The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports. The

Council operates its treasury management service in compliance with this Code and various statutory requirements.

- 2.1.2 This report includes the requirement in the 2021 Code, mandatory from 1st April 2023, of reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Council's normal revenue and capital monitoring report.
- 2.1.3 Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the year. Cabinet is responsible for the implementation and monitoring of the treasury management policies. Corporate Governance and Audit Committee undertake an oversight role with regard to treasury management.
- 2.1.4 The Council's treasury management strategy for 2024/25 was approved at a meeting on 6 March 2024. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy and that borrowing is undertaken on a prudent, affordable and balanced basis.

## **2.2 The Economy and Interest Rates**

- 2.2.1 The UK economy Gross Domestic Product (GDP) grew year on year GDP growth across 2024 by 1.1%. Meanwhile quarter on quarter GDP grew by 0.7% between January and March 2025, exceeding expectations and an improvement on the 0.1% growth in the previous quarter. Based on plans outlined by the Government, the Office for Budget Responsibility downgraded its predictions for UK growth in 2025 to 1% from 2%. However, it upgraded its predictions for the four subsequent years.
- 2.2.2 UK annual Consumer Price Index (CPI) inflation continued to stay above the 2% Bank of England (BoE) target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices at 2.6% in March 2025, down from 2.8% in the previous month and below expectations. Core CPI also remained elevated, falling slightly in March to 3.4% from 3.5% in February. The outlook for CPI inflation showed it remaining above the MPC's 2% target throughout 2025. Recent data shows inflation at 3.4% in May, It is expected to hit 3.5% by June before peaking at 3.7% in Q3 and then easing towards the end of the year, but staying above the 2% target.
- 2.2.3 The labour market continued to cool, but the ONS data still require treating with caution. Recent data showed the unemployment rate rose to 4.5% (3mth/year) in the three months to March 2025 while the economic inactivity rate fell again to 21.4%. The ONS reported pay growth over the same three-month period at 5.6% for regular earnings (excluding bonuses) and 5.5% for total earnings.
- 2.2.4 The BoE's Monetary Policy Committee (MPC) cut the bank Bank Rate to 4.25% at its May 2025 meeting, having held it in March. This follows earlier 0.25% cuts in November and August 2024 and February from the 5.25% peak. At the May MPC meeting, members voted 5-4 to maintain Bank Rate at 4.5%, with the one members preferring another a 50 basis points cut and two preferring no cut.



Table 2: Treasury Management Summary

\* different to table 1 due to trust funds in balance sheet resources in 2024/25

	31.03.24 Balance £m	Movement £m	31.03.25 Balance £m	31.03.25 Weighted Average Rate %	31.03.25 Weighted Maturity Years
Long-term borrowing					
PWLB	550.4	72.9	623.3	4.27	14.96
LOBOs**	30.9	0.0	30.9	4.39	0.32
Loan stock (fixed rate)	7.0	0.0	7.0	11.60	7.67
Other LT loans (fixed rate)	40.0	0.0	40.0	3.89	39.17
Other MT loans (fixed rate)	37.6	-6.2	31.4	4.62	1.46
Short-term borrowing	41.4	0.0	41.4	3.03	0.42
<b>Total borrowing</b>	<b>707.3</b>	<b>66.7</b>	<b>774.0</b>	<b>4.26</b>	<b>14.05</b>
Long-term investments	10.0	0.0	10.0	4.03	N/A
Short-term investments	0.0	18.0	18.0	4.50	N/A
Cash and cash equivalents	29.1	1.5	30.6	4.52	N/A
<b>Total investments</b>	<b>39.1</b>	<b>19.5</b>	<b>58.6</b>	<b>4.43</b>	<b>N/A</b>
<b>Net borrowing</b>	<b>668.2</b>	<b>47.2</b>	<b>715.4</b>		

\*\* included in long term due to official maturity dates however option dates used for maturity analysis

## 2.4 Investment Activity

2.4.1 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Council's cash flows or treasury risk management activity that ultimately represent balances that need to be invested until the cash is required for use in the course of business.

2.4.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

2.4.3 The Council's overall Treasury Management Strategy prioritises security and liquidity of its investments before seeking a higher rate of return. which was adhered to in 2024/25.

2.4.4 As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

2.4.5 The Council's treasury management investments totalled £58.6 million as at 31 March 2025 (£39.1 million 31 March 2024). The Council invested an average balance of £64.5 million externally during the year (£59.9 million 2023/24). Interest income of £2.7 million

was generated through these investments (£2.6 million 2023/24) and £0.4 million dividend income from the CCLA Property Fund (£0.4 million 2023/24). Appendix 1 shows where investments were held at the beginning of April 2024, the end of September 2024 and the end of March 2025, by counterparty, by sector and by country. The Council's average lending rate for the year was 4.97% (5.26% 2023/24). Investments were higher than our strategy levels due to the timing of borrowing taken evenly throughout the year.

- 2.4.6 The majority of investments were placed in liquid instruments such as instant access bank deposit accounts, DMO (Debt Management Office) and Money Market Funds (MMFs). MMFs offer greater diversification of counterparties, thus lowering risk as well as instant access.
- 2.4.7 Bank Rate reduced from 5.25% to 5.00% in August 2024, again to 4.75% in November 2024 and again to 4.5% in February 2025 with short term interest rates largely being around these levels. The rates on DMADF (Debt Management Account Deposit Facility) deposits fell from a peak of 5.19% at the start of the year to 4.45% at year end. Money Market Rates also fell and were between 5.27% at the start and 4.42% at the end of year.
- 2.4.8 The Council continues to hold £10 million investment in the Local Authorities Pooled Investment Fund (LAPF). The Local Authorities Property Fund was established in 1972 and is managed by CCLA Fund Managers. As at March 2025 there are property assets under management of £1,054 million. The Fund aims to provide investors with regular revenue income and long-term price stability and it is an actively managed, diversified portfolio of UK commercial property. It principally invests in UK assets but may invest in other assets.
- 2.4.9 The fund returned a gross dividend yield of 4.28% in 2024/25 (4.40% 2023/24) and net income of £0.4 million was received by the Council in 2024/25 (£0.4 million in 2023/24).
- 2.4.10 Having had a challenging time since 2022, UK commercial property generally experienced a recovery during the period, with improved investment activity, capital values stabilising or improving, particularly towards the end of the period, and income remaining relatively robust.
- 2.4.11 Strategic fund investments are made in the knowledge that capital values will move both up and down over time. Unrealised cumulative capital losses of £1.3 million will not have an impact on the General Fund as the Council is utilising a government statutory override for pooled investment funds. Under the Regulations, gains and losses resulting from unrealised fair value movements, that otherwise must be recognised in the income and expenditure account under IFRS9, are not currently charged to the revenue account, and must be taken into an unusable reserve account.
- 2.4.12 Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The

Council's LAPF investment will therefore be covered by the extension of the override and no further investments in pooled funds are planned.

## **2.5 Borrowing Update**

- 2.5.1 CIPFA's 2021 Prudential Code is clear that Local Authorities must not borrow to invest primarily for financial return and that it is not prudent for Local Authorities to make any investment or spending decision that will increase the Capital Finance Requirement (CFR) and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to buy investment assets primarily for yield unless these loans are for refinancing purposes.
- 2.5.2 The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in the future.
- 2.5.3 Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing is also allowed for financing capital expenditure primarily related to the delivery of a Local Authority's function.
- 2.5.4 After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. Changes to US related trade policies are also expected to lead to inflationary pressures.
- 2.5.4 The 10-year UK benchmark gilt yield started the period at 3.94% and ended at 4.69%, having reached a low of 3.76% in September and a high of 4.90% in January. While the 20-year gilt started at 4.40% and ended at 5.22%, hitting a low of 4.27% in September and a high of 5.40% in January.
- 2.5.5 On 31st March 2025 the PWLB certainty rates for maturity loans were 5.42% for 10-year loans, 5.91% for 20-year loans and 5.67% for 50-year loans. Their equivalents on 31st March 2024 were 4.74%, 5.18% and 5.01% respectively. The increase in long term rates, despite a drop in the base rate, reflects the premium borrowers are facing to lock in costs against such an uncertain backdrop and therefore means the Council is currently focusing on short to medium term borrowing to fund the capital plan.
- 2.5.6 For the majority of the year the cost of short-term borrowing from other local authorities closely tracked Base Rate at around 5.00% - 5.25%. However from late 2024 rates began to rise, peaking at around 6% in February and March 2025.
- 2.5.7 The PWLB HRA rate, which is 0.4% below the certainty rate, is available up to March 2026. This discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans.

## **2.6 Borrowing Activity**

- 2.6.1 As outlined in the Treasury Strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs

and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, known as internal borrowing.

2.6.2 In terms of borrowing, long-term loans maturing greater than one year totalled £698.9 million and short-term loans maturing within 12 months (excluding interest accrued) totalled £75.2 million (£641.0 million and £66.2 million 31 March 2024), an overall increase of £66.7 million. Appendix 2 details repayments of long-term loans during the year and short-term loans outstanding as at 31 March 2025.

2.6.3 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark (see Appendix 5), which also considers usable reserves and working capital. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided to take a combination of short-term borrowing and longer-term repayment loans.

2.6.4 The Council borrowed £98.0 million of new long-term Equal Installment of Principal (EIP) and 2 maturity loans from the PWLB in 2024/25. The borrowing was taken throughout the year, in small regular amounts, as agreed with our treasury advisors.

	Amount £m	Rate %	Duration	Start date	Maturity date
<b><u>EIP Loans</u></b>					
PWLB (739810)	20.00	4.67%	12 Years	28/06/2024	28/06/2036
PWLB (751915)	10.00	4.37%	11 Years	12/08/2024	12/08/2035
PWLB (759388)	5.00	4.52%	12 Years	12/09/2024	12/09/2036
PWLB (778241)	5.00	5.00%	9 years 6 months	26/11/2024	26/05/2034
PWLB (779247)	5.00	4.95%	8 Years	29/11/2024	29/11/2032
PWLB (785403)	5.00	4.91%	8 Years	23/12/2024	16/12/2032
PWLB (794097)	6.00	5.05%	6 Years	24/01/2025	24/01/2031
PWLB (795087)	5.00	5.01%	6 Years	29/01/2025	29/01/2031
PWLB (797366)	5.00	4.95%	5 years 6 months	06/02/2025	06/08/2030
PWLB (799800)	6.00	4.79%	5 years 6 months	13/02/2025	13/08/2030
PWLB (808715)	5.00	4.85%	5 years 6 months	17/03/2025	17/03/2030
<b><u>Maturity Loans</u></b>					
PWLB (790915)	10.00	5.13%	2 Years 3 Months	15/01/2025	15/04/2027
PWLB (804153)	11.00	5.07%	5 years 2 months	28/02/2025	06/05/2030
<b>Total</b>	<b>98.0</b>				

An EIP loan pays back principal over the life of the loan, and the interest associated with the loan goes down as the principal outstanding reduces, the maturity date above refers to the final principal repayment.

2.6.5 Over the period the Council took advantage of a limited amount of medium-term loans over a 2 to 3 year time frame from other authorities. The table below shows £25.0 million of new loans taken during 2024/25, there are further medium term loans totalling £45.0 million taken previous years still outstanding at 31 March 2025.

	<b>Amount £m</b>	<b>Rate %</b>	<b>Start date</b>	<b>Maturity date</b>
Oxfordshire County Council	5.0	5.00	17/04/2024	17/03/2027
Cambridgeshire & Peterborough Combined Authority	5.0	4.70	06/08/2024	06/08/2026
Elmbridge Borough Council	5.0	4.50	13/09/2024	14/09/2026
South Yorkshire Mayoral Combined Authority	10.0	4.50	15/10/2024	15/10/2027
<b>Total</b>	<b>25.0</b>			

- 2.6.6 Fixed rate loans account for 95.71% of total long-term debt (see also Appendix 5) giving the Council stability in its interest costs. The maturity profile for all long-term loans is shown in Appendix 3 and shows that no more than 13.59% of all debt is due to be repaid in any one year (9.71% excluding LOBO's). This is good practice as it reduces the Council's exposure to a substantial borrowing requirement in any one particular future year, when interest rates might be at a relatively high level.
- 2.6.7 The primary source of the Council's borrowing is from the Governments PWLB representing 80.64% of total external borrowing.
- 2.6.8 The Council continues to hold £30.8 million of LOBO loans which represents 3.88% of total external borrowing. LOBO loans are 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.
- 2.6.9 In terms of debt rescheduling, the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity in 2024/25.
- 2.6.10 The average borrowing rate for 2024/25 for the Council's outstanding debt was 4.26% (4.07% 2023/24).

## **2.7 Trends in Treasury Management Activity**

- 2.7.1 Appendix 4 shows the Council's borrowing and investment trends over the last 7 years. This highlights the current trend of borrowing shorter and longer term to fund cashflow.

## **2.8 Risk and Compliance Issues**

- 2.8.1 The Council reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, including the prudential indicators. Details can be found in Appendix 5. Indicators relating to affordability and prudence are highlighted in this appendix.
- 2.8.2 When the Council has received unexpected monies late in the day, officers have no alternative but to put the monies into an overnight Reserve Account. The largest daily amount deposited in this account overnight as a result of unexpected late receipts was £1.3 million. Whilst this is not an ideal situation, the Council is still within investment limits as per the Treasury Management Strategy which is set at £10.0 million per counterparty.

2.8.3 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's consultants (Arlingclose), has proactively managed the debt and investments over the year.

2.8.4 The CIPFA Code of Practice requires that treasury management performance be subject to regular member scrutiny. The Corporate Governance and Audit Committee performs this role and members have received reports on strategy, half yearly monitoring and now the outturn for the year 2024/25. Training was provided to Members in January 2025.

### **Looking Ahead – Treasury Management Developments in 2025/26**

#### **2.9 Re-financing/re-payment of current Long-Term Borrowing**

2.9.1 As outlined within the Council approved Treasury Management Strategy 2025/26, the Council will continue to look to repay existing long-term debt when the opportunity arises where it becomes beneficial for the Council to do so.

2.9.2 Council officers will liaise with the Council's external Treasury Management advisors, Arlingclose, to review lender options, and proceed if they are considered to be in the longer-term best interests of the Council.

#### **2.10 Loan Funding Sources**

2.10.1 The Council may be presented with additional sources of long-term funding at certain points in time, beyond those currently listed in the Council's current Treasury Management Strategy. These may be at preferential rates of interest and therefore the Service Director Finance (Section 151 Officer) will look to maximise the use of source funds when it is preferential to do so.

#### **2.11 Investment Opportunities**

2.11.1 The Service Director Finance, supports the approach that the borrowing and investment strategy for 2025/26 continues to place emphasis on the security and liquidity of the Council's balances.

2.11.2 The investment in the CCLA property fund (see paragraphs 2.4.5 to 2.4.9) is part of a longer-term investment strategy to mitigate against any short-term market volatility or risk. As this fund has no defined maturity date its performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a longer period total returns will exceed cash interest rates.

#### **2.12 New Borrowing**

2.12.1 As mentioned previously, the Council has an increasing CFR due to the capital programme. The Council's current approach to fund the capital plan is to use a combination of short and longer-term borrowing. Unfortunately borrowing rates remain high and are likely to stay high in the near term. As short and medium-term rates remain slightly lower over a shorter time frame compared to longer-term, the Council will continue

to borrow this way to minimise borrowing costs, although resulting in a higher proportion of debt that is not fixed over longer periods.

2.12.2 As noted, Arlingclose expect the base rate to fall to 3.75% during 25/26. Long-term PWLB loans will be taken if gilt yields drop and the opportunity to take those fixed rate loans are presented.

2.12.3 The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing will be maintained considering the appropriate duration and structure of the borrowing need based on realistic projections, and with ongoing consultation with Arlingclose.

2.12.4 As noted in the 2025/26 Treasury Management Strategy report, the Council will also consider the opportunity to 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. Again, this would only be undertaken after having considered the appropriate duration and structure of the borrowing need based on realistic projections, and with ongoing consultation with Arlingclose.

### **3 Implications for the Council**

#### **3.1 Council Plan**

N/A

#### **3.2 Financial Implications**

Any changes in assumed borrowing and investment requirements, balances and interest rates will be reflected in revenue budget monitoring reports during the year.

#### **3.3 Legal Implications**

N/A

#### **3.4 Climate Change and Air Quality**

N/A

#### **3.5 Other (e.g. Risk, Integrated Impact Assessment or Human Resources)**

N/A

### **4 Consultation**

N/A

### **5. Engagement**

N/A

### **6. Options**

#### **6.1 Options considered**

N/A

#### **6.2 Reasons for recommended option**

N/A



**APPENDIX 1**

<b>Kirklees Council Investments 2024/25</b>											
<b>Counterparty</b>	<b>Credit Rating</b>	<b>01-Apr-24</b>				<b>30-Sep-24</b>			<b>31-Mar-25</b>		
		<b>£m</b>	<b>Interest Rate</b>	<b>Type of Investment</b>	<b>£m</b>	<b>Interest Rate</b>	<b>Type of Investment</b>	<b>£m</b>	<b>Interest Rate</b>	<b>Type of Investment</b>	
<b><u>Specified Investments</u></b>											
Barclays	Bank	F1/A+	0	4.65%	Instant Access	0	4.40%	Instant Access	0.8	3.90%	Instant Access
Aberdeen Standard	MMF**	AAAmf	9.8	5.27%	Instant Access	8.2	5.01%	Instant Access	9.9	4.53%	Instant Access
Aviva	MMF**	Aaa-mf	9.9	5.25%	Instant Access	10	5.01%	Instant Access	10	4.57%	Instant Access
Deutsche	MMF**	AAAmf	9.4	5.25%	Instant Access	6.6	5.00%	Instant Access	9.9	4.53%	Instant Access
Goldman Sachs	MMF**	AAAmf	0	5.14%	Instant Access	0	4.92%	Instant Access	0	4.43%	Instant Access
Crawley Borough Council	Local Authority		0	N/A	Local Authority	5	5.00%	Local Authority	0	N/A	Local Authority
London Borough of Waltham Forest	Local Authority		0	N/A	Local Authority	5	5.00%	Local Authority	0	N/A	Local Authority
Leeds City Council	Local Authority		0	N/A	Local Authority	5	5.00%	Local Authority	0	N/A	Local Authority
West Northamptonshire Council	Local Authority		0	N/A	Local Authority	5	5.00%	Local Authority	0	N/A	Local Authority
Debt Management Office	Cent Govt		0	N/A	Cent Govt	0	N/A	Cent Govt	18	4.50%	Cent Govt
CCLA	Property Fund		10	N/A	Property Fund	10	N/A	Property Fund	10	N/A	Property Fund
			<b>39.1</b>			<b>54.8</b>			<b>58.6</b>		
<b><u>Sector Analysis</u></b>			<b>£m</b>	<b>%age</b>		<b>£m</b>	<b>%age</b>		<b>£m</b>	<b>%age</b>	
Bank			0	0%		0	0%		0.8	1%	
MMF**			29.1	74%		24.8	45%		29.8	51%	
Local Authorities/Cent Govt			0	0%		20	36%		18	31%	
Property Fund			10	26%		10	18%		10	17%	
			<b>39.1</b>	<b>100%</b>		<b>54.8</b>	<b>100%</b>		<b>58.6</b>	<b>100%</b>	
<b><u>Country analysis</u></b>			<b>£m</b>	<b>%age</b>		<b>£m</b>	<b>%age</b>		<b>£m</b>	<b>%age</b>	
UK			10	26%		30	55%		28.8	49%	
MMF**			29.1	74%		24.8	45%		29.8	51%	
			<b>39.1</b>	<b>100%</b>		<b>54.8</b>	<b>100%</b>		<b>58.6</b>	<b>100%</b>	

\*Fitch short/long term ratings, except Aviva MMF (highest Moody rating). See next page for key. \*\* MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

**Key – Fitch’s credit ratings:**

		<b>Long</b>	<b>Short</b>	
Investment Grade	Extremely Strong	AAA	F1+	
		AA+		
	Very Strong	AA		
		AA-		
		A+		
	Strong	A		F1
		A-		F2
		BBB+		
	Adequate	BBB		F3
BBB-				
Speculative Grade		Speculative	BB+	B
	BB			
	BB-			
	Very Speculative	B+		
		B		
		B-		
	Vulnerable	CCC+	C	
		CCC		
		CCC-		
CC				
C				
Defaulting	D	D		

**Long-term loans repaid and short-term loans outstanding 31 March 2025**

**Long-term loans repaid during 2024/25**

	Amount £000s	Rate %	Date repaid
<b>Repayments on maturity loans</b>			
Crawley Borough Council	5,000	0.50	02/04/2024
Leicester City Council	5,000	0.75	12/04/2024
Vale of White Horse District Council	5,000	0.80	18/03/2025
<b>Repayments on annuity loans</b>			
PWLB (496956)	432	4.58	02/04/2024
PWLB (496956)	442	4.58	29/09/2024
PWLB (496956)	452	4.58	29/03/2025
<b>Repayments on EIP loans</b>			
PWLB (674705)	333	5.02	15/04/2024
PWLB (711011)	2,000	5.42	15/04/2024
PWLB (340221)	250	1.63	27/04/2024
PWLB (439173)	250	1.66	17/05/2024
PWLB (677193)	333	4.85	22/05/2024
PWLB (680811)	833	4.83	06/06/2024
PWLB (685435)	769	4.59	20/06/2024
PWLB (685834)	769	4.37	21/06/2024
PWLB (373440)	250	1.46	12/07/2024
PWLB (643579)	278	5.01	29/07/2024
PWLB (594601)	500	4.10	31/07/2024
PWLB (594848)	536	3.99	01/08/2024
PWLB (538379)	500	2.60	09/08/2024
PWLB (487385)	250	2.28	21/08/2024
PWLB (313112)	250	1.64	04/09/2024
PWLB (493145)	250	1.98	09/09/2024
PWLB (711013)	385	4.75	13/09/2024
PWLB (712740)	357	4.59	19/09/2024
PWLB (713074)	357	4.64	20/09/2024
PWLB (608189)	667	4.15	21/09/2024
PWLB (659904)	333	5.06	23/09/2024
PWLB (660447)	333	5.08	23/09/2024
PWLB (661522)	357	5.00	27/09/2024
PWLB (674705)	333	5.02	14/10/2024
PWLB (711011)	2,000	5.42	14/10/2024

PWLB (340221)	250	1.63	27/10/2024
PWLB (439173)	250	1.66	17/11/2024
PWLB (677193)	333	4.85	22/11/2024
PWLB (680811)	833	4.83	06/12/2024
PWLB (685435)	769	4.59	20/12/2024
PWLB (685834)	769	4.37	23/12/2024
PWLB (739810)	833	4.67	30/12/2024
PWLB (373440)	250	1.46	13/01/2025
PWLB (643579)	278	5.01	27/01/2025
PWLB (594601)	500	4.10	31/01/2025
PWLB (594848)	536	3.99	01/02/2025
PWLB (538379)	500	2.60	09/02/2025
PWLB (751915)	455	4.37	12/02/2025
PWLB (487385)	250	2.28	21/02/2025
PWLB (313112)	250	1.64	04/03/2025
PWLB (493145)	250	1.98	09/03/2025
PWLB (759388)	208	4.52	12/03/2025
PWLB (711013)	385	4.75	13/03/2025
PWLB (712740)	357	4.59	19/03/2025
PWLB (713074)	357	4.64	20/03/2025
PWLB (608189)	667	4.15	21/03/2025
PWLB (659904)	333	5.06	21/03/2025
PWLB (660447)	333	5.08	24/03/2025
PWLB (661522)	357	5.00	27/03/2025
<b>Total</b>	<b>40,106</b>		

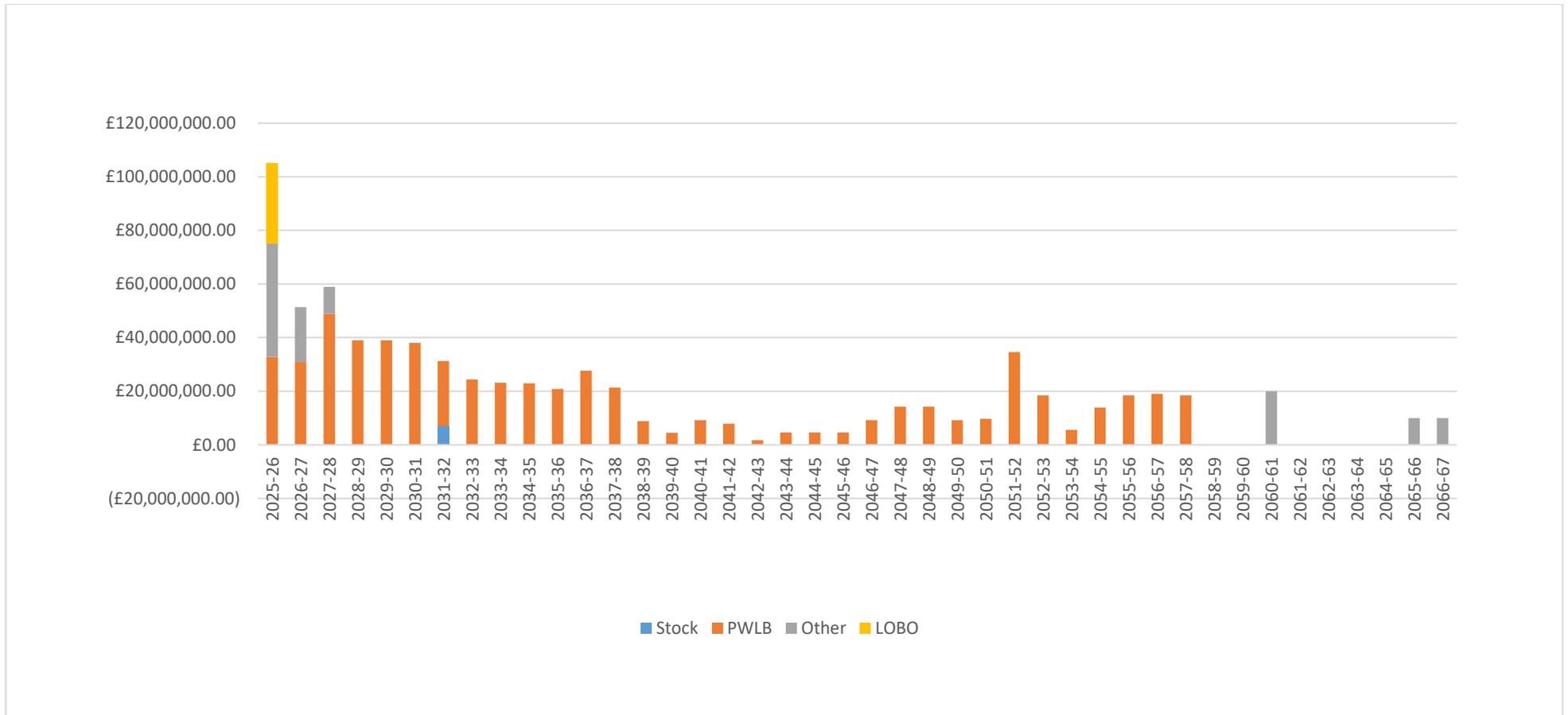
### **Short-term loans outstanding 31 March 2025**

	<b>Amount £000s</b>	<b>Rate %</b>	<b>Length of loan (days)</b>
<b>Short-term borrowing from other Local Authorities</b>			
West Yorkshire Combined Authority	5,000	5.15	341
Wealden District Council	5,000	4.8	181
<b>Medium-term loans due to mature in the next twelve months</b>			
South Yorkshire Mayoral Combined Authority	10,000	1.50	1,096
South Yorkshire Mayoral Combined Authority	5,000	5.40	731
Leicester City Council	10,000	2.00	1096
Oxfordshire County Council	5,000	2.00	1096
Local Lenders/Trust Funds	1,475	4.35	
<b>Total temporary borrowing</b>	<b>41,475</b>		

Long-term loans due to mature in the next twelve months	33,715		
<b>Total</b>	<b>75,190</b>		

**Kirklees Council Loan Maturity Profile (All Debt)**

**Appendix 3**



The maturity date of borrowing is the earliest date on which the lender can demand repayment. LOBO options of £30.8 million have a potential repayment date during 2025/26.

**Kirklees Council - Borrowing and Investment Trends**

<b>At 31 March</b>	<b>2025 £m</b>	<b>2024 £m</b>	<b>2023 £m</b>	<b>2022 £m</b>	<b>2021 £m</b>	<b>2020 £m</b>	<b>2019 £m</b>
Investments	58.6	39.1	44	78.9	37.1	52	39.1
ST Borrowing (excl interest accrued)	75.2	66.2	101	26.6	50	53.2	11.8
LT Borrowing	698.9	641.1	512.8	442.3	375.8	373.7	384.1
Total Borrowing	774.0	707.3	613.8	468.9	425.8	426.9	395.9
<b>Net debt position</b>	<b>715.4</b>	<b>668.2</b>	<b>569.8</b>	<b>390</b>	<b>388.7</b>	<b>374.9</b>	<b>356.8</b>
<u>Capital Financing Requirement (excl PFI)</u>							
General Fund	694.9	663.2	617	556.1	500.1	461.6	436.6
HRA	159.1	163.7	168	166	170.3	175.3	175.3
<b>Total CFR</b>	<b>854.0</b>	<b>826.9</b>	<b>785</b>	<b>722.1</b>	<b>670.4</b>	<b>636.9</b>	<b>611.9</b>
Less deferred liabilities (non PFI)	4.3	3.4	3.5	3.6	3.6	3.7	3.9
<b>Borrowing CFR</b>	<b>849.7</b>	<b>823.5</b>	<b>781.5</b>	<b>718.5</b>	<b>666.8</b>	<b>633.2</b>	<b>608</b>
Balances "internally invested"	75.7	116.2	167.7	249.6	241	206.3	212.1
Ave Kirklees' investment rate for financial year	4.9%	5.3%	1.9%	0.1%	0.1%	0.7%	0.7%
Ave Base rate (Bank of England)	4.9%	5.0%	2.3%	0.2%	0.1%	0.7%	0.7%
Ave LT Borrowing rate (1)	5.6%	5.3%	4.0%	2.1%	2.5%	2.6%	2.7%

(1) Based on average PWLB rate throughout the year on a 25 to 30 year loan (less 0.2% PWLB certainty rate) repayable on maturity.

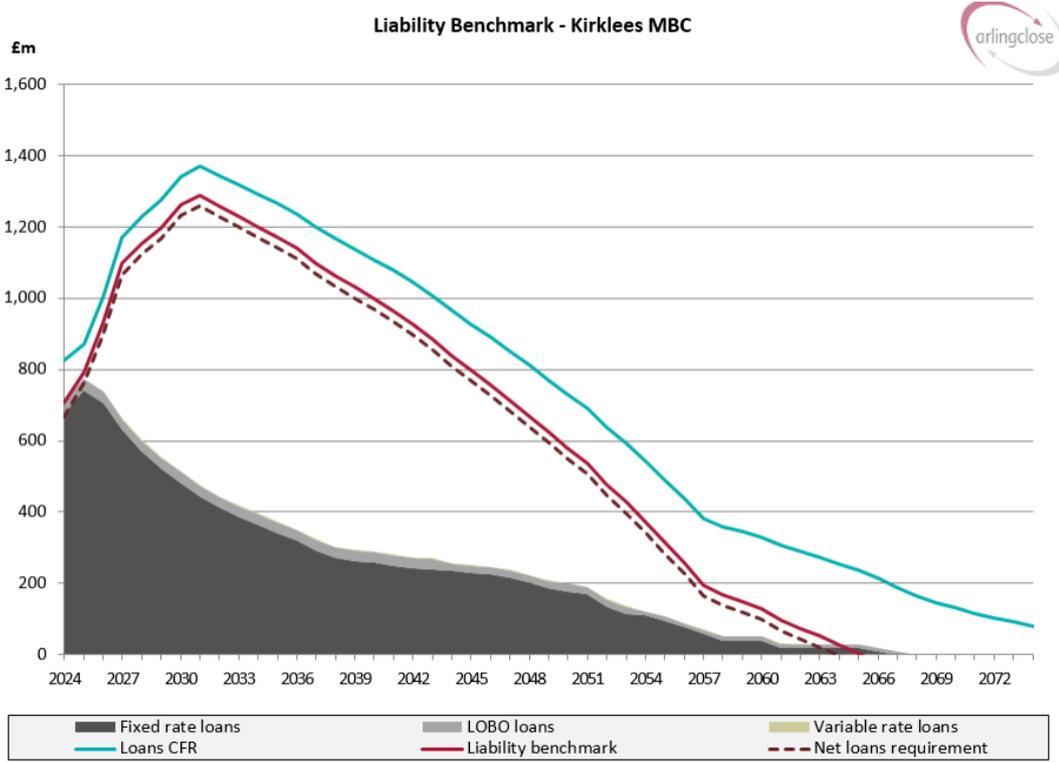
**Treasury Management Prudential Indicators**

**Liability Benchmark**

This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. 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. It 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 of £30.0 million required to manage day-to-day cash flow.

	31.03.24 actual £m	31.03.25 actual £m	31.03.26 forecast £m	31.03.27 forecast £m
Loans CFR	823.5	849.7	1,002.8	1,171.5
Less: Balance sheet resources	155.3	134.3	104.9	105.9
<b>Net loans requirement</b>	<b>668.2</b>	<b>715.4</b>	<b>897.9</b>	<b>1,065.6</b>
Plus: Liquidity allowance	38.9	58.6	30.0	30.0
<b>Liability benchmark</b>	<b>707.1</b>	<b>774.0</b>	<b>927.9</b>	<b>1,095.6</b>
<b>Existing borrowing</b>	<b>707.3</b>	<b>774.0</b>	<b>738.2</b>	<b>661.8</b>

Following on from the medium-term forecast above, the long-term liability benchmark for 2024/25 includes capital expenditure funded by borrowing of £31.5 million, minimum revenue provision on new building capital expenditure based on a 50-year asset life and reduction in Balance sheet resources of £21.0 million.



The total liability benchmark is shown in the chart above together with the maturity profile of the Council's existing borrowing. The red line is the liability benchmark reaching a peak in 2032 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.

### Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper limit	Lower limit	31.03.25 actual	31.03.25 actual £m	Complied
Under 12 months	20%	0%	14%	105.1	Yes
12 months and within 24 months	20%	0%	7%	51.4	Yes
24 months and within 5 years	60%	0%	18%	136.8	Yes
5 years and within 10 years	80%	0%	18%	139.7	Yes
10 years and above	100%	20%	44%	341.0	Yes

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. LOBO options of £30.9 million have a potential repayment date during 2025/26 and have been included in the under 12 months line.

### 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 limits are:

	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	n/a	n/a	n/a	n/a
Actual principal invested beyond year end	£10.0m	£10.0m	£10.0m	£10.0m
Complied	Yes	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

## Interest Rate Exposures

Bank Base Rate fell by 0.75% during the year from 5.25% on 1st April 2024 to 4.50% on 31 March 2025.

For context, the changes in interest rates during the quarter were:

	<b>31.03.24</b>	<b>31.03.25</b>
Bank Rate	5.25%	4.50%
1-year PWLB certainty rate, maturity loans	5.36%	4.82%
5-year PWLB certainty rate, maturity loans	4.68%	4.97%
10-year PWLB certainty rate, maturity loans	4.74%	5.42%
20-year PWLB certainty rate, maturity loans	5.18%	5.91%
50-year PWLB certainty rate, maturity loans	5.01%	5.67%

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. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	<b>Limit Set 2024/25</b>	<b>Actual 2024/25</b>
Interest at fixed rates as a percentage of net interest payments	60% - 100%	95%
Interest at variable rates as a percentage of net interest payments	0% - 40%	5%

The interest payments were within the limits set.

**Glossary of Treasury Terms**

<b>Authorised Limit</b>	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 <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.
<b>Annuity</b>	Method of repaying a loan where the payment amount remains uniform throughout the life of the loan, therefore the split varies such that the proportion of the payment relating to the principal increases as the amount of interest decreases.
<b>Balances and Reserves</b>	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
<b>Bank Rate</b>	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'.
<b>Basis Point</b>	1/100th of 1%, i.e. 0.01%
<b>Bill</b>	A certificate of short-term debt issued by a company, government or other institution, tradable on the financial market
<b>Bond</b>	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.
<b>Capital Expenditure</b>	Expenditure on the acquisition, creation or enhancement of capital assets.
<b>Capital Financing Requirement (CFR)</b>	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
<b>Capital gain or loss</b>	An increase or decrease in the capital value of an investment, for example through movements in its market price.
<b>Capital growth</b>	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).
<b>Capital receipts</b>	Money obtained on the sale of a capital asset.
<b>Certainty Rate</b>	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.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy.
<b>Collective Investment Schemes</b>	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.
<b>Corporate Bonds</b>	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.
<b>Corporate Bond Funds</b>	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
<b>CPI</b> <i>Also see RPI</i>	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
<b>Cost of carry</b>	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.
<b>Counterparty List</b>	List of approved financial institutions with which the Council can place investments.

<b>Credit Default Swap (CDS)</b>	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.
<b>Credit Rating</b>	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.
<b>Debt Management Office (DMO)</b>	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.
<b>Diversification / diversified exposure</b>	The spreading of investments among different types of assets or between markets in order to reduce risk.
<b>Derivatives</b>	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'.
<b>Debt Management Account Deposit Facility (DMADF)</b>	HM Treasury deposit account to provide users with a flexible and secure facility to supplement existing range of investment options while saving interest costs for central government.
<b>ECB</b>	European Central Bank
<b>Fair Value</b>	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.
<b>Federal Reserve</b>	The US central bank. (Often referred to as "the Fed")
<b>Floating Rate Notes</b>	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.
<b>GDP</b>	Gross domestic product – also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
<b>General Fund</b>	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).
<b>Gilts (UK Govt)</b>	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.
<b>Housing Revenue Account (HRA)</b>	A ring-fenced account of all housing income and expenditure, required by statute.
<b>IFRS</b>	International Financial Reporting Standards.
<b>Income Distribution</b>	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'.
<b>Local Authority Property Fund (LAPF)</b>	A pooled property collective investment scheme for Churches, Charities and Local Authorities. (see Collective Investment Scheme).
<b>Liability Benchmark</b>	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).
<b>LOBOs</b>	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.
<b>Maturity</b>	The date when an investment or borrowing is repaid.

<b>Maturity profile</b>	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.
<b>MiFID II</b>	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.
<b>Minimum Revenue Provision (MRP)</b>	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.
<b>Money Market Funds (MMF)</b>	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
<b>Net Asset Value (NAV)</b>	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
<b>Operational Boundary</b>	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.
<b>Pooled funds</b>	See Collective Investment Schemes (above).
<b>Premiums and Discounts</b>	<p>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.</p> <p>*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.</p>
<b>Private Finance Initiative (PFI)</b>	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.
<b>Investment Property</b>	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.
<b>Prudential Code</b>	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.
<b>Prudential Indicators</b>	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.
<b>PWLB</b>	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.
<b>Revenue Expenditure</b>	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
<b>Risk</b>	<b>Credit and counterparty risk</b>

	<p>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.</p> <p><b>Liquidity risk</b> 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.</p> <p><b>Refinancing risk</b> 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.</p> <p><b>Interest Rate risk</b> 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.</p> <p><b>Legal risk</b> 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.</p> <p><b>Operational risk</b> 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.</p> <p><b>Market Risk</b> 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.</p>
<b>RPI</b>	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.
<b>SORP</b>	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
<b>Specified Investments</b>	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.
<b>Supported Borrowing</b>	Borrowing for which the costs are supported by the government or third party.
<b>Temporary Borrowing</b>	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
<b>Term Deposits</b>	Deposits of cash with terms attached relating to maturity and rate of return (interest).
<b>Treasury (T) -Bills</b>	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.
<b>Treasury Management Code</b>	CIPFA's Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in 2021.
<b>Treasury Management Practices (TMP)</b>	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.
<b>Unsupported Borrowing</b>	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

<b>Usable Reserves</b>	Resources available to finance future revenue and capital expenditure.
<b>Variable Net Asset Value (VNAV)</b>	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.
<b>Working Capital</b>	Timing differences between income/expenditure and receipts/payments
<b>Yield</b>	The measure of the return on an investment instrument.

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## District Heating Update

<b>Meeting</b>	<b>Corporate Governance &amp; Audit Committee</b>
<b>Date</b>	<b>20<sup>th</sup> June 2025</b>
<b>Cabinet Member</b> (if applicable)	Cllr Moses Crook Deputy Leader and Transport and Housing
<b>Key Decision Eligible for Call In</b>	No Yes/No – If no give reason
<b>Purpose of Report</b> To provide an update on the District Heating Programme and Lessons Learnt: Actions from the Internal Audit report, Switch2 metering and billing contract.	
<b>Recommendations</b> <ul style="list-style-type: none"> <li>Note the report and to agree the contents are shared with key Council personnel and Councillors.</li> </ul> <b>Reasons for Recommendations</b> <ul style="list-style-type: none"> <li>To ensure key Council personnel and Councillors are aware of current position and progress regarding the District Heating Programme and delivery.</li> </ul>	
<b>Resource Implications</b>  The requirement for a dedicated Officer to manage the Heat Networks for Homes and Neighbourhoods is essential for full cost recovery on heat networks.  This role will form part of the future delivery of the Assets and Building Safety team, allowing for the future management of the contract, tenant and leaseholder engagement.	
<b>Date signed off by <u>Executive Director</u> &amp; name</b> <b>Is it also signed off by the Service Director for Finance?</b>  <b>Is it also signed off by the Service Director for Legal Governance and Commissioning (Monitoring Officer)?</b>	David Shepherd, Executive Director – Place   Kevin Mulvaney  Sam Lawton

**Electoral wards affected:** All

**Ward councillors consulted:** N/A

**Public or private:** Public

**Has GDPR been considered?** Yes

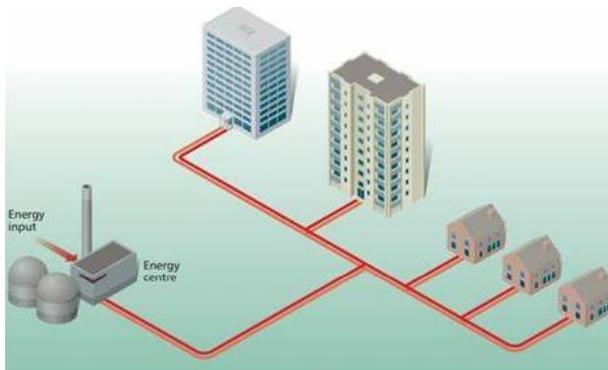
## 1. Executive Summary

The findings of the internal audit into the district heating schemes were published in June 2024, has accelerated the work currently been undertaken by Homes and Neighbourhood Services to resolve the historic issues relating to our district heating schemes and has highlighted some important priority areas that are being addressed.

Homes and Neighbourhood Services have responded proactively to the audit findings by forming an internal project group, creating an action plan to address each area of concern, and maintaining oversight at a senior level of the progress being made.

### Background

District heating, also known as a heat network, is a system that uses a singular central heat source to distribute heating and hot water through a network of insulated pipes to multiple individual dwellings. Each dwelling has a meter for their supply and are charged according to usage. The structure is typically used to deliver heating and hot water requirements to flats and maisonettes.



The contract with the current provider Switch2, was originally procured to carry out the end-to-end heat management service for Kirklees Council (Homes and Neighbourhood Services). This contract expired in January 2023, a variation to the contract was agreed to continue to use the current provider until 31st December 2024 which was granted by the Service Director for Homes and Neighbourhoods and, the Head of Procurement. A further extension was agreed for a period of 12 months which was approved by the Service Director for Homes and Neighbourhoods with Switch2 and will expire on 31st December 2025.

Kirklees Council has 25 individual district heat networks that supply heat to 1,042 Council homes, this includes 18% which are classified as leasehold properties. The properties span a wide geography across the Kirklees footprint, within the following wards:

Electoral Ward	Property count
Almondbury	28
Ashbrow	44
Batley West	10
Birstall/Birkenshaw	40
Crosland Moor/Netherton	48
Dewsbury East	246
Dewsbury South	30
Dewsbury West	210
Greenhead	99
Lindley	45
Liversedge and Gomersal	65
Newsome	177

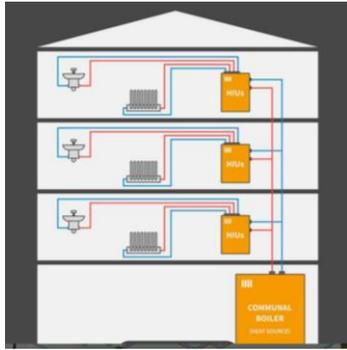
### Property breakdown:

The following is a summary of the 1,042 homes that are connected to the District Heating Network providing heating and hot water.

Properties	Number
District Heating – Council Homes - Bungalows, Houses, Flats	847
Sold/ Leasehold Properties	193
Opted Out – Managing their own heat supply	2
Total Homes	1,042

Over time the numbers have varied and will continue to do as properties are sold via. Right to Buy (RTB), Lease changes and, if the Council acquires former Leasehold properties.

In addition to the 1,042 homes that are connected to a District Heating Network, Kirklees Homes and Neighbourhoods Services also has a number of homes that receive heating and hot water through communal boiler houses within blocks of flats and residential schemes. These are known as Community Heating Schemes and, **are not connected to the District Heating Network**. These are different to district heating in that they are dwellings that have one communal boiler that supplies heat and hot water around a single building to multiple individual dwellings (flats). As illustrated below:



These dwellings do not have pre-payment meters installed like district heating properties, they pay for their heat and hot water via a service charge. These sheltered heating schemes are not classified as District Heating and are not part of the District Heating Internal Audit that was undertaken in June 2024.

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

N/A No decision required.

**3. Implications for the Council**

Loss of revenue and reputational risk

**3.1 Council Plan**

There is now a working group in place to address all issues raised in the internal audit report. Below are the original recommendations from the audit, June 2024 with actions completed to date.

District Audit action tracker:

No	Recommendations	Auditee Response	Owner	Completion Date
R1	<p>Documented Procedure Notes should be produced and reviewed at least annually (or more often if systems change).</p> <p>This will aid the transitional arrangements currently in place for colleagues imminently leaving the council.</p> <p><b>Classification: Significant</b></p>	<p>Agreed.</p> <p>An end-to-end process for the management of the district heating scheme will be established, implemented, and scheduled to be reviewed on an annual basis. Procedure notes to be drafted alongside the terms of the new contract for the District Heating.</p> <p>Current process has been drafted. Chirpy Heat will advise on the end-to-end process and</p>	<p>Project Manager</p> <p>Service Manager- Strategy &amp; Performance</p>	<p>December 2024</p> <p><b>End to end process review Completed.</b></p>

		<p>agree a new process for approval.</p> <p>The consultant has been appointed and will be presenting a report to Homes and Neighbourhoods Senior Management Team on 22nd May 2025.</p> <p><b>Completed</b></p>	<p>Service Director, Homes, and Neighbourhoods</p>	<p>Target Completion 30<sup>th</sup> May 2025</p> <p><b>Completed</b></p>
<b>R2</b>	<p>As a priority, a compliant procurement process with Contract Procedure Rules should be completed.</p> <p><b>Classification: Fundamental</b></p>	<p>Agreed.</p> <p>A new contract for the management of the district heating services is to have a new specification and will be procured. Considering maintenance and repair obligations, data access and billing arrangements.</p> <p>A project group has been formed, and members of that group will support the procurement process. The purpose of the project group is to ensure a compliant procurement process takes place, prioritising the needs of end users and ensuring value for money.</p> <p>Section 20 consultation will take place with leaseholders given that leaseholders will be in receipt of new meters and, it is the Council's intention to pass on related costs for the replacing of the meters.</p> <p><b><i>Kirklees Council had a risk that a new contractor would not be in place by 31<sup>st</sup> December 2024 and, a further contract extension may be required.</i></b></p> <p><b><i>Head of Procurement has reviewed the options for the</i></b></p>	<p>Strategic Category Manager Procurement</p> <p>Service Director Homes and Neighbourhoods</p>	<p>31<sup>st</sup> December 2025 is the target date for procuring the new contract</p>

		<p><b><i>extending of the Switch 2 contract to allow for time to carry out a robust compliant procurement process. Homes and Neighbourhoods has also appointed Chirpy Heat to produce a new and more robust contract specification.</i></b></p> <p><b><i>A contract extension was awarded to Switch2, which expires on 31<sup>st</sup> December 2025.</i></b></p> <p>Work is ongoing with Chirpy Heat on the specification and market engagement for a new pre-payment meter and billing provider.</p> <p><b>Ongoing</b></p>		
<b>R3</b>	<p>As previously recommended, the full costs and income associated with the District Heating scheme should be recalculated, following which a decision should be made as to the extent to which the charges to tenants/leaseholders should be increased.</p> <p><b>Classification: Fundamental</b></p>	<p>This has required a full review of the current charges and a reconciliation of the shortfall and review of what the new charges should be for residents. If the charges are to be raised, and/or a need to continue to phase the costs over a longer period to achieve full cost recovery and bringing costs in line with current energy charges.</p> <p>Housing Management are currently undertaking their own service charge review which will align with this work, but this review will need to be run independently.</p> <p>A tariff review was completed with Switch2 to determine what Kirklees Council needed to charge users to achieve a full cost recovery.</p> <p>The new tariff was charged from 2<sup>nd</sup> January 2025, so all residents and leaseholders are</p>	<p>Head of Housing Management &amp; Partnership</p> <p>Service Manager Strategy &amp; Performance</p>	<p>December 2024</p> <p><b>Completed</b></p>

		now paying an increased amount to cover the cost for their heating.  <b>Completed.</b>		
<b>R4</b>	Colleagues interacting with Switch2, need to show a greater degree of professional scepticism in their dealings and perform sample checks (e.g. to council collected meter readings) to confirm that income, and other data, is consistent with expectations.  <b>Classification: Significant</b>	Process in place to check itemised invoices for repairs in the Energy team and the access team are now responsible for meter reading.  The compliance Team now takes monthly meter readings - <b>completed.</b>  A Standard Operating Procedure (SOP) is required for consistency of approach and to address the problem with staff turnover in the team. This will be completed by the consultant.  The team need to understand the end-to-end process from the purchase of commercial gas to the prepayment meters the tenants top up. Effective audit of finances can only be achieved with an open and transparent process.  Recruitment is underway to appoint a dedicated Manager for the future management of District Heating and, Billing.  <b>Ongoing</b>	<b>Completed</b>  Project Manager (Capital)  Service Manager Strategy & Performance  Service Director Homes & Neighbourhoods	November 2024 <b>Completed</b>  31 <sup>st</sup> July 2025  In progress, to be reviewed by Chirpy Heat Target date 30 <sup>th</sup> June 2025  Estimated Target date 30 <sup>th</sup> June 2025
<b>R5</b>	District Heating Income and District Heating Expenditure should be recorded under the same group heading in SAP, to allow for easier comparison.  <b>Classification: Significant</b>	This action is complete. All District Heating expenditure and income is now accounted for directly within the HRA and included in the quarterly financial monitoring report to Cabinet. For openness and transparency, it is itemised with	Senior Finance Officer	30 <sup>th</sup> September 2024 <b>Completed</b>

		regular reviewing of income and expenditure.  <b>Completed</b>		
<b>R6</b>	As previously recommended, the vulnerability criteria should be reviewed to ensure it is still appropriate.  <b>Classification: Significant</b>	The current criteria needs to be confirmed, reviewed and the recommended changes implemented if applicable. Ensure any changes are communicated with the Energy Team.  A new Vulnerability Policy for Kirklees Homes and Neighbourhood Services has been approved by Cabinet (11 March 2025).  Completion date changed from 31 <sup>st</sup> January 2025 to 31 <sup>st</sup> March 2025. Approved by Cabinet on 11th March 2025, new policies around vulnerable tenants, domestic violence, and antisocial behaviour, are now approved and provides a framework to support vulnerable households.  <b>Completed</b>	Service Manager Strategy & Performance  Service Manager Housing Management & Partnerships	30 <sup>th</sup> December 2024 <b>Completed</b>  31st March 2025 <b>Completed</b>

<b>R7</b>	As previously recommended, high value credit balances should be routinely reviewed with a view to refunding customers and/or giving the option to reduce future pre-payments.  <b>Classification: Significant</b>	Review current process, produce a SOP, and implement changes. A process is not in place now for a resident who has high levels of credit or debt until a property becomes void.  The cause of these balances is being investigated, and a process is to be implemented on how to manage arrears balances and what action can be taken against the tenants and residents to manage individual account.	Strategic Managers Housing Services  Service Manager Strategy & Performance	In progress, to be reviewed by Chirpy Heat Target date 30 <sup>th</sup> June 2025
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		<p>A dedicated District Heating Manager is being recruited to have oversight and responsibility for consulting with and, manage the Switch2 contract, new contractor and, billing arrangements. Target date 30 June 2025.</p> <p><b>Ongoing</b></p>		
<b>R8</b>	<p>The boiler replacement programme should be completed as a priority.</p> <p><b>Classification: Significant</b></p>	<p>A replacement programme is underway.</p> <p>The boiler replacement programme has been replacing boilers based on their age. The replacement programme for 2024 was completed on time. All planned works for the District Heating boiler works is on track to be completed this financial year; by 31<sup>st</sup> March 2025.</p> <p>A new subgroup may need to be implemented to understand and consider grants and funding (to work along the replacement timeline)</p> <p>Following S20 consultation, leaseholders will be recharged for the cost of any boilers replaced in their properties. <i>Application submitted for HNES funding round 9 for one district heating site and one retirement living scheme with support from the consultant. Decision notification will be communicated in July 2025.</i></p> <p><b>Ongoing</b></p>	<p>Service Manager M&amp;E</p> <p>Subgroup required to look at the meter replacement, boiler programme, boiler plant replacement and HIU replacement – possibility of accessing funding – Subgroup leader and members: Property services (technical) and Assets (programme) Service Manager Strategy and Performance</p>	<p>31<sup>st</sup> March 2025</p> <p><b>Completed</b></p> <p>Target date 31<sup>st</sup> July 2025</p>
<b>R9</b>	<p>A formal assessment should be undertaken as to whether the current meters, need to be upgraded.</p> <p><b>Classification: Significant</b></p>	<p>An assessment will be undertaken to complete a replacement Programme. This will need to form part of the new contract for the management of the District Heating schemes.</p>	<p>Service Manager Strategy and Performance</p>	<p>Target date 30th June 2025</p>

		<p>Chirpy Heat has been appointed and will assess whether the meters need to be replaced. Consultant Chirpy Heat are reporting on the current meters and recommendations for meter replacement programme end of June 2025.</p> <p><b>Ongoing</b></p>		
<b>R10</b>	<p>Depending on future pricing decisions, the benefits of low-cost heating should be promoted more robustly to increase take-up.</p> <p><b>Classification: Merits Attention</b></p>	<p>Letters were sent to all residents and leaseholders on District Heating advising them of their new tariff. The letters were completed with advice from Switch2 our current provider and with Council Communications.</p> <p><b>Completed</b></p> <p>Heat networks will form part of the sustainability strategy for Homes and Neighbourhoods. Heat Networks can provide low-cost heating and will contribute towards decarbonisation of Council homes in Kirklees which will be considered by Kirklees Council Cabinet during 2025/26.</p> <p>Part of this work will be development of a clear Housing Revenue Account Decarbonisation Strategy for its 22,000 Council housing (including leaseholder homes), alongside a tenant engagement strategy and, communicating the benefits of heat networks to tenants &amp; residents. Consultants Chirpy Heat will be advising on options for achieving this and any national best practice that is available for Portfolio Holder and, Kirklees Cabinet to consider. Kirklees are also working with other LA's who are also reviewing their approaches on decarbonisation.</p>	<p>Service Manager Strategy &amp; Performance / Communications Business Partner</p> <p>Service Manager, Strategy &amp; Performance</p>	<p>31<sup>st</sup> March 2025</p> <p><b>Completed</b></p>

R11	<p>Those who have chosen not to use the district heating system should not have to pay the standing charge.</p> <p><b>Classification: Significant</b></p>	<p>Review the options for opting out of District heating. Currently no option to opt out is available for tenants and residents, due to ensuring viability of the scheme.</p> <p>Decision needs to be taken. This should form part of the heat network strategy, and the communication plan.</p> <p>This is being reviewed, and guidance will be given by the consultant on the available options and, any leaseholder risks, as Leaseholders within their individual leases are responsible for major works. This forms part of s20 consultation.</p> <p>Options will then be considered and, preferred option will be communicated and implemented during 2025/26.</p>	Service Manager Strategy & Performance	Target date 30 <sup>th</sup> June 2025
R12	<p>Homes &amp; Neighbourhood Management need to decide if they want to apply for funding through the Energy Bill Relief Scheme (via a rebate in 2024/25), and if so the District Heating Team need to provide evidence stating why they are entitled to government funds and communicate to tenants that the funds have been received through the scheme.</p> <p><b>Classification: Fundamental</b></p>	<p>A decision is required on who receives the funding: Kirklees Council or the tenant.</p> <p>This was not applied for in 2024/25.</p> <p>The Energy Bill Relief Scheme was a 12-month scheme from 1<sup>st</sup> April 2023 to 31<sup>st</sup> March 2024, Kirklees climate change team, applied for the funds and were successful. This funding is no longer available.</p> <p><b>Completed</b></p>	Housing Management & Partnerships Services Manager	31 <sup>st</sup> July 2024 <b>Completed</b>
R13	<p>Homes &amp; Neighbourhood Management need to decide if they want to apply for Capital funding available under the “Heat Network Efficiency Scheme.”</p> <p><b>Classification: Significant</b></p>	<p>The decision is to be made by the Homes and Neighbourhoods Senior Management Team (in consultation with Mechanical and Engineering Team).</p> <p><i>The decision was made by the Energy Team with advice from</i></p>	Service Manager Strategy & Performance	30 <sup>th</sup> June 2025 <b>Completed</b>

		<i>the consultants. The Heat Network Efficiency Scheme round 9 has been applied for as per R8 above.</i>		
		<b>Completed</b>		
<b>R14</b>	The Energy & Climate Change Team need actual readings to be taken at least twice a year and preferably quarterly.  <b>Classification: Significant</b>	Currently performed by the Asset Team and reported to Finance.  The new manager within Homes and Neighbourhoods will take ownership of this service area when appointed.  <b>Process in place to capture meter readings.</b>	Service Manager Strategy and Performance	October 2024  <b>Completed</b>

### 3.2 Financial Implications

The following highlights the agreed approach to full cost recovery:

The tariff for district heating in Kirklees had not been altered on the meters in resident's properties since the commencement of the contract with Switch2 in 2013. This has led to inaccurate billing and because of high inflation specifically in 2022-23 this resulted in a deficit for Kirklees Homes and Neighbourhoods (HRA) due to not charging enough to cover the cost of providing this service. This was reported to the Homes and Neighbourhoods Housing Advisory Board, attended by Service Director of Homes and Neighbourhoods, Heads of Service, Independent external members, Tenant members and Portfolio Lead on 22<sup>nd</sup> November 2022. This formed part of the quarterly finance monitoring report to 30<sup>th</sup> September 2022, where at that time there was a forecast shortfall of £581,000, this was then referred to in later quarterly finance monitoring reports that were presented to the Council.

Kirklees Council instructed Switch2 to conduct a tariff review in 2024. This review was to determine how efficient each scheme was and what residents in individual schemes should be paying to cover the costs of providing heat and hot water to the residents.

Switch2 used the data on gas provided to each site and the usage of each dwelling served by individual boilers to produce consumption data. They then used this data to provide the correct tariff per site.

A pragmatic decision was made to increase charges on the 2<sup>nd</sup> of January 2025 to recover the costs. This was discussed as part of the Rent and Service charge process and the recovery of costs was agreed by Service Director for Homes and Neighbourhoods and Portfolio Lead on 25<sup>th</sup> November 2024. Charges increased from 4.6p per kwh plus a daily admin charge of 14.5p to a maximum of 13.7p per kwh plus a daily admin charge of 24.3p. Meters were amended accordingly, on 2<sup>nd</sup> January 2025 to reflect these increases, as per following:

Street	Tariff charge	Ward
Blackers Court	8.9p	Dewsbury South
Bradcroft	7.8p	Greenhead
Bronte Road	9.2p	Birstall/Birkenshaw
Charles Street	7.3p	Crosland Moor/Netherton
Hawthorne Terrace	7.3p	Crosland Moor/Netherton
Cliffe Court	8.7p	Liversedge/Gomersal
Dearne Fold	8.7p	Lindley
West Street	8.7p	Lindley
St Peters Gardens	8.7p	Dewsbury East
Beech Walk	8.7p	Dewsbury East
Eightlands Road	8.7p	Dewsbury East
Elim Walk	8.7p	Dewsbury East
Ashworth Road	8.7p	Dewsbury East
Barber Walk	8.7p	Dewsbury East
Savile Walk	8.7p	Dewsbury East
Wellington Walk	8.7p	Dewsbury East
Milton Walk	8.7p	Dewsbury East
Gladstone Court	8.7p	Dewsbury West
Russell Street	8.7p	Dewsbury West
Gledhill Terrace	9.7p	Dewsbury West
Croft Cottage Lane	8.7p	Greenhead
Hillhouse Lane	8.7p	Greenhead
Hurstwood	8.4p	Ashbrow
Ings Way West	9.0p	Almondbury
Keldregate	8.7p	Ashbrow
Leeds Road	7.3p	Birstall/Birkenshaw
Quarry Road	8.7p	Liversedge/Gomersal
Upper Barker Street	8.7p	Liversedge/Gomersal
Moorend Lane	7.7p	Batley West
Staincliffe Road	7.7p	Batley West
Norcross Avenue	8.5p	Lindley
Oxford Place	9.9p	Crossland Moor/ Netherton
Perseverance Street	13.7p	Newsome
School Lane	8.7p	Dewsbury West
Spring Grove Street	8.7p	Newsome
Water Street	8.7p	Newsome
Prospect Street	8.7p	Newsome
Springwood Hall Close	8.7p	Greenhead
Queen Elizabeth Gardens	8.7p	Newsome
Trinity Street	8.7p	Newsome
Heckmondwike Road	8.7p	Dewsbury West
Wroe Street	8.7p	Dewsbury West
Quarry View	8.7p	Liversedge/Gomersal

Kirklees Council have a contract manager for Switch2, to consult with, monthly meetings are in place. This has not always been the case and needed to be addressed. All reports that were previously sent to incorrect correspondence email addresses are now collated by the energy team and invoices are checked thoroughly before being paid.

This monitoring has uncovered debts on pre-payment meters that have not been addressed to date. Advice provided from our heat network consultant has stated that in the absence of a tariff review since the start of the Switch2 contract in 2013, Kirklees cannot seek to recover historic undercharges that have not been previously communicated to the residents and leaseholders.

Ofgem rules on back billing to protect consumers – Guidance:

**Our back billing rules**

*These rules set out when a supplier can charge you for any shortfalls in payment for energy you have used.*

*You cannot be charged for energy used more than 12 months ago if:*

- *you have not had an accurate bill for it before, even though you asked for one.*
- *you have not been informed about any charges due via a statement of account before*
- *your Direct Debit amount was previously set too low to cover any charges due.*

*Suppliers must make these rules clear in their contract terms and conditions.*

However, Kirklees Council are treating debt on meters separately to unrecovered costs prior to the tariff review being undertaken. The aim is to achieve a full cost recovery of heating charges in 2025/26. The forecast shortfall at Q2 2024/25 was £573k and the forecast shortfall at Q3 2024/25 was £553k. The actual shortfall at Q4 was £497k.

Total cost/total income

	2022/23	2023/24	2024/25	Projected 2025/26
Income	£252,000.00	£191,000.00	£404,000.00	£928,000.00
Expenditure	£1,174,000.00	£647,000.00	£901,000.00	£928,000.00*

\*Will be determined by usage

Debt on accounts with Switch2

	Up to 2025	Total
Current residents	£18,225.20	
Former residents	£32,330.95	£50,556.15
Current leaseholders	£1,541.15	
Former leaseholders	£1,732.18	£3,273.33
		<b>£53,829.48</b>

Switch2 have provided details of historic debts from meters which are irrecoverable, and it is therefore, proposed that these will be written off against the bad debt provision. Managing leaseholders is a function within the HRA and not a General Fund activity. Therefore, historic undercharges which are unrecoverable will be written off against the bad debt provision.

Moving forward, we will recover the actual costs of providing heat and hot water to residents and leaseholders by charging the correct tariff for each scheme. The Housing

Revenue Account should not be subsidising any shortfall in leaseholder charges and the increase in tariff should recover the leaseholder cost. As per Financial Regulations, the Council is able to increase charges on an annual basis to recover costs. Leaseholders will be notified accordingly.

### **Switch2 – provision of services**

These include the following:

Operate the Metering Equipment and provide the following Services:

- Data Service
- Credit Billing and /or Prepayment Service (“PAYG”)
- Maintenance Service
- Metering and Billing Service and Maintenance Service Provider Agreement

A question was raised in a previous audit committee: *Information on how the energy price cap increase/decreases would impact residents.*

- The energy price cap is for domestic supplies of electricity and gas, district heating schemes receive heating and hot water from a commercial supply, and are therefore, not currently subject to an energy price cap.

Kirklees Homes and Neighbourhoods have commissioned a consultant to review all their heat networks, district heating schemes and sheltered heating schemes to ensure transparency in charges.

A question was raised at a previous audit committee: *The pricing structure that included extensive solar panels installed.*

No district heating sites have solar PV. However, some of the independent living schemes (Sheltered schemes) have Solar PV installed by the Council: The electricity generated from these panels is used for the communal electricity of the building during daylight hours, each resident has their own electric bill for their dwelling.

There is a new gas contract now live with Total Energies, final meter readings for all meters have been taken and submitted along with the Meter Point Reference Number (MPRN), and the date of the meter reading.

### **3.3 Legal Implications**

N/A

### **3.4 Climate Change and Air Quality**

The implementation of a Decarbonisation strategy will include specific plans for Kirklees Council heat networks and are a key contributor to our long term aims to become carbon neutral by 2038. A feasibility study is being undertaken by our consultant’s Chirpy heat, to advise on replacing all our communal boilers in independent living schemes with ground source heat pumps, using external funding and internal capital budgets to achieve this.

Chirpy Heat submitted Kirklees Heat Network Efficiency Scheme, HNES application for round 9 funding to complete the upgrade to 2 heat network schemes (1 District heating - Eightlands, Dewsbury, 180 dwellings and 1 Retirement living scheme, Burhouse court, Honley, 39 dwellings) on 28<sup>th</sup> March 2025. Notification of outcome will be received by the end of July 2025.

### 3.5 Other (e.g. Risk, Integrated Impact Assessment or Human Resources)

Risk	Mitigation	RAG
Regulatory compliance: Failure to comply with the new heat regulations could result in legal or financial penalties	Requires a dedicated officer in place to have regular reviews and update policies and procedures accordingly. Currently looking at resourcing this role as part of the establishment review.	Medium
Contract Management: Evolving contract management with Kirklees and Switch 2 could affect collaboration and programme outcomes, leading to failure to track contract renewal dates, poor decision-making missed deadlines and miss payments.	Implement a robust contract management system to track renewal dates, deadlines, and payments. Schedule regular meetings with Kirklees and Switch2 to maintain open communication, documenting all interactions and decisions to ensure transparency and accountability.	Medium
Inaccurate Data: The absence of a central storing place of the data makes it difficult to keep track of the latest versions and ensure data accuracy in one central place.	Implement a centralised data management system accessible to all relevant internal and external officers. Conduct regularly audit data to ensure accuracy and consistency. IT backup systems in place to aid with the loss of data.	Medium
Ofgem has taken over as the regulator from April 2025, it is expected that a limit will be put on as to how far you can go back to recover debt.	Prepare for Ofgem's new regulations by reviewing current debt recovery practices and making necessary adjustments. Consultant in place to provide advice.	Medium
The increases in unit rates applied in January 2025, may be under recovery	Ongoing monitoring of position and reported each ¼ to Cabinet in normal Finance reports.	Medium
Investigation of accounts which may yield potential debts and other issues around contractor performance, due to inaccurate reporting by Switch2 and not having a dedicated Officer to manage the contract.	Resolution of debt needs further investigation. Establish clear processes for tracking and recovering debts. Engage with residents to negotiate manageable repayment plans for the collection of the debt.	Medium
Resource and capacity to meet the demands of the action plan	Assign a dedicated officer to manage the contract with Switch2. A project group has been formed, to address the actions and take ownership.	Medium
Staff changes impacting the delivery of the action plan	Once the procedures and new contract and ways of working are in place, future handovers should be more thorough and achieve continuity of service.	Medium

## 4. Consultation

Tenant Led Panel were consulted on the letter for residents, informing them of the forthcoming increase to their energy charge. The tariff change was implemented from

the 2<sup>nd</sup> of January 2025 and all residents were given the 30 days' notice required, by letter.

## **5. Engagement**

Residents have received communication regarding increase tariff charges, which included key contact details and, for any household in severe financial hardship details of support that may be available.

## **6. Options**

6.1 **Options considered N/A**

6.2 **Reasons for recommended option N/A**

## **7. Next steps and timelines**

### **7.1 District Heating Audit**

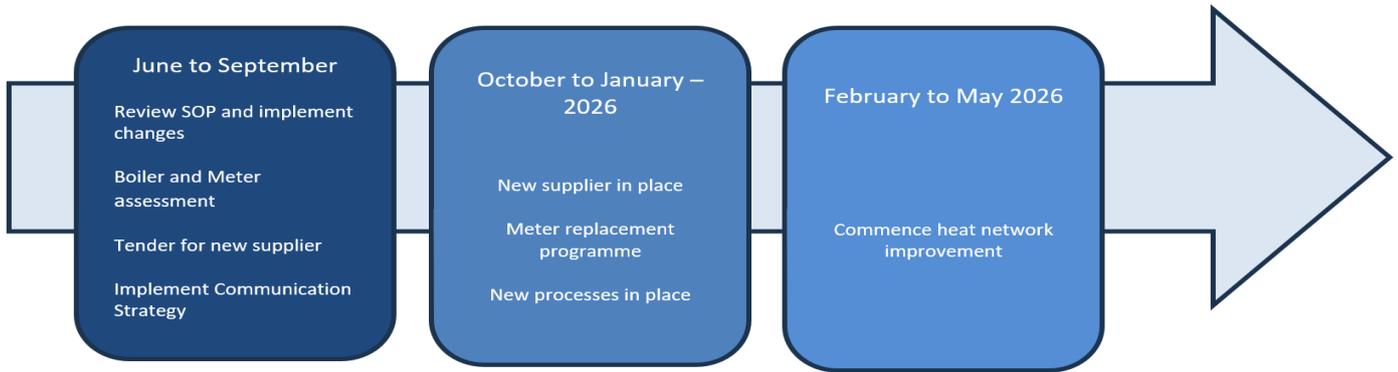
- Continue to have monthly District Heating Group meeting.
- Accelerate the recruitment for a dedicated resource to manage the decarbonisation strategy including District Heating Programme.
- Collaborate closely with the consultant to complete a full survey of heat networks, efficiency review of boilers houses and procurement of a metering and billing provider. Incorporating their advice on new heat regulations and compiling our decarbonisation strategy.
- Develop a clear new tender specification for the District Heat metering and billing contract following the necessary reviews and assessments to ensure that this allows for improved contract management of a new provider.
- Continue to monthly contract management review meeting with Switch2 – Ensure the new tariff charges are effectively monitored for any resident's feedback or issues.

### **7.2 Lesson Learnt**

- This has identified that the need for a dedicated manager to manage the end-to-end process for metering and billing. We are working with HR colleagues on a recruitment campaign for this and, a dedicated resource to manage the decarbonisation strategy including District Heating Programme
- The need to collaborate closely with the consultant to complete a full survey of heat networks, efficiency review of boilers houses and procurement of a metering and billing provider. Incorporating their advice on new heat regulations and compiling our decarbonisation strategy. Agree a programme

including a route to tender specification following the necessary reviews and assessments.

- Work with Switch2 on the debt highlighted for the prepayment meters.



## 8. Contact officer

Paulette Johnson: Interim Service Manager – Asset, Strategy & Performance  
[Paulette.johnson@kirklees.gov.uk](mailto:Paulette.johnson@kirklees.gov.uk)

## 9. Background Papers and History of Decisions

Corporate Governance & Audit Committee - September 2024 – see appendices.

## 10. Appendices

N/A

## 11. Interim Service Director responsible

Janet Sharpe for Homes & Neighbourhoods  
Tel: 01484 221000 ext. 78709  
Email: [janet.sharpe@kirklees.gov.uk](mailto:janet.sharpe@kirklees.gov.uk)



**REPORT TITLE:** Outcome of review of Procurement Practices in accordance with the Council Motion resolved on 13 November 2024

<b>Meeting:</b>	<b>Corporate Governance and Audit Committee</b>
<b>Date:</b>	<b>20 June 2025</b>
<b>Cabinet Member</b> (if applicable)	
<b>Key Decision Eligible for Call In</b>	<b>No</b> <b>No</b>
<b>Purpose of Report</b>	
To provide the oversight of the outcome of the review of procurement practices as resolved in the motion on 13 November 2024.	
<b>Recommendations</b>	
It is recommended that Corporate Governance and Audit Committee note the outcome of the review of procurement practices that has been undertaken	
<b>Reasons for Recommendations</b>	
The committee plays a crucial role in assessing the adequacy of the review conducted.	
<b>Resource Implications:</b>	
None	
<b>Date signed off by <u>Executive Director</u> &amp; name</b>	<b>Rachel Spencer-Henshall</b> – Deputy Chief Executive and Executive Director for Public Health and Corporate Resources (12/5/25)
<b>Is it also signed off by the Service Director for Finance?</b>	<b>Kevin Mulvaney</b> – Service Director Finance (20/5/25)
<b>Is it also signed off by the Service Director for Legal Governance and Commissioning (Monitoring Officer)?</b>	<b>Samantha Lawton</b> – Service Director Legal & Commissioning (8/5/25)

**Electoral wards affected:** All

**Ward councillors consulted:** Not applicable

**Public or private:** Public

**Has GDPR been considered?** No GDPR considerations

## 1. Executive Summary

A motion was carried at Council on 13 November 2024 which requested that the Council committed to conducting a thorough review of its procurement practices to ensure that goods and consumables sourced from companies directly or indirectly involved in the Gaza conflict are not used. The Motion is attached at Appendix A.

The motion also requested that the Council avoids purchases of goods from Israeli companies illegally occupying Palestinian Territories where it is lawful and practical to do so.

On 7 March 2025, it was agreed that Corporate Governance and Audit Committee would oversee the review to ensure that it was undertaken with appropriate oversight and in accordance with applicable legislation.

The stages of the review conducted are outlined in Section 2 below. The review has concluded that the Council currently has no contracts in place for the supply of goods and consumables with companies directly or indirectly involved in the Gaza conflict.

Furthermore, the examination of relevant procurement legislation has confirmed that it would be unlawful for the Council to adopt policies that intentionally exclude companies based on their involvement in specific geopolitical matters

## 2. Information required to take a decision

A motion was received at Council on 13 November 2024 which requested that the Council committed to conducting a thorough review of its procurement practices to ensure that goods and consumables sourced from companies directly or indirectly involved in the Gaza conflict were not used. The motion requested that the Council avoids purchases of goods and consumables from Israeli companies illegally occupying Palestinian Territories where it was lawful and practical to do so.

A review has now been undertaken in compliance with all applicable procurement legislation, the stages of the review are set out below:

Stage 1 of the review focused on assessing available information regarding Israeli companies allegedly involved in the illegal occupation of Palestinian territories and compiling a list of suppliers accused of direct involvement in the Gaza conflict.

Stage 2 of the review entailed cross-referencing the list of suppliers with the Council's Contracts Register to identify any active contracts valued over £5,000 for the supply of goods and consumables with the suppliers identified in Stage 1. This confirmed that no direct contracts for the supply of goods and consumables with any of the suppliers listed currently exist.

Stage 3 of the review examined expenditure on goods and consumables through the SAP finance system for any of the suppliers identified in Stage 1. This stage, undertaken by HDOne Shared Services, verified that no expenditure at any level had been made on goods and consumables with any of the suppliers identified in Stage 1 since the motion was passed in November 2024, confirming that no active contracts exist for the supply of goods and consumables, and no spot purchases are currently taking place with any of the listed suppliers.

Stage 4 of the review involved examining all relevant procurement legislation in consultation with Legal Services, including the Local Government Act 1988, the Procurement Act 2023, and Procurement Policy Notes (PPN) issued by the Cabinet Office. The findings are outlined below:

Section 17 of the Local Government Act 1988 requires local authorities in England and Wales to exclude non-commercial considerations when making decisions regarding public supply contracts. As a result, this legislation prevents the Council, as a local authority, from influencing procurement decisions based on factors unrelated to the commercial aspects of a contract. It is anticipated this section will be disapplied by a Minister of the Crown in accordance with Part 12 (Amendments and Repeals) of the Procurement Act 2023 in due course and there are no current timescales. However, regardless of this the Council still cannot lawfully avoid purchasing goods and consumables from Israeli companies involved in the illegal occupation of Palestinian territories by way of a blanket ban as the Procurement Act 2023 applies as set out in the remainder of this report.

Under the Procurement Act 2023 (the Act), the Debarment Review Service (DRS) is empowered to investigate suppliers on behalf of a Minister of the Crown to determine whether they meet the criteria for exclusion or are deemed excludable. This evaluation informs the decision on whether to add them to the debarment list, a publicly accessible register that allows Ministers to prohibit suppliers from participating in public procurement if their past conduct or circumstances warrant disqualification. The Act grants the DRS authority to conduct these investigations to assess whether a supplier should be excluded, ultimately guiding the decision on their potential inclusion in the debarment list.

Oversight of this process falls under the Government's Procurement Review Unit (PRU), which carries out central assessments for supplier exclusion from public sector procurement. Final decisions rest with a Minister of the Crown rather than individual contracting authorities. Local Authorities are required to comply with these provisions unless directed otherwise by the Government through a Procurement Policy Note (PPN), a legislative amendment, or the addition of a supplier to the debarment list, which must be considered when conducting covered procurement under the Act.

In 2022, the Government issued [PPN 01/22](#) in response to the Russian invasion of Ukraine, later updating it in 2025 with [PPN 007](#). These Procurement Policy Notes instruct public sector organisations to evaluate contracts linked to Russian or Belarusian suppliers and determine whether termination is legally viable, if a replacement supplier could be secured without compromising value for money, affordability, or the continuity of public services.

At the time of undertaking the review, there have been no PPNs published regarding the use of suppliers illegally occupying Palestinian territories and there are currently no suppliers added to the debarment list.

Schedule 7, Section 11(1) of the Act outlines the grounds for professional misconduct, stating: "A discretionary exclusion ground applies to a supplier if a court, regulator, or other authority has ruled that the supplier or a connected person has engaged in such conduct."

As a Contracting Authority, the Council has the discretion to exclude a supplier from a covered procurement process if the PRU has deemed them an excludable supplier.

When exercising this discretion, the Council must consider the objectives set out in Section 12 of the Act, including delivering value for money, maximising public benefit, promoting information sharing, and demonstrating integrity in its actions.

More broadly, the Council must assess the risks posed by the misconduct or circumstances leading to the exclusion ground and weigh them against the public interest in allowing the supplier to participate. However, the Council cannot implement a blanket policy of always excluding or never excluding suppliers based on this ground; each case must be assessed individually, considering the specific procurement context and all relevant factors at the time.

### **3. Implications for the Council**

#### **3.1 Council Plan**

The Council's capacity to work effectively and to deliver aspects of its corporate outcomes is underpinned by ensuring that its procurement practice operates within a legal framework that promotes free and open competition, adhering to both international and national obligations and regulations.

#### **3.2 Financial Implications**

None directly

#### **3.3 Legal Implications**

The Council is required to ensure its procurement practices are undertaken in accordance with the Local Government Act 1988, the Procurement Act 2023 and any associated guidance and policy notes that is issued by the Cabinet Office

#### **3.4 Climate Change and Air Quality**

None directly

#### **3.5 Other (e.g. Risk, Integrated Impact Assessment or Human Resources)**

None directly

### **4. Consultation**

Consultation has been undertaken with HDOne Shared Services for stage 3 of the review and Legal Services for stage 4 of the review.

### **5. Engagement**

The procurement team have engaged with CGAC to ensure appropriate oversight of the review.

### **6. Options**

#### **6.1 Options considered**

1. Not carry out review (this would not address the motion agreed)
2. Carry out the review

#### **6.2 Reasons for recommended option**

It was agreed that the Corporate Governance and Audit Committee meeting on 7 March 2025 that the committee would have oversight of the review of procurement practices that has been undertaken to address the motion agreed upon at the Council meeting on 13 November 2024. The Committee's oversight will ensure the review's adequacy and compliance with all applicable legislation.

**7. Next steps and timelines**

The review of procurement practices, initiated by the council motion on 13 November 2024, has now concluded. The Procurement Team will stay vigilant for updates from the Cabinet Office concerning PPNs or legislative amendments, ensuring timely implementation as necessary. Additionally, they will continue to verify the debarment list for newly added suppliers during each covered procurement process undertaken and exercise discretion in excluding suppliers if the PRU has classified them as excludable.

**8. Contact officer**

Ruth Calladine, Head of Procurement (01484 221000, email – [ruth.calladine@kirklees.gov.uk](mailto:ruth.calladine@kirklees.gov.uk))

**9. Background Papers and History of Decisions**

- [Proposal for the Review of Procurement Practices in accordance with the Council Motion resolved on 13 November 2024 – 7 March 2025](#)

**10. Appendices**

Appendix A – Motion and resolution – 13 November 2024

**11. Service Director responsible**

Samantha Lawton, Service Director Legal & Commissioning

## Appendix A - Council Motion resolved on 13 November 2024

### 12: Motion submitted in accordance with Council Procedure Rule 14 as to Gaza - a year on, urgent action is needed

To consider the following Motion in the names of Councillors J D Lawson, Arshad, Khan, Safdar, Anwar, Kahut and Bramwell.

“This Council notes that nearly a year on from the start of the latest conflict in Gaza:

- a) 10,000’s of innocent men, women and children have been killed or seriously injured. Many more are missing in the debris of Gaza.
- b) Gaza is being raised to the ground. There has been indiscriminate bombing of refugee camps, medical facilities, schools, places of worship of all denominations and the general infra structure.
- c) Aid is still not getting into Gaza in the quantity needed due to interference by the Israeli Govt this has resulted in widespread malnutrition and the remaining medical facilities running without even the basic of medical supplies.
- d) That the Israeli government is guilty of war crimes and breaching International Humanitarian Law. Creating an Apartheid State within the Palestinian Territories of Gaza and the West Bank.
- e) The International Court of Justice has declared the situation in Gaza to be genocide
- f) That many residents of Kirklees remain gravely concerned about the ongoing situation in Gaza and wish to see an end to the genocide in Gaza.

This Council calls on the Leader of the Council to write to Keir Starmer, the Prime Minister to urge him to revoke licenses which allow the selling of arms and military equipment to Israel until a time the Israeli Government stops the on-going genocide in Gaza, ceases to occupy the Palestinian Territories of the West Bank and Gaza, abides by the IJC rulings and the numerous United Nations resolutions. That the Prime Minister lobbies his Israeli counterpart to immediately allowed in aid to Gaza unfettered by obstructions, in a bid to holt the humanitarian crisis that is occurring within Gaza. And that the Prime Minister uses all diplomatic channels at his disposal to call for a ceasefire and the return of the Israeli hostages.

We ask that the Palestinian Flag be flown at Huddersfield, Batley and Dewsbury Town Halls in an act of remembrance for those who have died. This would be at no expense to local council tax payers as the flags would be purchased by a local group.

We ask that Kirklees Council where at all lawful and practical to avoid purchases of goods from Israeli companies illegally occupying the afore mentioned Palestinian Territories.

That the council commits to conducting a thorough review of its procurement practices to ensure that goods and consumables sourced from companies directly or indirectly involved in the conflict are not used.”

#### **RESOLVED –**

1) That this Council notes that nearly a year on from the start of the latest conflict in Gaza:

- a) 10,000’s of innocent men, women and children have been killed or seriously injured. Many more are missing in the debris of Gaza.

- b) Gaza is being raised to the ground. There has been indiscriminate bombing of refugee camps, medical facilities, schools, places of worship of all denominations and the general infra structure.
- c) Aid is still not getting into Gaza in the quantity needed due to interference by the Israeli Govt this has resulted in widespread malnutrition and the remaining medical facilities running without even the basic of medical supplies.
- d) That the Israeli government is guilty of war crimes and breaching International Humanitarian Law. Creating an Apartheid State within the Palestinian Territories of Gaza and the West Bank.
- e) The International Court of Justice has declared the situation in Gaza to be genocide
- f) That many residents of Kirklees remain gravely concerned about the ongoing situation in Gaza and wish to see an end to the genocide in Gaza.

2) That this is Council calls on the Leader of the Council to write to Keir Starmer, the Prime Minister to urge him to;

- revoke licenses which allow the selling of arms and military equipment to Israel until a time the Israeli Government stops the on-going genocide in Gaza, ceases to occupy the Palestinian Territories of the West Bank and Gaza, abides by the IJC rulings and the numerous United Nations resolutions.

- lobby his Israeli counterpart to immediately allowed in aid to Gaza unfettered by obstructions, in a bid to holt the humanitarian crisis that is occurring within Gaza.

- all diplomatic channels at his disposal to call for a ceasefire and the return of the Israeli hostages

3) That we ask that Kirklees Council where at all lawful and practical to avoid purchases of goods from Israeli companies illegally occupying the afore mentioned Palestinian Territories.

4) That this Council commits to conducting a thorough review of its procurement practices to ensure that goods and consumables sourced from companies directly or indirectly involved in the conflict are not used.

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# The Audit Plan for Kirklees Council 2024-25

Year ending 31 March 2025

9 June 2025



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# 01 Key developments impacting our audit approach

# Local Audit Reform

## External factors

### Proposals for an overhaul of the local audit system

On 18 December 2024, the Minister of State for Local Government and English Devolution, Jim McMahon OBE, wrote to local authority leaders and local audit firms to announce the launch of a strategy to overhaul the local audit system in England. The proposals were also laid in Parliament via a Written Ministerial Statement.

The government's strategy paper sets out its intention to streamline and simplify the local audit system, bringing as many audit functions as possible into one place and also offering insights drawn from audits. A new Local Audit Office will be established, with responsibilities for:

- Coordinating the system – including leading the local audit system and championing auditors' statutory reporting powers
- Contract management, procurement, commissioning and appointment of auditors to all eligible bodies
- Setting the Code of Audit Practice
- Oversight of the quality regulatory framework (inspection, enforcement and supervision) and professional bodies
- Reporting, insights and guidance including the collation of reports made by auditors, national insights of local audit issues and guidance on the eligibility of auditors.

The Minister also advised that, building on the recommendations of Redmond, Kingman and others, the government will ensure the core underpinnings of the local audit system are fit for purpose. The strategy therefore includes a range of other measures, including:

- setting out the vision and key principles for the local audit system
- committing to a review of the purpose and users of local accounts and audit and ensuring local accounts are fit for purpose, proportionate and relevant to account users
- enhancing capacity and capability in the sector

strengthening relationships at all levels between local bodies and auditors to aid early warning system

increased focus on the support auditors and local bodies need to rebuild assurance following the clearing of the local audit backlog.

### Our Response

Grant Thornton welcomes the proposals, which we believe are much needed, and are essential to restore trust and credibility to the sector.

For our part, we are proud to have signed 83% of our 2022-23 local government audit opinions without having to apply the local authority backstop. This compares with an average of less than 30% sign off for other firms in the market.

We will be keen to work with the MHCLG, with existing sector leaders and with the Local Audit Office as it is established to support a smooth transition to the new arrangements.

# Key developments impacting our audit approach

## National Position

Local government face many challenges, the pandemic along with the cost of living crisis has left local government with economic, social, and health challenges to address:

**Staffing:** A key challenge facing councils in maintaining service sustainability is the growing difficulties in relation to workforce recruitment and retention. Councils struggle to attract and retain qualified staff, especially younger talent. Many councils have outdated recruitment processes and are heavily reliant on agency staff.

**Climate change:** As the impacts of climate change become increasingly evident, local government plays a pivotal role in mitigating and adapting to these changes. The UK's targets for achieving net zero carbon emissions and local authority pledges must align into cohesive policies with common goals. This includes ongoing local economy investment in renewable energy, promoting sustainable transportation and implementing measures to enhance resilience against extreme weather events.

**Housing crisis:** The shortage of affordable housing continues to be an issue. There aren't enough social rented homes to meet demand and it is difficult to find land for new housing developments. New requirements around net zero and other environmental considerations make it more complex to get planning permission. Local authorities therefore face the challenge of providing adequate housing while balancing environmental sustainability and statutory planning requirements.

**Funding:** Local government faces many challenges in securing funding, including declining grant income, slow tax revenue growth, and rising demand for services. These challenges can make it difficult for local government to balance their budgets, assess their revenue base, and enforce taxes. Social care costs, maintaining aging infrastructure, SEND and homelessness are driving up council spending and cuts to discretionary services impact local communities. Strained budgets are making it challenging to fund essential services and infrastructure projects. There has been some funding increases announced. For 2025-26, the average increase in core spending power across the Local Government sector is a 6.8% increase, with Metropolitan District Councils receiving the largest increase of an average of 9.2%

**Digital Transformation:** The fast pace of technological advancement poses both opportunities and challenges for local government. The adoption of digital tools and platforms is crucial for improving service delivery, enhancing communication and streamlining administrative processes. However, many communities still lack access or ability to navigate essential technology which creates a digital divide. Local government needs to ensure inclusivity in its digital strategies, addressing disparities and ensuring all residents can benefit from the opportunities technology offers.

**Cybersecurity:** Local government needs to protect against malware and ransomware attacks. Authorities also need to navigate central government policy shifts and constraints. With increased reliance on digital platforms, they become more vulnerable to cyber threats. Safeguarding sensitive data and ensuring the integrity of critical systems are paramount and local authorities must invest in robust cybersecurity measures, employee training and contingency plans to protect themselves.

## Our Response

Building and maintaining public trust is arguably the cornerstone of effective governance. Local government must prioritise transparency, open communication and meaningful public engagement to foster positivity within communities.

Despite councils' best efforts, financial pressures are affecting the scale, range and quality of council services provided to local residents. The clearest evidence of this is that councils' service spending is increasingly focused on adult and children's social care, SEND and homelessness. Ultimately spending is increasingly concentrated on fewer people, so councils are less able to support local and national agendas on key issues such as housing, economic growth, and climate change.

Sound strategic financial management, collaboration with other levels of government and exploring alternative funding sources are vital for local authorities to overcome financial constraints and deliver quality services.

Our value for money audit work continues to identify significant weaknesses across the sector in all criteria of the Code of Audit Practice. This shows that local authorities are facing increasing pressure to provide services while managing change and reducing costs. We understand that the environment in which our audited bodies operate is dynamic and challenging and this understanding allows us to have insightful conversations and adapt our approach to delivering our audit work accordingly.

We know the difficulties and challenges faced within our Local Authority bodies and know there is a focus on improving quality and reducing costs. We will work with you as you strive to deliver these aims.

# Key developments impacting our audit approach

## Local Context

### 2024-25 financial performance

- The financial monitoring report to Cabinet in March 2025 reported that as at December 2024 the Council had a net forecast overspend of £9.9m for the financial year 2024-25. The report notes that this is largely due to demand led pressures on children's residential placements, adult social care packages, underachievement of parking income from delays in implementation of new and increased tariffs, home to school transport, temporary accommodation for the homeless which does not attract full government subsidy, overspends on building management – cleaning and security, waste services – increased fleet required to meet demand and increased cost of disposing of pollutants. A number of these factors are consistent with cost and demand pressures facing single tier authorities nationally. These pressures have been offset from a nearly £6m underspend on central budgets arising from intentional slippage in the capital programme (reduced borrowing requirement and interest costs) and utilities and energy costs being lower than budgeted.
- Savings of £42.5m were included in the approved general fund budget for 2024-25. At December 2024, around half of the savings required had been delivered (£21.1m). Of the £21.4m of savings still to be delivered, around £10m is high risk and is not expected to be delivered by the year end. Significant underdelivery of the following schemes is expected: delays to increased parking charges and fines income underperformance (£1.7m), asset rationalisation leading to reduced running costs (£1.5m), post 16 changes to schools transport (£0.7m), under recovery of adult social care income (£2.3m), adult social care transformation – direct payments (£1.3m) and supported living (£1.3m).
- The Dedicated Schools Grant (DSG) deficit is forecast to increase by £20.6m in 2024-25 with a year end forecast deficit of £64.3m. This compares with the DSG Safety Valve Agreement target value of £63.3m, meaning the year end deficit is £1m adverse to plan. The Council is therefore off track in delivering the 2025 outturn which it committed to. We understand that this position has been reported to the Department for Education via the quarterly safety value monitoring reports and that there has been no adverse impact from the DfE to date in relation to the deficit forecast.
- The Capital Programme for 2024-25 is £202m split as £159m for the General Fund and £43m for the HRA. This has been reduced in-year to account for £33m being slipped and reprofiled into future years. The highest value scheme slipped is the Transforming Cities Fund (£12m). The quarter 3 position notes the potential for further slippage at outturn on the basis that prior year capital expenditure totalled £148m.

### Operational performance

- The Council measures its performance against its Council Plan covering the period from April 2025 to March 2025. The four key priorities are: Address the Council's financial position in a fair and balanced way, Strive to transform Council services to become more efficient, effective, and modern, Continue to deliver a greener, healthier Kirklees and address the challenges of climate change and Continue to invest and regenerate towns and villages to support diverse places and communities to flourish.
- There are a number of examples of good or improving performance indicators per the quarter 3 report. Remedying unsafe potholes in a timely manner is improving, as is school attendance, and also completion of Fol requests in line with national requirements. The Council has also demonstrated improvements in the percentage of care leavers moving to suitable accommodation and the amount of social value being delivered from Council contracts with third-party suppliers.
- Some performance measures were behind plan with performance declining at the end of quarter 3 where improvement is required. The percentage of ECHPs being finalised within 20 weeks had declined and the Council had recorded an increased number of RIDDOR reportable incidents year on year, however, this may be a by-product of improved recording. The longevity of childhood placements has also declined, potentially giving rise to greater instability for children in care. For the HRA, there has been an increased number of damp and mould cases recorded (which is a measure of demand). Performance on completing housing emerging repairs in a timely manner remains good at 96%, however, non-emergency repairs has declined year-on-year and remains below performance recorded in 2022-23.

### 2025-26 financial planning

At Full Council in March 2025, a net revenue budget of £396m was approved by Members. The budget provided for £50m of investment in revenue budget and requires delivery of savings totalling £27m. The 2025-26 budget presented to Members assumed a £5.5m draw on general fund reserves. Members opted to increase council tax by 4.99% (2.99% basic + 2% adult social care) against a national maximum uplift of 5%. Decisions made by the new UK government have led to increased funding for local authorities which has impacted favourably on the Council's revenue budget. The average increase in core spending power across the Local Government sector is a 6.8%, with Metropolitan District Councils receiving the largest increase of an average of 9.2%. The financial settlement remains a single year settlement, however, a multi-year settlement, which is likely to aid the Council with its medium term financial planning, may be announced following the outcome of the ongoing spending review.

# Key developments impacting our audit approach

## New accounting standards and reporting developments

Local authorities have had to implement IFRS 16 Leases from 1 April 2024. The main difference from IAS 17 will be that leases previously assessed as operating leases by lessees will need to be accounted for on balance sheet as a liability and associated right of use asset. More information can be found on page 10.

## Our Response

As part of our prior year audit work, we discussed the implementation of IFRS 16 with management and we identified that an impact assessment, detailing the expected impact of implementation of the standard, as required by IAS 8 and the Code, had not been disclosed.

We raised an audit recommendation in our prior year audit findings report for the Council to accelerate the implementation of IFRS16 to ensure such leased assets are completely and accurately captured before 2024-25 accounts closedown. We also reported that Management should ensure that there are appropriate arrangements to be in place to support with the initial adoption of the IFRS 16 standard in 2024-25. We shall follow up on the Council's response to this recommendation as part of our detailed audit work in 2024-25.

- We will perform a detailed review of the Council's implementation of IFRS 16 which will include:
  - Review of accounting policies and disclosures
  - Review of application of judgement and estimation
  - Review of systems to capture the process and maintain new lease data and for ongoing maintenance
  - Review of accounting for what were previously operating leases
  - Gain an understanding of the identification process of peppercorn rentals and how these are recognised as leases under IFRS 16
  - Obtain and review the contracts register and copies of signed lease agreements, to assess the completeness of arrangements identified as being within the scope of the IFRS 16 leases accounting standard
  - Assess the appropriateness of the subsequent valuation of the right of use assets and the consistency of the valuation approach with regards the wider asset class – e.g. rolling programme of valuation for land & building right of use assets
  - Assess initial recognition of the lease liability including verifying lease team and annual payments to supporting evidence and the selection of an an appropriate discount rate.

# Key developments impacting our audit approach

## Accounting for the Council's interest in Kirklees Stadium Development Limited (KSDL)

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The Council has held a 40% equity interest in KSDL for a number of years and given its material nature in prior years, the Council has produced group financial statements and accounted for its share in KSDL using the equity accounting method. KSDL has been loss making for a number of years with a declining level of reserves. Its only financial statement line item historically material to the group has been the carrying value of the John Smith's Stadium (football stadium). The overall valuation of the stadium reduced in the prior year to below audit materiality (£14.3m), so at the time of our 2024-25 audit planning, we noted that the Council's interest in KSDL may no longer be material at a group level.

We understand that the Council has been exploring how it may be able to divest its interest in KSDL, and the chief officer team has informed us that an agreement is expected to be reached and ratified by the interested parties shortly. Management are considering whether the proposed transactions and the financial value that the Council will immediately benefit from is significantly lower than the carrying value recorded on the balance sheet. As such, management are in the process of concluding their assessment as to whether an impairment indicator existed at 31 March 2025, which may require an impairment to be transacted within the 2024-25 financial year.

From our discussions with management to date, it has been communicated that it is their view that group accounts are no longer required of the grounds of materiality. Should this materialise as expected, no group audit work will be performed by external audit from 2024-25 on the basis that group accounts will no longer be prepared. The Council has shared its rationale for not producing group accounts with us which does not look unreasonable.

No material impact is expected to arise in relation to the Council's single entity accounts since the Council's interest is recorded at cost. However, it would be for management to determine whether the carrying value of the Council's investment in KSDL in the single-entity accounts (cost) should be impaired. It should also be noted that management should look to disclose any decision not to produce group accounts in 2024-25 in the key judgements section of the 2024-25 draft accounts.

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# Key developments impacting our audit approach (continued)

## Our commitments

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- As a firm, we are absolutely committed to audit quality and financial reporting in local government. Our proposed work and fee, as set out further in this Audit Plan, has been agreed with the Service Director Finance (Section 151 Officer).
- To ensure close work with audited bodies and an efficient audit process, our preference as a firm is to undertake our audit following a hybrid approach of remote working and on-site visits when appropriate.
- We plan to continue to meet with the Chief Executive, Service Director Finance and the Legal and Monitoring Officer on a quarterly basis as part of our commitment to keep you fully informed on the progress of the audit and to keep abreast of any areas of accounting and governance issues at the Council.
- We plan to meet informally with the Chair of your Corporate Governance and Audit Committee prior to meetings, to brief them on the status and progress of the audit work to date.
- Our Value for Money work will continue to consider the arrangements in place for you to secure economy, efficiency and effectiveness in the use of your resources.
- We will continue to provide you and your Corporate Governance and Audit Committee with sector updates providing our insight on issues from a range of sources via our Corporate Governance and Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector. Your finance team will continue to be invited to these workshops.



# IFRS 16 Leases



## Summary

IFRS 16 Leases is now mandatory for all Local Government (LG) bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

## Introduction

IFRS 16 updates the definition of a lease to:

- “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. In the public sector the definition of a lease is expanded to include arrangements with nil consideration.”

This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major change from the requirements of IAS 17 in respect of operating leases.

There are however the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating). The principles of IFRS 16 will also apply to the accounting for PFI assets and liabilities.

## Systems and processes

We believe that most LG Bodies will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance
- accounting for what were operating leases
- identification of peppercorn rentals and recognising these as leases under IFRS 16 as appropriate.

## Planning enquiries

As part of our planning risk assessment procedures, we have obtained completed responses to our enquiries from management and held a call with the finance manager for financial accounting to understand the process that the Council has undertaken in adopting the standard. We obtained a process flow mapping from management and evidence of the enquires made of each of the directorates to identify contracts leases within the scope of the IFRS 16 leases standard. Management's processes to identify contracts that contain a lease is a key part of procedures to address the completeness risk and we shall review the sufficiency and appropriateness of the processes in place as part of our audit fieldwork.

Discussions with management indicate that the most significant impact on adoption will relate to the accounting for the Council's PFI liabilities with the annual inflation charges now being accounted for as part of the lease liability on the balance sheet, and also being accounted for within the depreciation and interest costs in the CIES, rather than being accounted for a simple charge to services in the CIES which was previously the case. The Council also holds a number of vehicles on operating leases that are expected to be impacted by the implementation of the new standard.

Computation of the year end IFRS 16 right of use asset values and associated liabilities remains ongoing at the time of writing, and is set to be completed in line with the accounts closedown timetable.

# The Backstop

## Local Government National Context – The Backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

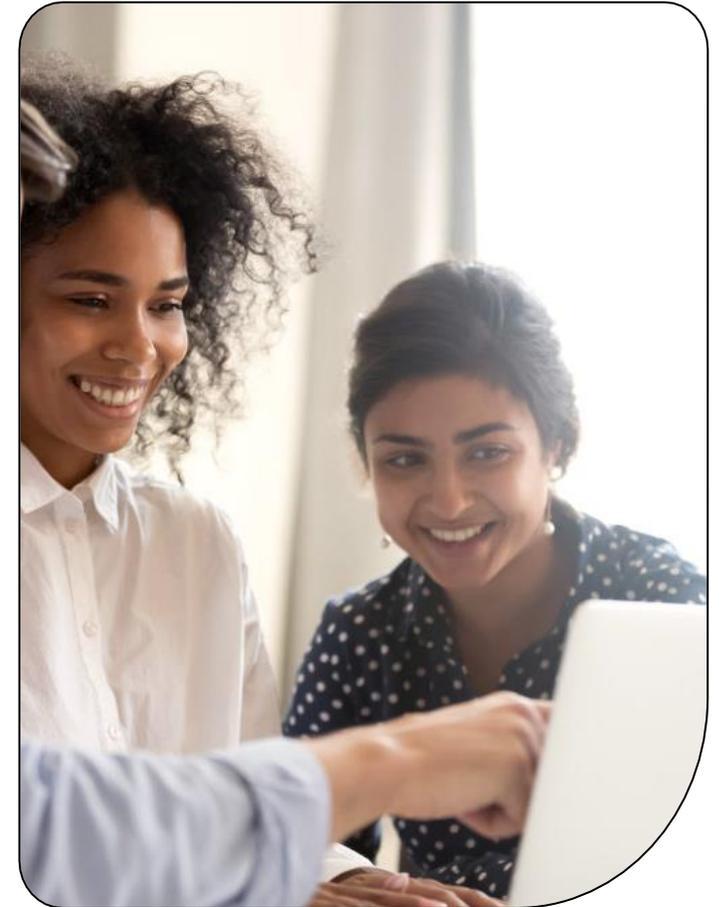
- for years ended 31 March 2025 by 27 February 2026
- for years ended 31 March 2026 by 31 January 2027
- for years ended 31 March 2027 by 30 November 2027.

The Statutory Instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

## Local Government National Context – Impact on Kirklees Council

Arrangements at the Council have continued to support with both the production of draft financial statements in a timely manner and an appropriately resourced financial team to properly engage with the external auditor. As a result of the good arrangements in place, Kirklees Council has not been affected by any of the backstop provisions.

Our aim is to report our Audit Findings (ISA260) Report and Annual Auditor's Report on value for money arrangements to Members at the Corporate Governance and Audit Committee In January 2026. Following the reporting of our audit findings, we are aiming to conclude our audit and issue the audit opinion by the end of January 2026, ahead of the backstop date in February 2026.



# 02 Introduction and Headlines

# Introduction and headlines



## Purpose

- This document provides an overview of the planned scope and timing of the statutory audit of Kirklees Council ('the Council') for those charged with governance.

## Respective responsibilities

- The National Audit Office ('the NAO') has issued the Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body.
- Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to these documents.

## Scope of our Audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance and Audit Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that arrangements are in place to use resources efficiently in order to maximise the outcomes that can be achieved as defined by the Code of Audit Practice.

The audit of the financial statements does not relieve management or the Corporate Governance and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

# Introduction and headlines (continued)

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Closing valuation of land and buildings, including Council dwellings
- Closing valuation of investment properties
- Valuation of defined benefit pension fund net balance

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £18.4m (PY £16.2m) for the Council, which equates to 1.5% of your prior year (2023-24) gross expenditure on net cost of services (prior year 1.35%).

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. Having considered these, we noted none impacted on the Council's useable reserves and therefore assessed that there should be no impact on the materiality determination.

Our 'clearly trivial' reporting threshold for issues to be brought to the Corporate Governance and Audit Committee's attention has been set at £0.9m (PY: £0.81m).

We have set a lower materiality level for senior officer remuneration disclosures, as these are considered sensitive disclosures. We have set a lower materiality of £20,000 for the audit in this area.

## Value for Money arrangements

Our 2023-24 Auditor's Annual Report identified two significant weaknesses and ten improvement recommendations.

Our 2024-25 risk assessment regarding your arrangements to secure value for money has identified risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness. These were identified as a result of the three significant weaknesses in arrangements reported in our 2023-24 Auditor's Annual Report.

The first significant weakness was in respect of the Council's financial sustainability given the Council had continued to overspend on its general fund revenue budget and reserves had reduced. The key recommendation arising was for the Council to continue to build on its work to strengthen its financial position through delivering budgeted savings and managing expenditure to outturn as close to its budgeted position as possible, to review pressures, assumptions and future savings levels in the MTFS, and to review its targeted level of reserves in future years of the MTFS.

The second significant weakness was in respect of the Council's Dedicated Schools Grant deficit. The Council was off track in delivering its planned reduction in the accumulated deficit as at last year end. The key recommendation arising was for the Council to take action to return spending on DSG back in line with its renegotiated Safety Valve management plan with DfE.

The third significant weakness was in arrangements in relation to the Council's social housing compliance with the Social Housing Regulator standards. The key recommendation arising was for the Council to improve arrangements to ensure that issues raised by the Social Housing Regulator are addressed, including fire remedial actions from fire assessments, repairs required to address damp and mould and water quality testing.

We will follow up progress against the key recommendation made in 2023-24 and ensure that our work assesses the current arrangements in place. See page 39 and 40 for further detail of our value for money risk assessment in the current year.

## Audit logistics

Our planning and interim work took place in March and April. Our year-end audit will take place from July through to November. Our key deliverables are this Audit Plan, our Audit Findings (ISA260) Report – which is targeted for January 2026, and our Auditor's Annual Report on VFM arrangements – which is also targeted for January 2026.

Our proposed fee for the audit is £473,400 for the Council which is the PSAA scale fee for 2024-25 (PY: £451,736). We anticipate some additional fees will be required in relation to audit work on the implementation of the new IFRS 16 leases accounting standard. This has not been factored into the 2024-25 scale fees. This will be confirmed when our audit work is completed. The proposed fee is subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and / or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2024) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# 03 Identified risks

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
<b>Management override of controls</b>	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.	We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	<p>In response to this risk we will:</p> <ul style="list-style-type: none"> <li>• Make inquiries of finance staff regarding their knowledge of potential instances of management override of controls.</li> <li>• Evaluate the design effectiveness of management's controls over journals. This will include the controls management has in place to review journal postings.</li> <li>• Analyse the journals listing and determine the criteria for selecting high risk unusual journals.</li> <li>• Perform a risk-based interrogation of the financial ledger to identify any unusual and potentially fraudulent transactions for testing.</li> <li>• Test unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration.</li> <li>• Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence.</li> <li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> <li>• Examine journals and manual entries made around the time of the preparation of the draft financial statements for appropriateness and corroboration.</li> <li>• Understand the ledger integration with relevant sources and sub-systems to identify how management may be able to intervene in the journals posting process and post fraudulent entries.</li> </ul>



“In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK).” (ISA (UK) 315).

In making the review of unusual significant transactions “the auditor shall treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks.” (ISA (UK) 550).



Management should expect engagement teams to challenge them in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management’s assumptions and request evidence to support those assumptions.

# Significant risks identified (continued)

## Significant risk Audit team's assessment

## Planned audit procedures

<p><b>Closing valuation of land and buildings, including Council dwellings</b></p>	<p><b>Land and buildings:</b> The Council re-values its land and buildings on a rolling three-yearly basis in line with the Code requirements.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (some £514m at 31 March 2024) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value of land and buildings is not materially different from the current value at the balance sheet date, where a rolling programme is used.</p> <p><b>Council dwellings:</b> The CIPFA Code requires that Council dwellings (some £825m at 31 March 2024) should be valued on the basis of existing use value as social housing and the Council has adopted a beacon methodology.</p> <p>The valuation of land and buildings and council dwellings involves subjectivity and a significant degree of judgement and estimation by management. This is due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>The closing valuation of land and buildings and council dwellings was identified as a significant risk, and one of the most significant assessed risks of material misstatement.</p>	<p>The Council holds both specialised and non-specialised buildings. The specialised assets comprise schools and leisure centres among others. The valuation approach is depreciated replacement cost (DRC) with the key valuation assumptions being the rebuild cost, building size and adjustments for obsolescence (buildings age, condition &amp; functionality). The council also holds non-specialised assets such as car parks and offices. These valuations may be undertaken with reference to observable open market values for similar land &amp; buildings or using a capitalisation of income approach. Council dwellings are also considered non-specialised. For dwellings, the beacon methodology is applied which identifies a value based on market comparables, which is then applied to similar properties.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls around processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• engage our own auditor's expert valuer to assess the instructions issued to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation</li> <li>• test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied itself that their carrying values are not materially different to current value at year end</li> <li>• consider, where the valuation date is not 31 March 2025 (as relevant) for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2025</li> <li>• obtain an assessment from management on potential valuation movements for those land &amp; buildings not revalued in year. We shall review relevant cost- and market-based indices (e.g. BCIS &amp; MSCI) to corroborate management's assessment that the assets' carrying value is not materially different from their current value where no revaluation has been commissioned. We shall consider changes in local market rents and yields for EUV assets, obtaining Huddersfield- and West Yorkshire-specific data where available</li> <li>• agree, on a sample basis, the internal floor areas (GIAs) to the Council's K2 property asset management software and AutoCAD building measurement software</li> <li>• for non-specialised properties valued on the existing use value (EUV) basis, obtain market comparables to assess the appropriateness of market rents and yields selected by management's expert and used in the valuation calculations</li> <li>• for council dwellings, valued using the beacon methodology, obtain comparables from online sold property websites and assess the valuation of the beacon property against the sale prices of comparable residential properties. Similarly, we will assess the appropriateness of adjustments for additional bedrooms with reference to comparable houses shown on sold property websites.</li> </ul>
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# Significant risks identified (continued)

## Significant risk Audit team's assessment

## Planned audit procedures

Significant risk	Audit team's assessment	Planned audit procedures
<p><b>Closing valuation of investment properties</b></p>	<p>The Council re-values its investment property portfolio annually for in line with the Code requirements.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (some £91m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value of investment property in the Council's financial statements is not materially different from the fair value at the financial statements date, where an alternative valuation reference date is used.</p> <p>We therefore identified the closing valuation of investment property, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>The Council holds a mixed commercial property and land within its investment property portfolio including retail, industrial and offices. Over 75% of investment property (by value) is land. These valuations may be undertaken with reference to observable open market values for similar land and buildings or using a capitalisation of income approach.</p> <p>We raised one recommendation in the prior period since there were investment properties totalling £9.2m at 31 March 2024 which had not been subject to annual revaluation, which is not compliant with Code requirements for investment properties to be revalued annually. Management asserted that investment properties below £250k are de minimis with no annual valuation required. We recommended that management reconsider and adjust the threshold for properties subject to an annual valuation to ensure the accounting practices adopted by the Council remain compliant with Code requirements. We will follow up on this recommendation as part of our year end audit work in 2024-25.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• engage our own auditor's expert valuer to assess the instructions issued to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation</li> <li>• test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>• consider, where the valuation date is not 31 March 2025 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2025</li> <li>• agree, on a sample basis, the internal floor areas (GIAs) to records held by the estates management function</li> <li>• review the classification of investment property assets for consistency with the Code and IPSAS 16 definition. Under the definition, an investment property is one that is used solely to earn rentals or for capital appreciation or both. This procedure is not expected to directly inform our work on the valuation of investment property (significant risk) but remains a key audit procedure nonetheless.</li> <li>• for investment properties valued on a fair value (FV) basis, obtain market comparables to assess the appropriateness of market rents, market yields and land values selected by management's expert and used in the valuation calculations.</li> </ul>

# Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
<p><b>Valuation of the pension fund net balance</b> (£90m at 31 March 2024)</p>	<p>The Council's pension fund net balance, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p> <p>The pension fund net balance is considered a significant estimate in the financial statements due to the size of the numbers involved to arrive at that net balance (gross asset of £2.5bn and liability of £2.4bn in 2024) and the sensitivity of the estimate to changes in key assumptions.</p> <p>At 31 March 2024, the Council reported a net pension surplus in their financial statements and was subsequently capped at £nil under the principles of IFRIC 14. Gross assets were reduced by just over £0.1bn to reach the £nil balance sheet position. £17m of the net pension liability reflects the Council's obligations in respect of unfunded liabilities, for which there are no pension assets to offset.</p> <p>A key aspect of our work planned is to consider whether this position remains supported by fund-level assumptions and market-based factors.</p> <p>We therefore identified the valuation of the Council's pension fund net balance as a significant risk of material misstatement.</p>	<p>In response to this risk we will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net balance is not materially misstated and evaluate the design of the fund assets valuation in the pension fund financial statements and associated controls</li> <li>• evaluate the instructions issued by management to their management expert (consulting actuary) for this estimate and the scope of the actuary's work</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the net pension balance</li> <li>• test the consistency of the pension fund figures and disclosures in the draft financial statements with the actuarial report from the actuary</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>• obtain assurances from the auditor of the West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund</li> <li>• evaluate the appropriateness (as applicable) of recognising a pension asset position against the Code and IFRIC 14 criteria</li> <li>• assess the calculation performed to identify the IFRIC 14 net pension asset ceiling and where appropriate, challenge management on the validity and appropriateness of the assumptions used in the calculation including the existence of a minimum funding requirement, the future lifetime of the scheme (in years) and the level of future funding contributions (as a % of payroll costs)</li> <li>• confirm that pension fund asset valuations were based on a 31 March 2025 valuation date</li> <li>• review the accounting for any unfunded liability element of LGPS, including where this has been offset against the net funded LGPS balance.</li> </ul>

# Risks rebutted

Risk identified	Risk relates to	Audit team's assessment	Planned audit procedures
<p><b>The revenue cycle includes fraudulent transactions (rebutted)</b></p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including the Council mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for the Council.</p>	<p>Whilst the risk has been rebutted and we do not consider revenue recognition to be a significant risk for the Council, we shall perform standard audit procedures on this material stream of transactions. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate up to the time of concluding the audit.</p> <p>In respect of income recognised (risk rebutted) we will:</p> <ul style="list-style-type: none"> <li>– Evaluate the Council's accounting policy for recognition of income for appropriateness and compliance with the Code.</li> <li>– For grant income, we sample tested items for supporting evidence and checked the appropriateness of the accounting treatment in line with the CIPFA Code, including the treatment of credited to services and recognition as non-ringfenced other grant income. Testing will also give regard to the treatment of grant income as principal or agent.</li> <li>– For income raised from council tax and non-domestic rates, which are of a predictable nature, we have performed substantive analytical based on the number and value of rateable properties, applying any annual increases to rates as appropriate.</li> <li>– Agree, on a sample basis, income transactions to supporting documentation and cash receipts to evidence the occurrence of these transactions.</li> <li>– We will carry out testing on sample basis of invoices raised and bank receipts either side of the reporting date of 31 March 2025 to determine whether income is recognised in the correct accounting period.</li> </ul>

# Risks rebutted

Risk identified	Risk relates to	Audit team's assessment	Planned audit procedures
<p>The expenditure cycle includes fraudulent transactions (rebutted)</p>	<p>Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>As per PN10, fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>As a result under PN10, there is a requirement on auditors to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.</p>	<p>We considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams. We have rebutted this risk for the Council because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate expenditure for the Council where services are provided to the public through taxpayers' funds.</li> <li>• the Council requires cash to meet its payroll and third-party payment obligations and therefore any manipulation of expenditure between accounting periods does not generate any clear financial benefits.</li> <li>• the Council has a number of contracted key suppliers with whom frequent recurrent transactions are made, which are followed by timely payments, usually within 30 days of receipt of goods. As such, regular bank payments are required to suppliers, which reduces any opportunity to exclude expenditure transactions from being reported in the general ledger.</li> <li>• whilst budget pressures have been identified on page six in respect of adult social care, children's residential placements and home to school transport, direct payments are made to external suppliers on either a weekly or monthly basis. Therefore, there is little opportunity for the Council to exclude this expenditure from the general ledger based on the bank reconciliation procedure and predictability of these expenditure streams over a financial year.</li> <li>• the Council is expected to have £47m of general fund reserves at 31 March 2024, based on the quarter 3 forecast, equivalent to just under 13% of its net revenue budget. This exceeds the broad 5% target in the LG sector and as such the availability of reserves to fund the Council's expenditure does not indicate excessive pressures at the Council.</li> <li>• the Council has clear and transparent reporting of its financial plans and financial position, including regular reporting of budget variance analysis to its Senior Management Team, the Cabinet and Corporate Governance and Audit Committee.</li> </ul> <p>We also considered the risk of fraudulent expenditure recognition in relation to capital expenditure and concluded that it is not a significant risk.</p> <p>We have considered the material risk of improper expenditure and we have identified an elevated risk in relation to completeness of operating expenditure however, we do not consider this to be a significant risk of material misstatement at this time.</p>	<p>Whilst the risk has been rebutted and we do not consider expenditure recognition to be a significant risk for the Council, we shall perform standard audit procedures on this material stream of transactions. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate up to the time of concluding the audit.</p> <p>In respect of expenditure recognised (risk rebutted) we will:</p> <ul style="list-style-type: none"> <li>• Evaluate the Council's accounting policy for recognition of expenditure for appropriateness and compliance with the Code.</li> <li>• Update our understanding of the system for accounting for the expenditure and procedures to ensure the completeness of expenditure recorded in the financial year.</li> <li>• Undertake a detailed substantive analytical procedure on pay expenditure, including checking that changes in gross pay year on year are supported by underlying data including enacted pay awards and movements in workforce numbers.</li> <li>• Agree, on a sample basis, non-pay expenditure to supporting evidence to demonstrate occurrence and accuracy of expenditure recorded.</li> <li>• Inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the value of the accrual was consistent with the value invoiced post year end.</li> <li>• Complete substantive testing of expenditure streams in 2024-25 including sample testing material transactions.</li> <li>• Design and carry out appropriate audit procedures to ascertain that recognition of expenditure is in the correct accounting period, for example, using cut off testing, focusing either side of the reporting date of 31 March 2025.</li> </ul>

# Other risks identified

Other risks are, in the auditor’s judgement, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for another risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day-to-day activities of the Council.

Risk	Audit team’s assessment	Planned audit procedures
<b>IFRS 16 Implementation</b>	<p>The adoption of the IFRS 16 leases standard for local authorities has been deferred several times by the CIPFA Local Authority Code Board. Adoption is now mandated for local authorities, for periods beginning from 1 April 2024, and therefore this is required to be implemented by the Council during its 2024-25 period of account</p> <p>From the adoption by local government of IFRS 16 leases on 1 April 2024, the distinction between operating and finance leases for lessees has been removed. Now all leases, apart from those that are deemed low value or short term, are accounted for on balance sheet by lessees. IFRS 16 has preserved the distinction between finance and operating lease accounting for lessors.</p> <p>In the public sector, the definition of a lease has been extended to include the use of assets for which little or no consideration is paid, often called ‘peppercorn’ rentals. This is one instance where the right of use asset and its associated liability are not initially recognised at the same value. For peppercorn rentals, the right of use assets are initially recognised at market value. Any difference between market value and the present value of expected payments is accounted for as income. This has similarities with the treatment of donated assets.</p> <p>The application of the IFRS 16 standard will also impact on Council’s PFI liabilities which subject to annual indexation for retail price inflation (RPI). Previously, such additional PFI rentals were accounted for as a charge to the revenue account as expenditure (contingent rents). The impact of the new accounting standard is to account for these additional PFI rentals within the PFI model, which will result in these being split between operating costs, repayment of the lease creditor and interest costs. As a result, an overall increase in the value of the PFI liability is expected following application of the IFRS 16 standard to PFI liabilities. In terms of the I&amp;E impact, we are expecting to observe a decrease in PFI contingent rents charged to expenditure and an increase in depreciation charges and lease interest costs.</p> <p>Key judgements include:</p> <ul style="list-style-type: none"> <li>determining what is deemed to be a low value lease. This is based on the value of the underlying asset when new and is likely to be the same as the authority’s threshold for capitalising owned assets</li> <li>determining whether an option to terminate or extend the lease will be exercised. This is important as it affects the lease term and subsequently the calculation of the lease liability based on the expected payments over the lease term</li> <li>where the interest rate cannot be readily determined, the Council’s incremental borrowing rate should be used. There are judgements entailed in how this should be determined given that as per the Code it needs to reflect term, security, and the value of the asset</li> <li>the valuation of the right of use asset after recognition. An expert valuer may be required to support management with this.</li> </ul> <p>We have therefore identified completeness of the identification of leased assets and subsequent valuation as an other risk.</p>	<p>In response to this risk we will:</p> <ul style="list-style-type: none"> <li>Obtain the Council’s live contracts register and copies of signed lease agreements, to assess the completeness of arrangements identified as being within the scope of the IFRS 16 leases accounting standard. This is deemed to be our biggest audit risk on this issue.</li> <li>Agree disclosures presented in the financial statements to underlying accounting records and calculations.</li> <li>Review management’s lease accounting calculations, and assess the accuracy and appropriateness of the inputs and assumptions used including lease term, discount rate and annual rentals.</li> <li>Review the Council’s IFRS16 implementation processes to identify relevant transactions such as peppercorn leases and leases that have “rolled over” at the end of the term.</li> <li>Review the proposed accounting policy and right of use asset valuation approach.</li> <li>Assess how leases with options to extend or terminate have been identified and the likelihood of these options to be exercised.</li> </ul>

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors within the borough the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act)
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.



“The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with ISA (UK) 330 (Revised July 2017), to design and perform tests of controls that address such risks of material misstatement when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As a result, when such controls exist that address these risks, they are required to be identified and evaluated.” (ISA (UK) 315)

# 04 Our approach to materiality

# Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

## Matter Description

## Planned audit procedures

<p><b>01</b> <b>Determination</b></p> <p>We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as taxpayer, service user and stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements.</p> <p>Materiality at the planning stage of our audit is £18.4m, which equates to 1.5% of your prior year (2023-24) gross expenditure on the cost of services (prior year: £16.2m). As set out on page 8 we are not anticipating group a/cs in 24-25 therefore no group materiality has been set.</p>	<ul style="list-style-type: none"> <li>We determine planning materiality in order to:           <ul style="list-style-type: none"> <li>establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements</li> <li>assist in establishing the scope of our audit engagement and audit tests</li> <li>determine sample sizes</li> <li>assist in evaluating the effect of known and likely misstatements in the financial statements.</li> </ul> </li> </ul>
<p><b>02</b> <b>Other factors</b></p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature where it may affect instances when greater precision is required.</p>	<ul style="list-style-type: none"> <li>We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £20k.</li> </ul>
<p><b>03</b> <b>Reassessment of materiality</b></p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<ul style="list-style-type: none"> <li>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. We will reconsider our materiality level upon receipt of the Council's draft 2024-25 financial statements which are expected at the end of June 2025.</li> </ul>
<p><b>04</b> <b>Matters we will report to the Corporate Governance and Audit Committee</b></p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<ul style="list-style-type: none"> <li>We report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</li> <li>In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.9m (PY £0.81m).</li> <li>If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Audit Committee to assist it in fulfilling its governance responsibilities.</li> </ul>



Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

# Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality area	Materiality	Qualitative factors considered
Materiality for the Council's financial statements	£18.4m	This equates to 1.5% of the Council's gross expenditure on the cost of services for 2023-24 based on the audited statement of accounts for the year then ended. This is greater than the 1.35% measurement percentage used in the prior period. We have reached this judgement on the basis that this is now our seventh year as external auditors to the Council and we have developed a great deal of cumulative knowledge and experience over this period. We note that no material errors impacting on useable reserves have been identified in prior periods and there is stability in the Council's Senior Management Team in addition to some improvements in the Council's overall financial standing. These factors have indicated that increasing the measurement percentage to 1.5% is appropriate. Our overall risk assessment at the planning stage supports the 1.5% benchmark applied.
Performance Materiality (PM)	£12.8m	The performance materiality has been set at 70% of financial statement materiality, consistent with the measurement percentage used in the prior period. This reflects our risk assessed knowledge of potential for errors occurring. Performance materiality is used for the purposes of assessing the risks of material misstatement and determining the nature, timing, and extent of further audit procedures. This is the amount we set at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Trivial Matters	£0.9m	The amount below which findings would be clearly inconsequential both individually or in aggregate to any reader of the financial statements. This equates to 5% of headline materiality. We will report all misstatements identified in excess of £900k to Corporate Governance and Audit Committee.
Materiality for specific transactions, balances or disclosures	£20k	Due to the public interest in senior officer remuneration disclosures, we apply specific audit procedures to this work and set a lower materiality level for this area. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We evaluate errors in the remuneration report for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors exceed the threshold we have set or would alter the bandings reported for any individual.

# 05 Progress against prior year audit recommendations

# Progress against prior year audit recommendations

We identified the following issues in our 2023-24 audit of the Council's financial statements, which resulted in ten recommendations being reported in our short form 2023-24 Audit Findings (ISA260) Report. We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.

Assessment	Issue and risk previously communicated:	Update on actions taken to address the issues:
To be confirmed in our ISA260 Audit Findings report due January 2026)	<p><b>Outlier data used in the calculation of the annual leave accrual</b></p> <p>The calculation of the year end accrued leave creditor in 2023-24 was based on the number of days of annual leave accrued to carry forward multiplied by officers' pay per day. Our work highlighted a large range of days leave accrued with the lowest balance of accrued time at 60 days (negative &amp; owed to the Council) and the highest at 315 days accrued. The average was 11 days but the middle value (median) was almost half of that at just below 6 days. This gave rise to some estimation uncertainty in the calculation of the accrual albeit this was not deemed material.</p> <p>We recommended that a data collection exercise take place in the remaining months of the financial year and any outliers are appropriately challenged by management.</p>	<p><i>We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.</i></p>
To be confirmed in our ISA260 Audit Findings report due January 2026)	<p><b>Employee Handbook – Document Out of Date</b></p> <p>Our review of the Employee Handbook, that sets out the terms and conditions of employee service, highlighted that this was last updated October 2015. This is a key document and around 9 years since its last update, there may have been changes in the working environment, one of these may be the Council's protocols in respect of hybrid and remote working.</p> <p>We recommended that this Employee Handbook document be updated to capture changes in the working environment and the Council's working practices and policies. We suggested that this be completed within the next six months (targeting mid-2025).</p>	<p><i>We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.</i></p>

# Progress against prior year audit recommendations

## Assessment

To be confirmed in our ISA260 Audit Findings report due January 2026)

To be confirmed in our ISA260 Audit Findings report due January 2026)

## Issue and risk previously communicated

### Adult Social Care – Client Contributions – accurate recording in general ledger

Our work on testing fees and charges – adult social care client contributions identified a sample with an annual contribution value in the general ledger did not agree to the individual’s financial assessment used to determine the annual client contribution. Whilst the client had been correctly invoiced as per their financial assessment and this did not give rise to a material issue in the annual accounts, we noted that the Council should ensure that transactions are accurately reflected in its general ledger.

We recommended that work continue to develop a direct interface between the Mosaic system (adult social care subsystem) and general ledger to prevent such errors from occurring in the future. We also recommended that service accountants conduct an additional reconciliation/review procedure during 2025 closedown to identify any errors prior to draft accounts being produced.

### Investment Property – Ensuring Code compliance in respect of the requirement for and annual revaluation of the whole asset class

Investment properties are required to be revalued annually in accordance with the CIPFA Code. At 31 March 2024, there were investment properties totalling £9.2m which had not been subject to annual revaluation, which was not compliant with Code requirements. Management asserted that investment properties below £250k are de minimis and trivial to the overall balance of investment property by the Authority.

The value of this sub-£250k population currently excluded from the Code requirement for an annual valuation has risen in recent years towards our audit performance materiality threshold of £11.3m. Given the continued increases, we reported that there is a risk that the Council does not comply with CIPFA Code requirements, to a material extent, which could impact on the auditor’s opinion in future periods.

We recommended that Management reconsider and adjust the threshold for properties subject to an annual valuation to ensure the accounting practices adopted by the Council remain compliant with Code requirements.

## Update on actions taken to address the issue(s)

*We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.*

*We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.*

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
To be confirmed in our ISA260 Audit Findings report due January 2026)	<p><b>Use of recharges in the Council’s financial statements without supporting data and a reconciliation process to verify the validity of these recharges</b></p> <p>The Council uses a number of recharges in the financial statements to allocate costs to services in order to record the total cost of delivering each service. There are also a number of instances when an internal service deliver services for another service – for example, repairs carried out on a Council-owned school by building services would result in an internal recharge to the school’s budget. From a financial accounts perspective, this internal charges should be eliminated as they do not represent income and expenditure with third-parties. Leaving internal transactions in the accounts serves to gross up both income and expenditure but are not a true reflection of the quantum of the Council’s transactions with third-parties in any given year.</p> <p>Currently, the procedures for recording and coding recharges in the general ledger are not sufficient to be able to match income and expenditure recharges and eliminate these out of the accounts. The current process is to record an amount for income recharged and designate this as Income - Internal Recharges at note 9 in the accounts, however, this cannot be matched against the expenditure to be recharged and therefore, the accuracy and validity of this value cannot be practicably demonstrated to the external auditors.</p> <p>We recommended that further work be undertaken on the Council’s processes for accounting for internal income and expenditure, making any changes to processes as appropriate in order to eliminate the need for recharges to be posted in the general ledger. We noted that direct charging my be one option, alternatively the Council could opt to improve the coding and transparency within the general ledger so that recharged transactions can be eliminated at the time of preparing the financial statements.</p>	<p><i>We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.</i></p>

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
To be confirmed in our ISA260 Audit Findings report due January 2026)	<p><b>Maintaining up to date knowledge of the Council’s buildings estate</b></p> <p>Our audit work identified examples where changes to the function, internal floors areas of buildings within the Council’s buildings portfolio including one school that has been taken out of service, and these changes in estate have not been notified to the finance function or management’s external expert valuer. These cases identified that decisions appear to have been taken by the service but the relevant information and likely impact on the buildings portfolio, has not flowed to the capital finance team to be considered and reflected as appropriate in the annual accounts.</p> <p>We recommended that management build in additional communication between each relevant service, estates, the capital finance team and the external valuer. This is to include identifying key changes to buildings such as closure / decommissioning, a significant change in opening hours, repurposing and marketing a building for sale.</p>	<i>We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.</i>
To be confirmed in our ISA260 Audit Findings report due January 2026)	<p><b>Additions posted in quarter 4 (post valuation) for other land &amp; buildings and council dwellings</b></p> <p>Under existing arrangements, all capital spend posted as capital additions is currently accounted for by the Council as value enhancing, and therefore it does not give rise to any immediate impairment of the spend capitalised. For spend capitalised in quarters 1 through to 3, the Council’s valuers are able to undertake an assessment as at the valuation reference date of 31 December whether capital spend is value enhancing or non-enhancing. This judgement either support the new carrying value or impairs the asset down to its pre-capital addition carrying value. However, for capital spend posted in quarter 4, current arrangements do not afford the expert valuer an opportunity to assess whether amounts capitalised should increase the net book value or alternatively, be capitalised and impaired concurrently.</p> <p>We reported that the capital accounting function should consider how current processes can be enhanced to appropriately identify non value enhancing capital spend posted in quarter 4 of the financial year, and for this to be impaired so that the closing valuation of land &amp; buildings is not overstated. This may include additional working with the Council’s external expert valuers, to build in additional process steps in order to address this matter.</p>	<i>We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.</i>

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
To be confirmed in our ISA260 Audit Findings report due January 2026)	<p><b>Appropriate challenge by management of the external valuer on the valuation approach – Mainstream schools &amp; Energy from Waste Facility</b></p> <p><b>Valuation of mainstream schools</b> – in the Council’s accounts, schools were valued based on their ‘as built’ size. The CIPFA Code prescribes that operational land &amp; buildings should be valued based on a modern equivalent that would deliver an equivalent level of service. For schools, the commonly observed approach to value mainstream schools is by using Building Bulletin 103: Area Guidelines for Mainstream Schools, which offers a calculation for the required gross internal area (m2) based on the actual number of pupils on roll. The Council’s external valuer has not used this approach with the valuation based on the ‘as built’ size.</p> <p>We recommended that the Council develop a clearer rationale as to whether would be an appropriate valuation methodology for the Council and whether this would give a more true and fair valuation of mainstream schools in the Council’s accounts.</p> <p><b>Valuation of the energy waste facility</b> – in the Council’s accounts, this asset was valued based on its end life being 2028 giving a 4-year remaining useful economic life. We understood that the Council is considering its options beyond the end of the current contract with Suez Recycling and Recovery in 2028. A Cabinet paper dated April 2024 suggests that £25m of capital investment would be required to maintain current operations beyond 2028. A new-build facility is estimated to cost north of £120m and so we have challenged whether the £12m is an appropriate valuation or whether the value should be higher than than based on the fact that the Council will obtain the operational capacity close to that of a new facility with only £25m of capital investment.</p> <p>We recommended that Council officers conduct additional stand-back reviews of the valuations provided, which in this case may include reviewing valuations against actual build costs or those publicly available from other authorities. This included holding discussions with internal surveyors to ascertain the relevant factors around the valuations such as current usage, expected remaining service life, capital lifecycle and renewal costs expected in future accounting periods and then communicating these factors with management’s external expert valuer.</p>	<i>We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.</i>

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
To be confirmed in our ISA260 Audit Findings report due January 2026)	<p><b>IFRS 16 ‘Leases’ implementation from 1 April 2024</b></p> <p>IFRS 16 is required to be implemented by local authorities from 1 April 2024. This process is a time and resource consuming exercise, to identify such lease contracts and ensure they are complete and accurate.</p> <p>The Council has reported on this Standard in its 2023-24 financial statements, indicating that work on the implementation of the above Code change was ongoing and the full impact on the Council’s single entity accounts has not been fully assessed yet.</p> <p>A Council of Kirklees’ size (large metropolitan Council) would potentially have many such contracts to be considered/identified, to identify those that are within the scope of the IFRS16 standard. Considering this is a time and resource consuming task and potentially high number of such contracts at the Council, the implementation of this exercise should be accelerated and the resource requirements to complete the work should be reviewed for sufficiency.</p> <p>We recommended the Council to accelerate the implementation and identification process of assets within the scope of IFRS16 to ensure such assets are completely and accurately captured before 2024-25 accounts closedown.</p>	<i>We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.</i>
To be confirmed in our ISA260 Audit Findings report due January 2026)	<p><b>Inclusion of appropriate detail in the Narrative Report to ensure compliance with CIPFA Code of Practice</b></p> <p>Our review of the prior year Narrative Report highlighted a number of areas where we consider additional detail could be added in order to more clearly satisfy the requirements of the CIPFA Code. As per the Code, the Narrative Report should identify and present a range of the Council’s non-financial performance indicators (e.g. KPIs) and provide an accompanying narrative commentary setting out an assessment of the Council’s non financial performance during the year. The Code also states that the Narrative Report should contain appropriate detail for a user to evaluate future sustainability and the effect on service provision, including assessing future cash flows. It was our view that additional detail would be beneficial in the report to properly address these requirements.</p> <p>We recommended that the Council refresh its Narrative Report checklist to ensure all Code requirements are captured in this financial year (2024-25).</p>	<i>We will consider implementation of this during the year-end audit and summarise our thoughts in the ISA260 Report.</i>

# 06 IT audit strategy

# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT system has been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the level of assessment required. We will keep this under review as the audit progresses and update our understanding if there are additional IT systems within the scope of the audit.

We will report to you including our assessments and findings (as applicable) in our Audit Findings (ISA260) Report targeted for January 2026.

IT system	Audit area	Planned level IT audit assessment
SAP	Core Financial Reporting, including Accounts Payable and Receivable	<ul style="list-style-type: none"> <li>• Detailed ITGC assessment design effectiveness</li> <li>• Application controls assessment</li> <li>• Test the design and implementation of the ITGCs</li> <li>• Follow up on IT related recommendations raised in the previous audit</li> <li>• Review of cybersecurity controls.</li> </ul>

# 07 Value for Money Arrangements

# Value for Money Arrangements

## Approach to Value for Money work for the period ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



### Financial sustainability

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



### Governance

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

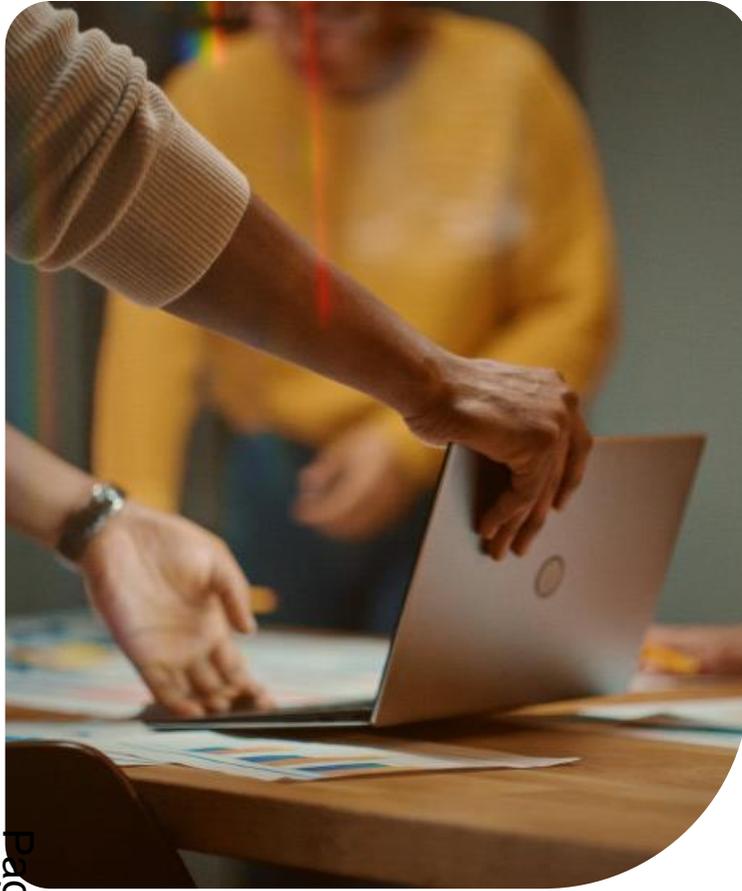


### Improving economy, efficiency and effectiveness

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



# Risks of significant VFM weaknesses



As part of our initial planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed on the table overleaf along with the further procedures we will perform. We will continue to review the body's arrangements and report any further risks of significant weaknesses we identify to those charged with governance. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Statutory recommendation

Recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

# Risks of significant weakness in VFM arrangements (continued)

## Initial Risk assessment of the Council’s VFM arrangements

The Code of Audit Practice 2024 (the Code) sets out that the auditor’s work is likely to fall into three broad areas: planning; additional risk-based procedures and evaluation; and reporting. We undertake initial planning work to inform this Audit Plan. Consideration of prior year significant weaknesses and known areas of risk is a key part of the risk assessment for 2024-25. We will continue to evaluate risks of significant weakness and if further risks are identified, we will report these to those charged with governance. We set out our reported assessment below:

Criteria	2023-24 Auditor judgement on arrangements	2024-25 risk assessment	2024-25 risk-based procedures
Financial sustainability	<p style="text-align: center;"><b>R</b></p> <p>We identified two ongoing significant weaknesses in arrangements in our prior year report that resulted in two key recommendations being raised:</p> <ul style="list-style-type: none"> <li>The first significant weakness was in respect of the Council’s financial sustainability given the Council had continued to overspend on its general fund revenue budget and reserves had reduced. The key recommendation arising was for the Council to continue to build on its work to strengthen its financial position through delivering budgeted savings and managing expenditure to outturn as close to its budgeted position as possible, reviewing pressures, assumptions and future savings levels in the MTFs, and reviewing its targeted level of reserves in future years of the MTFs.</li> <li>The second significant weakness was in respect of the Council’s Dedicated Schools Grant deficit. The Council was off track in delivering its planned reduction in the accumulated deficit as at last year end. The key recommendation arising was for the Council to take action to return its spend on DSG back in line with its renegotiated Safety Valve management plan with DfE.</li> </ul> <p>We also raised two improvement recommendations.</p>	<p>Two risks of significant weakness identified based on the two significant weaknesses identified and reported in the prior year.</p> <p>Risks of significant weakness at the planning stage include:</p> <ul style="list-style-type: none"> <li>Financial sustainability (controlling expenditure, delivering savings and sustaining reserves balances)</li> <li>Addressing the DSG deficit position.</li> </ul>	<p>We will follow up progress against the key recommendations and improvement recommendations made and ensure that our work assesses the current arrangements in place.</p>
Governance	<p style="text-align: center;"><b>R</b></p> <p>Our work did not identify any areas where we considered that key recommendations were required. We raised four improvement recommendations.</p>	<p>No risks of significant weakness identified.</p>	<p>We will follow up progress against the improvement recommendations made and ensure that our work assesses the current arrangements in place.</p>

We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our Auditor’s Annual Report. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. We report our value for money work in our Auditor’s Annual Report. Any significant weaknesses identified once we have completed our work will be reflected in your Auditor’s Report and included within our 2024-25 audit opinion.

- 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.

# Risks of significant weakness in VFM arrangements (continued)

## Initial Risk assessment of the Council’s VFM arrangements (continued)

Criteria	2023-24 Auditor judgement on arrangements	2024-25 risk assessment	2024-25 risk-based procedures
Improving economy, efficiency and effectiveness	<div style="background-color: red; color: white; text-align: center; padding: 5px; font-weight: bold; font-size: 1.2em;">R</div> <p>We identified a significant weaknesses in arrangements in our prior year report that resulted in a key recommendations being raised:</p> <ul style="list-style-type: none"> <li>The significant weakness was in arrangements in relation to the Council’s social housing compliance with the Social Housing Regulator standards. The key recommendation arising was for the Council to improve arrangements to ensure that issues raised by the Social Housing Regulator are addressed, including fire remedial actions from fire assessments, repairs required to address damp and mould and water quality testing.</li> </ul> <p>We also raised four improvement recommendations.</p>	<p>One risk of significant weakness identified based on the significant weaknesses identified and reported in the prior year.</p> <p>Risk of significant weakness at the planning stage includes:</p> <ul style="list-style-type: none"> <li>Arrangements in relation to the Council’s social housing compliance with the Social Housing Regulator standards.</li> </ul>	<p>We will follow up progress against the key recommendation and improvement recommendations made and ensure that our work assesses the current arrangements in place.</p>

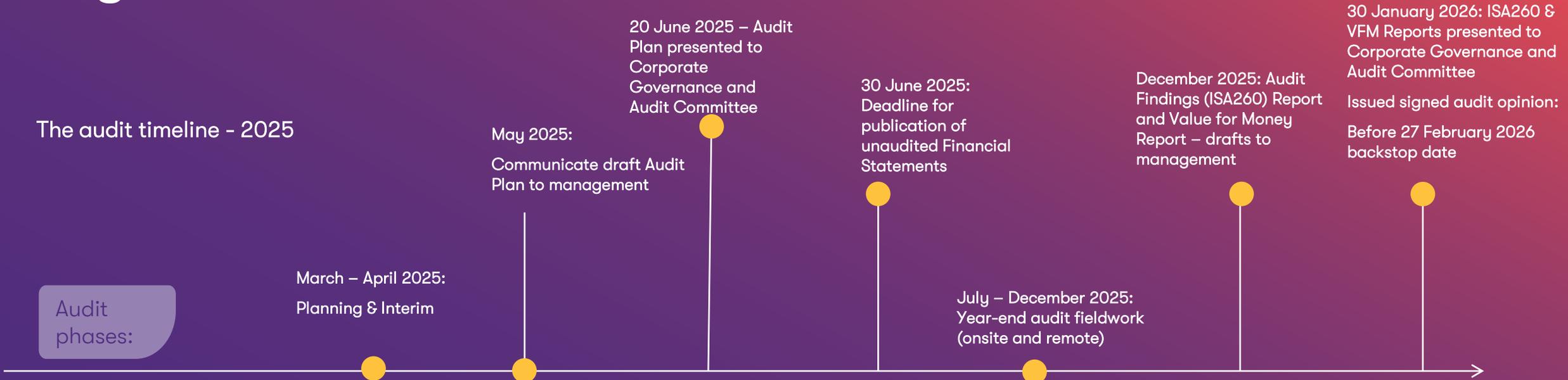
We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our Auditor’s Annual Report. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. We report our value for money work in our Auditor’s Annual Report. Any significant weaknesses identified once we have completed our work will be reflected in your Auditor’s Report and included within our 2024-25 audit opinion.

- 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.

# 08 Logistics

# Logistics

## The audit timeline - 2025



Audit phases:

### Key elements

- Planning undertaken including meetings with management
- Audit scoping and risk assessment to be completed
- Completion of system walkthroughs and document relevant controls
- Review of key judgements and estimates
- Commence VFM inquiries
- Discuss timetable and deliverables with management

### Key elements

- Audit teams to complete fieldwork and detailed testing using a hybrid approach (on-site and remote)
- Weekly update meetings with management to help ensure progress and identify issues as they arise.

### Key elements

- Audit Findings (ISA260) Report shared and agreed with management
- Audit Findings (ISA260) Report issued to Corporate Governance and Audit Committee
- Audit Findings (ISA260) Report presentation to Corporate Governance and Audit Committee
- Auditor’s Annual Report draft issued to management (December) and reported to Corporate Governance and Audit Committee in January 2026
- Finalise and sign financial statements and audit report before the backstop date of 27 February 2026.

# Our team and communications

## Grant Thornton core team

### Gareth Mills

Engagement Lead & Key Audit Partner

- Key contact for senior management and Corporate Governance and Audit Committee
- Overall quality assurance supported by EQR Partner

### Greg Charnley

Audit Senior Manager

- Audit planning
- Main contact for the finance team
- Project and Resource management of the delivery of the audit
- Performance management reporting

### Aanchal Singla

Audit Assistant Manager

- Audit team management
- Day-to-day point of contact
- Audit fieldwork lead contact

### Ginette Beal

VFM Audit Manager

- Value for Money planning and risk assessment
- Main contact for review of VFM arrangements
- Preparation of the VFM commentary in the Auditor’s Annual Report

Pool of specialists and other technical specialists:

- Internal IT audit team
- Internal property valuations team.

	Service delivery	Audit reporting	Audit progress	Technical support
<b>Formal communications</b>	<ul style="list-style-type: none"> <li>• Annual client service review</li> </ul>	<ul style="list-style-type: none"> <li>• The Audit Plan</li> <li>• Audit Progress and Sector Update Reports</li> <li>• The Audit Findings (ISA260) Report</li> <li>• Auditor’s Annual Report on VFM arrangements</li> </ul>	<ul style="list-style-type: none"> <li>• Audit planning meetings</li> <li>• Audit clearance meetings</li> <li>• Communication of issues log</li> <li>• Quarterly liaison meetings with the three statutory officers</li> </ul>	<ul style="list-style-type: none"> <li>• Technical updates</li> </ul>
<b>Informal communications</b>	<ul style="list-style-type: none"> <li>• Open channel for discussion</li> </ul>		<ul style="list-style-type: none"> <li>• Communication of audit issues as they arise</li> </ul>	<ul style="list-style-type: none"> <li>• Notification of up-coming issues</li> </ul>

As part of our overall service delivery we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

# 09 Fees and related matters

# Our fee estimate

Our estimate of the audit fees is set out in the table across, along with the fees billed in the prior year.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2024\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

## PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2023 PSAA awarded a contract of audit for Kirklees Council to begin with effect from 2023-24. The scale fee set out in the PSAA contract for the 2024-25 audit is £473,400.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final Auditor's Annual Report on VFM arrangements for the previous Audit Year
- Production of the draft Audit Plan report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed.

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here [Fee Variations Overview – PSAA](#)

## Updated Auditing Standards:

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

	Audit Fee for 2023-24	Proposed fee for 2024-25
Kirklees Council Scale Fee (per PSAA contract)	£425,058	£473,400
Additional fee relating to the use of an auditor's expert for the valuation of property not included within the PSAA 2023-24 scale fee.	£10,988	-
Increased audit requirements of ISA 315 Revised – "Identifying and assessing the Risks of Material Misstatement" – (new controls requirement not included in the PSAA 2023-24 scale fee)	£15,690	-
Increased audit requirements relating to the review of the Council's implementation of the newly applicable IFRS 16 Leases accounting standard not included within the PSAA scale fee for 2024-25. Once we have completed our review of IFRS 16 we will confirm the additional fees – see page 10 for further details on IFRS 16 work	-	£ TBC
<b>Total audit fees (excluding VAT)</b>	<b>£451,736</b>	<b>£473,400 (TBC)</b>

## Our fee estimate:

We have set out below our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Our fee estimate also assumes that you will engage suitably competent experts to assist management in the following areas:

- Closing valuation of land and buildings including council dwellings and investment properties
- Valuation of LGPS defined benefit pension balances.

There may be a reduction in the fee as a result of group a/cs no longer being required. The level of any fee reduction will need to be discussed and agreed with PSAA.

## Previous year

In 2023-24 the scale fee set by PSAA was £425k. The actual fee charged for the audit was £452k.

# 10 Independence considerations

# Independence considerations

## Auditor independence

As we are Statutory Auditors of the Council in the United Kingdom (“UK”), we are required to follow International Standard on Auditing (UK) 260 and the Ethical Standard (December 2024) issued by the UK Financial Reporting Council (the “FRC Ethical Standard” or “The Standard”). We have determined that Kirklees Council is a public interest entity and therefore the relevant requirements of the FRC Ethical Standard have been applied and have been included in this letter. Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers). All the above referenced Standards require that we communicate at least annually with you regarding all relationships between Grant Thornton UK LLP in the UK (“Grant Thornton UK”) and other Grant Thornton firms and associated entities (“Grant Thornton”) and covered persons (as defined in the FRC Ethical Standard) and the Company, its directors and senior management and its affiliates (“the Group”) that, in our professional judgement, may reasonably be thought to bear on our integrity, independence and objectivity. In this context, we confirm that there are no matters that we are required to report.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard.

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council’s board, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. We confirm that there are no significant facts or matters that impact on our independence at planning as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council’s Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements. Furthermore, we have complied with the requirements of the International Audit Office’s Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Following this consideration we can confirm that we are independent at planning and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

# Fees and non-audit services

The following table below sets out the non-audit services charged from the beginning of the financial year to date of issue of the Audit Plan as well as the threats to our independence and safeguards have been applied to mitigate these threats. The below non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and none of the below services were provided on a contingent fee.

For the purposes of our audit we have made enquiries of all Grant Thornton teams providing services to Kirklees Council. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived threats from these fees. We confirm that the fees from non-audit services subject to cap do not exceed 70% of the audit fee.

## Audit Related Fees

Service	Fees £	Threats Identified	Safeguards applied
Certification of Housing Benefits claim 2023-24	68,500 (base fee)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £68,500 in comparison to the total fee for the audit of £473,400 and in particular relative to Grant Thornton UK turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	The external auditor has not prepared any elements of the form MPF720A submission and are carrying out work on the information submitted to the Department for Work and Pensions (DWP) by the Council. We do not expect material misstatements to the financial statements to arise from this service. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management (because our report will inform the findings presented by management to DWP)	We will perform the proposed service in line with the instructions and reporting framework issued by DWP and will report to DWP, with a copy of our report being provided to the local authority at the same time. If any amendments need to be made to form MPF720A as a result of the reporting accountant's work, these will be discussed and agreed with the member of informed management who is authorised by the Strategic Director Finance to make these amendments. Amendments to the form can only be made by local authority staff and are initialled by the authorised signatory (Strategic Director Finance (s151)). We agree the factual accuracy of our findings with a member of informed management before issuing it to the DWP. We are satisfied from previous experience that the purpose of our testing and the potential impact of our findings on the form is understood by a member of informed management.
Certification of Initial Teacher Training grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the base fee for this work is £5,000 in comparison to the total fee for the audit of £473,400 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	The external auditor has not prepared the form which is to be reviewed as part of the grant certification. We do not expect material misstatements to the financial statements to arise from this service. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management (because our report will inform the findings presented by management to the Department for Education)	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will perform the proposed service in line with the instructions and reporting framework issued by Department for Education and on its completion issue a report of factual findings. We will discuss any amendments and factual findings with the Council's Responsible Finance Officer as a member of informed management. The Council's finance managers will make their own decisions whether to amend for any errors identified and the local authority and the DfE form their own conclusions on the report.

# Fees and non-audit services (continued)

## Audit Related Fees

Service	Fees £	Threats Identified	Safeguards applied
Certification of Teachers' Pensions return	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £473,400 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	The external auditor has not prepared the form which is to be reviewed as part of the grant certification. We do not expect material misstatements to the financial statements to arise from this service. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management (because our report will inform the findings presented by management to Teachers' Pensions)	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will perform the assignment in line with the Reporting Accountant Guidance issued by Teachers' Pensions and on its completion issue a report of factual findings. We will agree any amendments and factual findings with the Council's Responsible Finance Officer, and are required by the Guidance to obtain representations from the Employer in respect of our factual findings and include these in our report. The Council's finance managers will make their own decisions whether to amend for any errors identified as part of our testing or to make representations to Teachers' Pensions.
Certification of the Pooling of Housing Capital receipts	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £473,400 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	The external auditor has not prepared any elements of the submission and are carrying out work on the information submitted to MHCLG by the Council. We do not expect material misstatements to the financial statements to arise from this service. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management (because our report will inform the findings presented by management to MHCLG)	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will perform the assignment in line with the Reporting Accountant Guidance issued by MHCLG and on its completion issue a report of factual findings. The local authority and MHCLG form their own conclusions on the report. The report is restricted to those parties who have agreed to the procedures to be performed (being the local authority and MHCLG).

# Fees and non-audit services (continued)

## Audit Related Fees

Service	Fees £	Threats Identified	Safeguards applied
Certification of compliance with subcontracting funding rules Education and Skills Funding Agency – post 16	6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £473,400 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	The external auditor has not prepared the form which is to be reviewed as part of the grant certification. We do not expect material misstatements to the financial statements to arise from this service. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management (because our report will inform the findings presented by management to the Education & Skills Funding Agency)	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will perform the assignment in line with the Reporting Accountant Guidance issued by the Education & Skills Funding Agency and on its completion issue a report of factual findings. We will agree any amendments and factual findings with the Council's Responsible Finance Officer, and are required by the Guidance to obtain representations from the Employer in respect of our factual findings and include these in our report. The Council's finance managers will make their own decisions whether to amend for any errors identified as part of our testing or to make representations to the Education & Skills Funding Agency.
Total	102,000		

# **11 Communication of audit matters with those charged with governance**

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	●	
Planned use of internal audit	●	
Confirmation of independence and objectivity of the firm and senior engagement team members	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern including support measures when making the going concern assessment	●	●
Key audit partners involved in the audit		●
Views about the qualitative aspects of the Council’s accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Methodology used to perform the current year’s audit and details of any substantial variation between system and compliance testing from the previous year		●
Quantitative level of materiality determined and qualitative factors considers in its determination		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit and whether that deficiency has been resolved by management		●
Significant matters arising in connection with related parties		●

Our communication plan	Audit Findings
Other matters that are significant to the oversight of the financial reporting process	●
Confirmation of independence of external experts or other auditors used as part of the audit	●
Valuation methods employed and impact of changes to methods	●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements	●
Non-compliance with laws and regulations	●
Unadjusted misstatements and material disclosure omissions	●
Confirm all requested explanation and documents have been provided	●
Distribution of tasks amongst auditors where more than one auditor has been appointed	●
Identify work performed by component auditors outside of the GTIL network in relation to consolidated financial statements	●
Scope of consolidation and compliance with financial reporting framework	●
Expected modifications to the auditor’s report, or emphasis of matter	●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

# 12 Delivering audit quality

# Delivering audit quality

## Our quality strategy

We deliver the highest standards of audit quality by focusing our investment on:

### Creating the right environment

Our audit practice is built around the markets it faces. Your audit team are focused on the Public Sector audit market and work with clients like you day in, day out. Their specialism brings experience, efficiency and quality.

### Building our talent, technology and infrastructure

We've invested in digital tools and methodologies that bring insight and efficiency and invested in senior talent that works directly with clients to deploy bespoke digital audit solutions.

### Working with premium clients

We work with great public sector clients that, like you, value audit, value the challenge a robust audit provides, and demonstrate the strongest levels of corporate governance. We're aligned with our clients on what right looks like.

Our objective is to be the best audit firm in the UK for the quality of our work and our client service, because we believe the two are intrinsically linked.

## How our strategy differentiates our service

Our investment in a specialist team, and leading tools and methodologies to deliver their work, has set us apart from our competitors in the quality of what we do.

The FRC highlighted the following as areas of particularly good practice in its recent inspections of our work:

- use of specialists, including at planning phases, to enhance our fraud risk assessment
- effective deployment of data analytical tools, particularly in the audit of journals.

## The right people at the right time

We are clear that a focus on quality, effectiveness and efficiency is the foundation of great client service. By doing the right audit work, at the right time, with the right people, we maximise the value of your time and ours, while maintaining our second-to-none quality record.

Bringing you the right people means that we bring our specialists to the table early, resolving the key judgements before they impact the timeline of your financial reporting. The audit partner always retains the final call on the critical decisions; we use our experts when forming our opinions, but we don't hide behind them.

## Digital differentiation

We're a digital-first audit practice, and our investment in data analytics solutions has given our clients better assurance by focusing our work on transactions that carry the most risk. With digital specialists working directly with your teams, we make the most of the data that powers your business when forming our audit strategy.

## Oversight and control

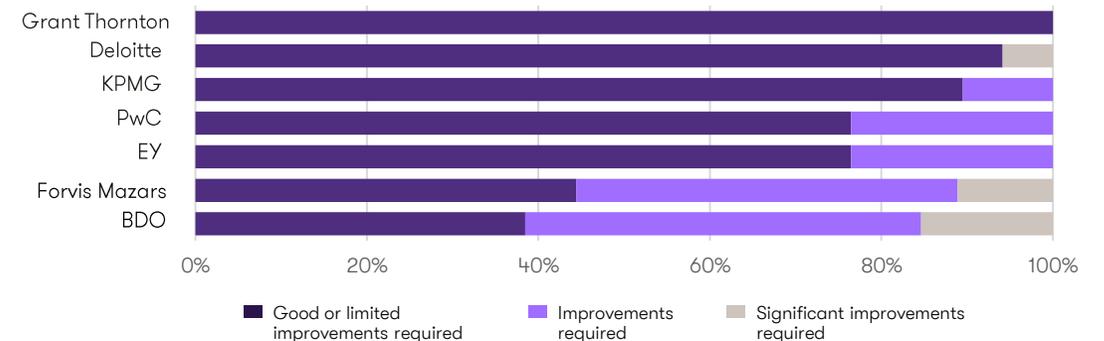
Wherever your audit work is happening, we make sure that its quality meets your exacting requirements, and we emphasise communication to identify and resolve potential challenges early, wherever and however they arise. By getting matters on the table before they become "issues", we give our clients the time and space to deal with them effectively.

Quality underpins everything at Grant Thornton, as our FRC inspection results in the chart below attest to. We're growing our practice sustainably, and that means focusing where we know we can excel without compromising our strong track record or our ability to deliver great audits. It's why we will only commit to auditing clients where we're certain we have the time and resource, but, most importantly, capabilities and specialist expertise to deliver. You're in safe hands with the team; they bring the right blend of experience, energy and enthusiasm to work with you and are fully supported by myself and the rest of our firm.

Wendy Russell  
Partner, UK Head of Audit



FRC's Audit Quality Inspection and Supervision Inspection (% of files awarded in each grading, in the most recent report for each firm)



# 13 Appendices

# IFRS reporters New or revised accounting standards that are in effect

## First time adoption of IFRS 16

Lease liability in a sale and leaseback

- IFRS 16 was implemented by LG bodies from 1 April 2024, with early adoption possible from 1 April 2022. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.
- This year will be the first year IFRS 16 is adopted fully within Local Government.

## IAS 1 amendments

Non-current liabilities with covenants

- These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.

## Amendment to IAS 7 and IFRS 7

Supplier finance arrangements

- These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

# IFRS reporters Future financial reporting changes

## IFRS reporters future financial reporting changes

These changes will apply to local government once adopted by the Code of practice on local authority accounting (the Code).

## Amendments to IAS 21 – Lack of exchangeability

IAS 21 has been amended by the IASB to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments are expected to be adopted by the Code from **1 April 2025**.

## Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, adds guidance on the SPPI criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the Code in future years.

## IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 provides reduced disclosure requirements for eligible subsidiaries. A subsidiary is eligible if it does not have public accountability and has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. IFRS 19 is a voluntary standard for eligible subsidiaries and is expected to be adopted by the Code **in future years**.

## IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the statement of profit or loss as well as introduce specific disclosure requirements. Some of the key changes are:

- Introducing new defined categories for the presentation of income and expenses in the income statement
- Introducing specified totals and subtotals, for example the mandatory inclusion of 'Operating profit or loss' subtotal
- Disclosure of management defined performance measures
- Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 is expected to be adopted by the CIPFA Code in future years.



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**REPORT TITLE: INTERNAL AUDIT ANNUAL REPORT FOR 2024/25**

<b>Meeting:</b>	<b>Corporate Governance &amp; Audit Committee</b>
<b>Date:</b>	<b>20 May 2025</b>
<b>Cabinet Member</b> (if applicable)	
<b>Key Decision Eligible for Call In</b>	<b>No</b> <b>No – Information report</b>
<b>Purpose of Report</b> To provide a report of Internal Audit activity during 2024/25, and assurance opinion from the head of Internal Audit & Risk.	
<b>Recommendations</b> <ul style="list-style-type: none"> <li>That the report and Head of Internal Audit opinion be noted</li> <li>The Committee determine if any action is required as a result of this report</li> </ul> <b>Reasons for Recommendations</b> <ul style="list-style-type: none"> <li>This report and opinion are an important part of understanding the level assurance in the organisation and contributes to strong governance</li> </ul>	
<b>Resource Implications:</b> <ul style="list-style-type: none"> <li>None from this report, other than the extent to which it influences activity in future years.</li> </ul>	
<b>Date signed off by Executive Director &amp; name.</b>  <b>Is it also signed off by the Service Director for Finance?</b>  <b>Is it also signed off by the Service Director for Legal Governance and Commissioning?</b>	Not applicable

**Electoral wards affected:** all

**Ward councillors consulted:** none

**Public or private:** public

**Has GDPR been considered?** yes

## **1. Executive Summary**

The Council has to have an Internal Audit function, operated in accordance with the Public Sector Internal Audit Standards (and Global Internal Audit Standards). The standards require that each year the Head of Internal Audit provides an opinion to the Council about the level of assurance that is provided through system of governance, risk management and internal control. The report concludes that these areas, there is just sufficient evidence to demonstrate that the Council's system are largely effective.

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

2.1 The information required is included in the attached report.

## **3. Implications for the Council**

Having an effective internal audit function, as a part of a strong assurance and governance framework is important for the Council. As resources are limited it is important that the deployment of resources is effective.

### **3.1 Working with People**

No directly applicable.

### **3.2 Working with Partners**

No directly applicable.

### **3.3 Place Based Working**

No directly applicable.

### **3.4 Climate Change and Air Quality**

No directly applicable.

### **3.5 Improving outcomes for children**

No directly applicable.

### **3.6 Financial Implications**

Refers in part to improving strategic and operational financial controls.

### **3.7 Legal Implications**

No directly applicable.

### **3.8 Other (e.g. Risk, Integrated Impact Assessment or Human Resources)**

Implementation of internal audit recommendations should improve overall control arrangements and promote good governance.

## **4. Consultation**

There have been discussions with Executive Leadership Team (ELT)

## **5. Engagement**

ELT have seen and are aware of the content of this report

## **6. Options**

Not applicable

- 7. Next steps and timelines**  
Contributes to the Annual Governance Statement preparation.
- 8. Contact officer**  
Martin Dearnley Head of Audit & Risk.
- 9. Background Papers and History of Decisions**  
None.
- 10. Appendices**  
Annual Internal Audit Report 2024/25
- 11. Service Director responsible**  
The Head of Risk & Internal Audit holds responsibility for the planning, operation and reporting by Internal Audit.  
The statutory officers with a responsibility for overseeing the internal audit function are  
Samantha Lawton Director of Legal Governances & Monitoring  
Kevin Mulvaney Director of Finance

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**KIRKLEES COUNCIL  
CORPORATE SERVICES:  
RISK SERVICE  
INTERNAL AUDIT**

**Annual report of the Head of Risk and Internal Audit about  
Internal Audit activity during the year ended 31<sup>st</sup> March 2025**

## 1. **Introduction**

This report provides a summary of the activities and performance of Internal Audit during the year and assesses the adequacy and effectiveness of the Council's governance, risk management and control environment arrangements during the financial year 2024/25. This is the last year of reporting under the version of the Public Sector internal Audit Standards that applied until 31 March 2025.

## 2. **About Internal Audit**

2.1 The scope of Internal Audit's activity is established by the Council's Financial Procedure Rules and the 2024/25 Internal Audit Mission, Strategy and Charter. These rules include a right for Internal Audit to have free and unrestricted access to conduct work as is considered appropriate by the Head of Risk and Internal Audit.

2.2 Internal Audit reviews the Council's assurance framework for governance, risk management and business systems and controls. Assurance can also be obtained through the work of other parts of the council- such as Health & Safety and Customer Complaints.

Internal Audit time is spent:

- (a) Assessing arrangements for financial control.
- (b) Assessing arrangements for other business and organisational controls – such as data management.
- (c) Resolving a range of finance, control, governance and risk related issues
- (d) Assessing grant claims made to other agencies (principally WYCA)
- (e) Appraisal of contractors and contributing to more complex contract strategies
- (f) On fraud investigation, detection and prevention  
And, to a more limited extent,
- (g) Investigating allegations that the Council's business activities may not be operating in the ways intended.
- (h) Value for money.

Whilst Internal Audit work can provide assurance about business processes, it is not resourced in a way to assess the judgement of other professionals.

2.3 Quarterly Reports on the activities of Internal Audit have been provided to the Corporate Governance and Audit Committee. The format of these was revised last year to provide more public information.

These reports provide:

- (i) An opinion about the level of assurance that can be taken from each planned audit on the arrangements in operation at the time of each audit.
- (ii) An opinion about follow-up of earlier Internal Audit work.
- (iii) Information about investigations, and other Internal Audit activity.  
Implementation of the agreed recommendations should provide a satisfactory degree of control in all cases.

### 3. Summary of Audit Work in 2024/25

3.1 The Kirklees audit plan included 44 general assurance audits. The completion rate of this planned work was 66% (although most of the none completed work is in progress and will be reported in 2025/26)

Area	Opinion:					
	Positive Assurance %			Negative Assurance %		
	Total	<i>Substantial</i>	<i>Adequate</i>	Total	<i>Limited</i>	<i>No</i>
OVERALL (50)	70	32	38	30	30	0
Financial Controls (16)	62	6	56	38	38	0
Business Controls (12)	84	42	42	16	16	0
Follow Up (3)	3	33	33	34	34	0
Schools (19)	68	47	21	32	32	0

Historically a typical year would have involved a negative assurance rate of about 20%, This has been gradually drifting upwards 2022/23 was 29%, and 2023/24 is 37%. This year is a slight improvement at 30%.

The overall figure in previous years was masked by a strong outcome for schools (96%), but often poor outcome on business control arrangements and follow ups. During 2024/25 we continued to place greater emphasis on reviewing schools whose budget performance is weak, and the criteria were changed such that a school with a persistent budget deficit would no longer receive a positive assurance. Follow up work was conducted in three areas, including two reviews of progress re SENDACT

3.2 Although core financial systems reviewed provided adequate assurance, (from a small sample), there were weaknesses in the operational arrangements for several financial systems – such as district heating, debt collection, direct payments, and in other business systems areas of concerns included aspects of tenancy allocation, and domestic abuse contracts.

3.3 Common themes from audit (and other work) that reflect a degree of risk to the council, include the need to improve contract and project management, information management and data protection, and whilst it now comprises only a very small element of the councils income, looking after cash received in an appropriate way.

3.4 Audit time has also been spent on more routine projects and activities such as:

- Support to governance and control arrangements generally.
- Preparation of the Annual Governance Statement, although with only limited monitoring
- Monitoring and updating Financial Procedure Rules (FPRs).
- Financial appraisal and scoring of applicants for contracts and other aspects of assessing or approving the Council's contractual arrangements.

- Support to the Information Governance Board, and implementation of GDPR /Data Protection Act
  - Support to corporate projects (such as waste management, district heating)
- 3.5 There is an increased expectation that the head of internal audit signs off grant claims for money from the West Yorkshire Combined Authority, and for some, (but not all) government grant awards. Some of these regimes are difficult to comply with.
- 3.6 Understanding arrangements for risk management is an important aspect of gaining assurance. The risk management function is linked to internal audit through management. The council has continued to strengthen risk management arrangements.
- 3.7 Although the Council used a risk-based audit plan in achieving the coverage of business and activity areas on which this opinion is based, the assurance framework delivered by Internal Audit is necessarily not comprehensive. Whilst coverage of financial (and commercial) business processes and governance is risk based, it does not assess the areas that involve professional judgement, particularly in relation to care related services and assessments that relate to individual needs.
- 3.8 The Corporate Governance & Audit Committee can also gain wider governance assurance from other sources, (E.g., health & safety, information governance and corporate complaints/ombudsman) although this could perhaps be more structured and extensive. The new reporting format aims to demonstrate assurance from the work that audit performs:
- 3.9 Internal Audit looks after fraud investigation, The team investigated areas of customer fraud, and positive outcomes in terms of right to buy refusals, and tenancy recoveries were achieved, alongside routine pursuit of those misusing blue badges. Whilst some fraud risk assessments have been completed, greater effort is required in other areas, alongside a recognition of the obligations contained within the Economic Crime and Corporate Transparency Act 2023, that takes effect later this year.
- 3.10 Work continues to be performed for Kirklees Active Leisure (KAL). Outcomes are reported to KAL's own Audit Committee. Audit work is also undertaken for West Yorkshire Fire & Rescue Service (WYFRS), who make substantial use of Kirklees financial systems. WYFRS has its own Audit Committee.
- 3.11 The staffing position in the Internal Audit team continues to be difficult. Although one staff member joined the team, another left. IA staffing at the year end was only just over five full time equivalent staff (after taking account of work performed for other clients), and whilst attempts are being made to fill vacancies, there is limited interest from suitable candidates.
- 3.12 At no point during the year has any Officer or Member sought to influence or restrict the scope or areas of activity of any piece of work. The conclusions reached in all the work presented are those of Internal Audit.

- 3.13 During 2024/25 the Head of Risk & Internal Audit carried out some wider organisational duties that might be considered to conflict with the purely independent role of the Head of Internal Audit. These relate to roles in relation to Council corporate risk management processes, supervision of the insurance and complaints functions and limited contract and project advice. Any conflicts are managed by independent reporting, and the conflict is stated in any Internal Audit reports- such as the quarterly reports. An activity distribution of the Head of Internal Audit is contained in Appendix 2 to this report. Whilst the GIAS expects “purity” of independence from operational duties, the GIAS does accept that a degree on non-conformance with the pure standards may be necessary.
- 3.14 The information that exists to reach an opinion on the overall control environment that applied in 2024/25 can be considered to be:
- (a) The assurance work for 2024/25- 71% of overall was positive, although as noted in section 3.1, the average masks a wide variation.
  - (b) Other assurance information provided to the Committee during the year, e.g., from the Investigator of Regulatory Powers, from the external auditor regarding their work on the 2023/24 and 2024/25 accounts and internally re Information Governance, Health & Safety and Customer Complaints.
  - (c) The Head of Internal Audit’s wider knowledge- heavily subordinated to the other aspects above- about the broad operation of the control environment of the organisation, supported by assessments that basic financial procedures such as reconciliations are being operated.
- 3.15 The Council has an adequate system of financial control. Audit work suggests there is scope for improvement in several areas of financial and business control arrangements to ensure that the objective continue to be met.
- 3.16 The assessment of processes for risk management and governance is more judgement based, although there has also been specific audit work. The council has taken significant steps to improve its risk management arrangements. As regards governance, this is around clarity of decision making, operations within frameworks of delegation, the constitution and procedure rules.
- 3.17 On the basis of the evidence available, the organisation appears to have.
- a. Adequate arrangements for sound governance.
  - b. Adequate arrangements for risk management.
  - c. Adequate systems for financial control.

#### 4. **Performance Measures of Internal Audit**

- 4.1 There is little comparative benchmarking available about the size or costs of Internal Audit. Comparison of staffing numbers locally suggest that taking account of Council (and other) activity, the Kirklees IA team is smaller than might be typical based on functions and size of the organisation
- 4.2 The targets for performance, and those achieved were:

<b><u>Objectives</u></b>	<b><u>Performance Measures- target</u></b>	<b><u>Performance Measures - achieved</u></b>
Achieve planned audit work as adjusted	80% of planned audits achieved	76% from plan (including schools)
Achieve each planned audit within budgeted time allowed.	80% of planned work achieved within initial time budget	64%
Achieve high level of work quality and customer satisfaction.	90% good or better responses to customer questionnaires	Insufficient responses to ascertain
Delivery of completed audit work	85% of draft reports issued within 10 days of completion of site work	98%

4.3 A quality assessment based on the consistent assessment criteria did find that all the work was compliant, with some minor omissions noted against the Standards. These are being addressed within the Internal Audit team.

## **5 Effectiveness of the System of Internal Control- Internal Audit**

5.1 The Accounts & Audit Regulations (England) require an Authority to conduct an annual review of the effectiveness of their system of internal control. An understanding of the arrangements of Internal Audit supports the ability to use the opinion of the Head of Internal Audit on the internal control environment as a key source of evidence in the Annual Governance Statement. As noted previously, the systems of assurance about internal control come from a wider source than just Internal Audit, although it is a primary source of assurance.

5.2 The new Global Internal Audit Standards (GIAS) (prepared by the Institute of Internal Auditors) and a much-shortened additional Public Sector Internal Audit Standard requirements took effect in UK public bodies from 1<sup>st</sup> April 2025. In contents these standards are not substantially different from those in place during 2024/25, but they are more substantially codified and are more complex in terms of specific requirements. The changes were reported as a part of the IA Plan for 2025/26. As well as the continued requirement for five yearly external assessment (next required in 2027/28) there is a requirement to conduct annual internal assessments. The assessment has been conducted at the end of 2024/25, with a view to obtaining assurance about changes in practice needed to comply with requirements under the new GIAS. Appendix 1 shows the position from the 2022 external assessment and appendix 1A the position from the recent internal assessment.

## **6. Conclusions**

- 6.1 This report has summarised the activities of Internal Audit during 2024/25. Detailed information has been provided to Corporate Governance & Audit Committee during the year.
- 6.2 Assurance coverage is sample based and not absolute across the entire range of organisational activity, and the limited resourcing further emphasises this caveat. There is just sufficient evidence to demonstrate that the Council's system of governance, risk management and internal control is largely effective and that the opinion of the Head of Internal Audit on the internal control environment can be relied upon as a source of evidence in the compilation of the Annual Governance Statement, for the reasons explained in the report.
- 6.3 The proportion of audit work which resulted in an assessment providing at least adequate assurance is 70%. The remaining were of "limited assurance." No area had "no assurance."
- 6.4 There are no areas where, following audit recommendations and discussion, management have formally chosen to refuse to implement recommendations for action (and accordingly overtly accepted the potential consequences as a risk), although there are some cases where actions have not been taken in accordance with the timescales contained in agreed action plans.

## **7. Annual Governance Statement**

- 7.1 Information generated by Internal Audit forms a key part of the Council's assessment of the quality of its organisational and business controls and the degree of assurance that can be placed upon their operational effectiveness. This information is used in preparing the Council's Annual Governance Statement which accompanies the Statement of Accounts.
- 7.2 The positive opinion that the Council's arrangements provide an adequate and effective control environment needs to be considered in the context of the breadth of assurance provided by Internal Audit, and the comments contained in this report.

Contact Officer

M E Dearnley – Head of Risk and Internal Audit; – 01484 221000 - x 73672

## Appendix 1

### Recommendations from the External Assessment of Internal Audit 2022

Ref	Recommendation	Management Action & Status
	<b>Audit Charter &amp; Strategy</b>	
1	It is recommended that the Charter be separated from the Strategy and that the Mission of Internal Audit be included within the document.	Redrafted to reflect GIAS 2025 requirements
2	<b>Audit Team related issues</b>	
2a	Ensure the authority makes plans to cover the wider roles and responsibilities provided by the Head of Audit (Risk)	Consideration still required
2b	Ensure the team maintain sufficient capacity to discharge its responsibilities and add value to the organisation. It also needs to be able to evolve for the future delivery of Internal Audit and the skill sets this will require.	Significant turnover and an absence of candidates to standard required leaves this a challenging issue
2c	Consider the strategy for delivering assurance over Kirklees' schools and if there may be different ways of gaining this e.g., through thematic based audits, promoting lessons learned from audits undertaken etc.	School work now reduced, and focused on schools with financial (or other issue)
2d	The ongoing development of the newer members of the team should be maintained	Ongoing
2e	Review the job titles of Audit Staff below Audit Manager level to ensure their role in the authority and the nature of the work they deliver is understood.	Job titles being made more specific may aid recruitment (see2b)
3	<b>The Counter Fraud Team</b>	
	Continue further developing the Counter Fraud team to align with the revised counter fraud strategy	One team member studying for fraud qualification, others undertaking training
4	<b>Code of Ethics</b>	
	All audit staff could complete a separate ethics declaration covering all aspects highlighted in the Standards.	Part of KMC system, but specific declarations sought too
5	<b>Corporate Governance and Audit Committee</b>	
5a	Progress the appointment of the Independent Member - this will provide further support to the operation of the committee, in particular in maintaining its apolitical conduct. The independent member will also likely enhance the skills, knowledge and experience collectively held within the committee.	Recruitment underway for two independent members
5b	Review the level of information reported in the private session of the committee around the work of the internal audit team to strike an accepted balance between openness and transparency and need to maintain confidentiality and not expose the council to abuse of systems and controls through putting inappropriate information into the public domain	Revised reporting format implemented (2023/24) and more detail than before in public
5c	The Annual Report of the Head of Internal Audit for 2022/23 should provide separate opinions over risk, governance and control arrangements in line with CIPFA guidance	The annual report contains these separate opinions
6	<b>Action tracking and reporting</b>	
	The arrangements for checking the implementation of agreed management actions arising from audit findings should be reviewed to ensure best value is obtained from audit work carried out and that management are held to account when significant actions are not implemented within timescales they provided.	Additional information about recommendations to feature in all QRs

## Appendix 1A Annual Review of Internal Audit- Internal assessment – 2025

For 2025, this assessment has reviewed current practice and activity against the new Global Internal Audit Standards (GIAS) that took effect from 1<sup>st</sup> April 2025 for UK Public Bodies. The new GIAS codifies in much more detail what is good practice is and does include both “must” areas and “should” areas, although there is opportunity to determine that certain areas are modified, or mitigated due to elements such as size, capacity, resourcing, and local circumstance.

	<b>GIAS Source</b>	<b>Recommendations</b>	<b>Actions</b>	<b>Update</b>
1	D2 1.1/ & 1.2 (p17) 4.3 (p33)	Importance that Internal Audit practitioners demonstrate inquisitiveness, and professional scepticism, and “professional courage”, and maintain ethical standards (e.g. honesty)	Reminder training to be carried out of all IA staff re these area of required practice	Summer 2025
2	D2 4.2(p31) D5 14.2 (p106)	All internal audit work requires clear scoping as to objectives; Objectives to set judgement criteria for assessment.	Managers and auditors to be reminded to prepare clear briefs for discussion/agreement with client, and auditors/managers to set judgement criteria	Summer 2025
3	D5 13.1 (p93)	Clarity of communication with client about engagement (as 2 above)		
4	D3 6.3 (p44)	Head of Audit should meet with CGAC without management presence once per year	To discuss with CGAC	
5	D3 8.2 (p54/5)	Ensure continued awareness of CGAC and management about resourcing position of IA	Head of Audit to ensure addressed in all quarterly reporting	From Q1 2025/26
6		Monitor IIA launch of “topical requirements” to determine extent to which these should be used in IA work	Head of Audit to monitor	As required
In GIAS report D= domain; n.n=paragraph: (pFF)=page				

## Appendix 2 Time spent analysis by Head of Audit & Risk

Time spent analysis by Head of Audit & Risk		2024/25% All year	2023/24% all year	2022/23% all year
General Advice	Childrens	2	2	5
	Adults	9	6	3
	Environment & Regeneration	27	16	34
	Corporate	13	16	10
Fraud		2	4	6
Procurement & FPRs & CPRs		3	3	3
Risk Management		6	8	8
Trust Funds		14	17	12
CGAC advice		10	10 \$	8 \$
Management & Supervision		14	18	11

(\$) includes support to the LGA Y&H Regional chairs forum in those years.





**Name of meeting: Corporate Governance & Audit Committee**  
**Date: 20 June 2025**

**Title of report: Draft Annual Governance Statement 2024/25**

**Purpose of report: To provide the Committee with details of the latest version of the Statement for information and comment prior to formal approval in conjunction with the Annual Accounts later in the year.**

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports)?</a>	Not applicable
The Decision - Is it eligible for "call in" by Scrutiny?	Not applicable
Date signed off by Director & name Is it also signed off by the Service Director for Finance?	Yes - Kevin Mulvaney 9 June 2025
Is it also signed off by the Service Director for Legal, Governance & Commissioning?	Yes – Samantha Lawton 9 June 2025
Cabinet member portfolio	Cllr Carole Pattison

**Electoral wards affected: All**  
**Ward councillors consulted: Not applicable**  
**Have you considered GDPR; Yes**  
**Public**

## 1. Summary

- 1.1 The Committee is asked to note the latest version of the draft 2024/25 Annual Governance Statement, prior to it being signed off by the Chief Executive and Leader of the Council, which concludes that overall, the governance arrangements remain fit for purpose and to consider whether the issues raised reflect the state of the governance and control framework during 2024/25.
- 1.2 As the Statement covers the period up until the Annual Financial Accounts 2024/25 are approved, there may be need for revisions to be made in the text to reflect findings from the external audit and anything else material in the intervening period.
- 1.3 The Statement is a statutory requirement and accompanies the Statement of Accounts in order to provide readers with assurance about the governance and internal control environment in which they have been compiled and to which they relate.
- 1.4 The draft Statement has been compiled following the annual review of the effectiveness of the overall internal control and governance arrangements and

draws on a number of forms of assurance which have been presented to various parts of the Council during the year, including many to this Committee (e.g. annual activity reports), being principally the Annual Report of Internal Audit, reports by the external auditor, Monitoring Officer and from the performance management framework.

- 1.5 The draft Statement highlights a number of what are termed 'Significant Governance Issues'. Whilst two from last year have been progressed to return to a business as usual mode, four of the Issues from the 2023/24 Statement are brought forward, reflecting the wide-ranging nature of the issues and the time needed to embed the remedial action required. Executive Leadership Team are of the view that the remaining planned action and senior management oversight in these areas could enable two of them to be returned to a business as usual mode too, possibly as soon as by the time the Statement is finalised, as the financial position of the Council stabilises further during 2025 and the Council continues to meet the improvement requirements of the Housing Regulator. Consideration has been given to a number of potential new Issues too and one has been incorporated.
- 1.6 The actions and controls the Council is taking are contained within a separate action plan. Since the final Statement will not be agreed until later this year, subject to the approval of this draft by the Committee, it is intended that the draft action plan will be the subject of internal monitoring, with reporting back to Executive Leadership Team and this Committee during the remainder of 2025/26. Any amendments made to the final version will be reflected in monitoring work should there be sufficient time to progress the action during the year.

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

- 2.1 The detail is contained within the draft Statement.

## **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 review of the effectiveness of the internal control and governance arrangements covers all aspects of the Council's operations, including elements of the above, either specifically, indirectly or on a commissioned basis.

## **4. Consultees and their opinions**

- 4.1 The Chief Executive, Strategic Directors, Service Director Legal, Governance & Commissioning, Service Director Finance, Service Director Strategy & Innovation, Service Director Homes & Neighbourhoods and Head of Audit & Risk have commented on the draft Statement.

**5. Next steps & Timelines**

- 5.1 The draft Statement will be published together with the Annual Accounts at the end of June for the statutory period of public inspection. A finalised version of the Statement will be considered by the Committee ahead of the approval of the Annual Accounts later in the year. The action plan will be revised and updated in responding to the Significant Issues identified. Monitoring will take place on the draft issues identified. When a final statement is approved, this will be monitored.

**6. Officer recommendations and reasons**

Members are asked to comment on the draft Statement, and to formally note it.

**7. Cabinet portfolio holder recommendation**

Not applicable.

**8. Contact officer**

Simon Straker, Audit Manager 01484 221000 (73726)

**9. Background Papers and History of Decisions**

The 2023/24 Statement is attached.

**10. Director responsible**

Chief Executive.

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Kirklees Council

# Draft Annual Governance Statement 2024/25

June 2025

## Overall Conclusion & Opinion

We have carefully considered the effectiveness of the Council's governance framework and have been advised by the Corporate Governance and Audit Committee. We acknowledge responsibility for ensuring that there is a sound system of governance, which is particularly supported by the authority's code of governance.

We are satisfied that the Council's overall governance arrangements are in accordance with our governance framework and Code of Corporate Governance.

We will continue to enhance our governance arrangements as recommended in the Action Plan that underpins this Statement. We are satisfied that these steps will address the need for improvements that were identified in our review and have monitored their implementation during 2024/25 and will continue to do so in conjunction with the Corporate Governance & Audit Committee.

Signed:

Cllr. Carole Pattison, Leader of the Council

Steve Mawson, Chief Executive

Kevin Mulvaney, Service Director Finance (S151 Officer)

## Introduction

All local authorities are required to produce an Annual Governance Statement. This is intended to provide information about how the Council is governed to achieve effective and efficient service delivery compliant with all obligations.

This Statement sets out the scope of responsibilities, the purpose of a governance framework, the key parts of the framework, a review of the effectiveness of these processes in 2024/25, an indication of what would be a key governance issue, an assessment of progress against significant governance issues raised in previous years and any new issues that have arisen during 2024/25.

## Statement Scope

Kirklees Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

Kirklees Council has a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework *Delivering Good Governance in Local Government 2016*. The Code was reviewed and revised during 2024/25 and was approved at Annual Council in May 2025. The Code is published on the website and the current version can be found at <https://www.kirklees.gov.uk/beta/council-and-democracy.aspx#your-council>

This Statement explains how the Council has complied with the Code during 2024/25 and up to the date that the Statement of Accounts is approved and thus meets the requirements of the Accounts and Audit Regulations 2015, and the Accounts and Audit (Amendment) Regulations 2020. It provides assurance about the Council's governance framework, including the other entity in the Group Accounts, a joint venture, Kirklees Stadium Development Limited, to enable readers of the consolidated Accounts to be satisfied that arrangements are in place to govern spending and safeguard assets. Where specific improvements and actions are ongoing or needed, brief information is provided about the key issues and the main areas of work that have been progressed during 2024/25 and those which are planned or ongoing in 2025/26.

## The purpose of the governance framework

Corporate governance is a phrase used to describe how organisations direct and control what they do. For local authorities this also includes how a Council relates to the communities that it serves. The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and through which it engages with, leads and accounts to its communities. Effective governance should enable the Council to monitor the achievement of its key objectives and to assess if this has led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of the Council's governance framework, designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve its aims, objectives and policies and can only provide reasonable but not absolute, assurance of effectiveness.

## The key parts of the governance framework

- A Local Code of Corporate Governance overseen by the Service Director Legal, Governance & Commissioning and the Corporate Governance and Audit Committee, to assess operational practice and behaviour, and help prepare this Statement.
- A Council Constitution.
- A Corporate Plan, *Our Council Plan 2025/26*, which outlines how officers will seek to run the Council to meet our community commitments and key objectives and quarterly performance monitoring of progress in doing so.
- A Leader and Cabinet model of governance.
- A corporate governance, audit and scrutiny process as set out in the Constitution.
- Oversight and delivery of the Council Plan, including several officer boards as described in the Constitution.
- Statutory officer roles performed by the Chief Executive as Head of Paid Service, the Service Director Legal, Governance & Commissioning as Monitoring Officer and the Service Director Finance as Section 151 Officer. The S151 Officer is a professionally qualified accountant and reports directly on financial matters to the Chief Executive as a member of the Executive Leadership Team (ELT).
- The Monitoring Officer who has responsibility for the Constitution and ensuring the legality of Council actions and decision making.
- The S151 Officer who has responsibility for ensuring that the financial management arrangements conform with all of the governance requirements of the five principles that define the core activities and behaviours that belong to the role in the CIPFA *Statement on The Role of the Chief Financial Officer in Local Authorities (2014)*.
- Codes of conduct defining the standards of behaviour for Members and employees.

- A Counter Fraud, Bribery and Corruption Policy and arrangements that endeavour to comply with the CIPFA Code and best practice.
- A Risk Management Strategy.
- Systems of financial and business internal control.
- An internal audit section, which is compliant with the Global Internal Audit Standards and Code of Ethics.
- Whistle-blowing arrangements.
- A complaints system for residents and service users.
- Business continuity arrangements.
- A senior manager to act as the Caldicott Guardian to protect the confidentiality of patient and service-user information.
- A Data Protection Officer reporting directly to the Chief Executive and a Senior Information Risk Officer (Monitoring Officer).
- Arrangements to manage other parts of the Council's (financial) Group. The S151 Officer monitors and reports on the financial effectiveness of the joint venture company, KSDL, whose accounts are subject to external audit.

## **2024/25 Review of effectiveness**

Kirklees Council has a legal responsibility for conducting, at least annually, a review of the effectiveness of its governance framework. The review is informed by several sources including the work of the executive managers, the Head of Audit & Risk's annual report, the external auditor and other review agencies and inspectorates and Member Committees.

The Council believes that its processes and arrangements effectively deliver the key elements of the governance framework and continue to be regarded as fit for purpose

The Council has four bodies / committees jointly responsible for monitoring and reviewing governance. These are:

- The Executive (Cabinet)
- The Corporate Governance & Audit Committee (CGAC)
- The Overview & Scrutiny Committee; and
- The Standards Committee.

The main parts of the review process are described below:

1. Annual Review of effectiveness of the system of internal control

In accordance with the requirements of the Accounts and Audit Regulations 2015 and Global Internal Audit Standards (GIAS), the CGAC approved the annual review of the effectiveness of its system of internal control and internal audit at its meeting in June 2025. The Head of Audit has confirmed audit arrangements have continued to be compliant with prevailing professional standards and code of ethics.

2. Risk Management

The overall framework, system and processes is working well and continues to be developed and embedded across all parts of the Council. Any new and emerging risks / and any high risks not being controlled effectively have been raised during the year and escalated to ELT and Cabinet as appropriate. These included matters related to the financial stability of the Council, SEND, associated parties, public housing (Housing Revenue Account) generally and property conditions specifically, employment and staffing- particularly in the context of hard to fill posts and the impact that this can have on performance in certain operational areas.

3. Head of Audit's Annual Assurance Opinion

The proportion of areas where control issues have arisen during the year was broadly stable from the previous year (but lower than the historical assurance level). The Head of Audit has reported he has obtained sufficient assurance that overall, the Council's systems of governance, risk management and internal control continue to be sufficiently sound and operate reasonably consistently across Services. Areas of concern related to contract and project management, and information management.

4. External Auditor's Review

The audit of the Council's 2024/25 financial statements and Annual Report (VFM Review) is scheduled for approval at CGAC in January 2026. On 31 January 2025, the 2023/24 financial statements were approved with an unqualified opinion. The 2023/24 Annual Report was received by the CGAC at the same meeting. Two key recommendations were made concerning financial sustainability, first to continue to build on strengthening the financial position and mitigating the key risks, and secondly to take action to return its' spend on Dedicated School Grant back in line with its renegotiated Safety Valve management plan with the Department for Education. Improvement recommendations were made on governance issues arising from the budgetary control process that did not highlight district heating charges were not recovering full costs, KSDL shareholder re-structure, the change in the Council's Minimum Revenue Reserve charge and contract management. A third key recommendation related to addressing the concerns raised by the Social Housing Regulator concerning fire remediation, damp and mould and water quality testing with progress reported in public to the Cabinet.

Arrangements to strengthening corporate oversight of the implementation of agreed recommendations have also been made.

5. Cabinet

No new significant governance issues to report herein arose from the Cabinet's work this year.

6. Corporate Governance & Audit Committee

During 2024/25 the CGAC reviewed aspects of the Council's constitution and governance arrangements and noted or approved revisions or made recommendations to Council as appropriate. CGAC also received assurance from various second line of defence mechanisms in their 2024/25 annual reports, such as regarding health and safety, emergency planning and business continuity, information governance and customer corporate standards on complaint handling, and a review of the Ombudsman and Third Stage Complaints received, together with details of the Whistleblowing concerns that have been received. Recognising the need to ensure that both new and existing members of the Committee have the appropriate support and skills to conduct their role, training sessions are provided at various intervals, and this includes treasury management, over which the Committee has corporate oversight. No new significant governance issues to report arose from the Committee's work this year.

7. Overview & Scrutiny Management Committee

During 2024/25 the Committee and its four Panels were themselves reviewed following a review of the Council's governance arrangements and key issues faced and strategies and responses to manage these. No new significant governance issues arose from the work of the Overview & Scrutiny process this year.

8. Standards Committee

During the year, the Committee reviewed various aspects of Member conduct arising from an increased volume of complaints but none individually or collectively were of sufficient significance to warrant reporting in this Statement. The Government issued a consultation on standards which concluded in February 2025. We await any results to see if there will be changes to the standards regime.

9. Role of the Chief Financial Officer

The Service Director of Finance commenced his role in May 2024, with duties which continue to reflect the governance arrangements set out in the CIPFA Statement, which are required to ensure he is able to operate effectively and perform his core duties compliant with the Constitution. The Council's financial management arrangements continue to fully conform to those set out in the Statement. An assessment of adherence to the CIPFA Financial Management Code is now due.

10. Role of the Monitoring Officer / Senior Information Risk Owner (SIRO)

The Service Director Legal, Governance & Commissioning is the SIRO and has reviewed information governance and security matters as Chair of the Information Governance Board with an increasing focus on an enabling and supportive role, as well as wider assurance concerning

organisational governance and compliance with the Constitution. The Council is working closely with the Information Commissioner to monitor and manage the current backlog of subject access requests concerning personal data held.

11. Officer Governance

Officer Boards as prescribed in the Constitution have continued to drive forward the Transformation Programme with strategic oversight from the ELT and escalation of appropriate issues, with particular emphasis on revenue budget and capital plan management- areas where substantial progress has been made. These arrangements are subject to both Cabinet and Scrutiny oversight and are covered in the financial position of the Council in this Statement. No new significant officer related governance issues arose this year.

12. Significant Partnerships

Partnerships range from the joint venture partnership and thematic partnerships and their subsidiaries to key contractual agreements managing substantial amounts of public money. The main contact officer for each Partnership is responsible for assessment of the governance arrangements and providing details of any significant changes to the membership and circumstances of the partnership. Senior officers use this information to assess the potential risk that the partnership presents to the reputation or financial standing of the Council. Every six-months, a report is provided to ELT as part of the quarterly assurance meetings that updates on key issues and risks across partnership working and the key partnerships. Whilst the revised and strengthened governance framework has become embedded, the Council is continuing to work on a number of areas where there is scope for arrangements to be improved further.

13. Corporate Financial Management and Corporate Performance & Impact Reports

Twice-yearly Corporate Performance and Impact reports, covering key activities and the outcomes within the Council Plan, continued to be produced in 2024/25 in line with the expectations of the Administration. The Council returned to quarterly performance reporting, including a renewed set of key performance indicators to accompany the Council Plan priorities from quarter 1 2024/25. This change provided greater visibility of performance in key areas to aid an understanding of the effectiveness of the organisation. Overall understanding of the impact of the Council's performance and delivery of services continues to be the key purpose of reporting.

14. External Inspections, Regulatory Action & Peer Reviews

An LGA Peer Review was undertaken during 2024/25. The outcome was largely positive and whilst governance and operational arrangements were found to be fit for purpose, a number of areas for further improvement were agreed and an Action Plan and next steps were noted by Council on 23 April 2025.

The central repository of the objectives, outcome and future timetable of all external inspections, audits, accreditations and reviews established by the Corporate Planning and Co-ordination Team from information provided by Service Directors enables areas for improvement and

recommendations to be implemented to be identified quickly and progress monitored accordingly to ensure complete corporate oversight. This process will be embedded further into the work of the Team. There were no particular significant governance issues arising from external inspection during 2024/25. All Executive Directors are set an annual objective of participating in LGA Peer Reviews to ensure organisation learning from best in class.

## What would be a Significant Governance Issue?

The annual corporate review process has identified and evaluated both progress with addressing ongoing issues from the 2023/24 Statement and some new areas. Those issues that meet one or more of the following criteria (suggested by CIPFA / SOLACE) have been regarded as *significant* and are included in this Statement:

- A) It undermines / threatens the achievement of our four key Council priorities:
  - to address our financial position in a fair and balanced way.
  - to strive to transform council services to become more efficient, effective, and modern.
  - to continue to deliver a greener, healthier Kirklees and address the challenges of climate change.
  - to continue to invest and regenerate our towns and villages to support our diverse places and communities to flourish.
- B) It is a significant failure to meet the principles of good governance.
- C) It is an area of significant concern to an inspector, regulator or external audit.
- D) The head of internal audit, one of the statutory officers or the Corporate Governance & Audit Committee has recommended it be included.
- E) It is an issue of public or stakeholder concern.
- F) It is an issue that cuts across the organisation and requires cooperation to address it.

## Progress with the Significant Governance Issues in last year's (2023/24) Statement

Our previous Statements recognised that many issues are complex, and sometimes not solely under the Council's direct control. These often take longer than one year to address and some feature in a similar form for a number of years, though some aspects can be resolved during the year. A change of focus or circumstance with an issue may result in it being retained but in a revised form in the following year's Statement.

Good governance is about taking actions and making continuous improvement. Sufficient progress has been made since the 2023/24 Statement in addressing two of the issues highlighted last year, and consequently these have been omitted from those described in this Statement, since they now fall into a business as usual mode.

**Issues from the 2023/24 Statement which are considered to be completed.**

<b><u>2023/24 ISSUE</u></b>	<b><u>ACTION TAKEN</u></b>
Need for review of the Local Code of Corporate Governance	The Code was reviewed early in 2025 and the CGAC approved the updated version in February 2025 which included adding further clarity as to how Kirklees measures its performance and demonstrates compliance with the code. The revised Code was approved at the AGM on 21 <sup>st</sup> May 2025.
Need for more prompt accident reporting internally by management and to the HSE where necessary by the corporate Health & Safety team.	Monitoring of the revised arrangements has confirmed this had been the case during 2024/25 and no concerns have been identified.

**Issues from the 2023/24 Statement where further work or time to embed improvements is still required.**

<b>No</b>	<b>Original Governance Issue / Theme &amp; Reason for Inclusion</b>	<b>Direction of Travel / Progress to date</b>	<b>Further Action Planned in 2025/26 and beyond, target date for implementation, and Person Responsible</b>
1	A need to ensure there is corporate oversight of progress to address the health and safety issues raised in connection with housing properties and the	The Housing Regulator issued formal notice in March 2024, identifying areas where the Council needs to improve its compliance, specifically for the treatment of damp, mould and condensation and fire safety. Since then, the Council has met with the Regulator on a monthly basis and provides bi-weekly performance	Continue to deliver the Action Plan agreed with the Regulator within the timescales specified. (continuous)  Assurance is provided to the Building Safety Assurance Board,

No	Original Governance Issue / Theme & Reason for Inclusion	Direction of Travel / Progress to date	Further Action Planned in 2025/26 and beyond, target date for implementation, and Person Responsible
	<p>complete buildings portfolio, ensuring that management and operational arrangements provide for the health and safety of all Council tenants, employees and residents.</p>	<p>reports to provide assurance on progress against an agreed Action Plan. The Regulator has undertaken to work with the Council to secure delivery, rather than apply statutory sanction.</p> <p>Work relating to damp, mould, and condensation is well progressed with the introduction of a multi-disciplinary team from March 2025 which has enabled a tenant-centred approach to both gaining access to properties and dealing with damp, mould, and condensation. The number of open cases has reduced from 1200 in March 2025 to 880 at the end of May 2025. The Council is on track to delivering its commitment to a business-as-usual position by August 2025.</p> <p>In relation to fire safety, the Council initiated a fire risk assessment programme across all blocks from November 2024. This programme is set to conclude in January 2026. All actions arising from the FRAs are either dealt with by the Council's building safety team, or programmed for delivery through the subsequent fire works programme. This work is governed by a core group comprising of H&amp;N leadership, representatives from external contractors and the building safety team.</p> <p>The Council alerted the Regulator in July 2024, concerning the correct inspection, testing and</p>	<p>Homes and Neighbourhood's Improvement Board, and the Regulator (all monthly).</p> <p>Bi-weekly performance reports to the Regulator.</p> <p>Update on progress report to Cabinet on 8<sup>th</sup> July.</p> <p>The Council has projected a business-as-usual position for damp, mould and condensation by 14<sup>th</sup> August 2025. At which point the backlog of cases will have been addressed and any new cases will be dealt with within the Council's usual operational processes. Additionally, the Council is preparing for the implementation of Awaab's Law in October 2025.</p> <p>The fire risk assessment programme will complete in January 2026.</p> <p>The implementation of a new housing management system, Cx will be delivered at the end of September 2025. This will enable both modernisation of</p>

No	Original Governance Issue / Theme & Reason for Inclusion	Direction of Travel / Progress to date	Further Action Planned in 2025/26 and beyond, target date for implementation, and Person Responsible
		<p>assurance regime for water quality in all tenanted properties. The Council has implemented the correct testing arrangements, (October 2024), with properties prioritised according to a risk assessment</p> <p>An Improvement Board has been established, independently chaired, and reporting directly to the Cabinet committee, which is meant to address all areas of activity subject to oversight by the government Regulator of Social Housing.</p>	<p>delivery and enhanced information gathering to enable improved services to our tenants.</p> <p>Additionally, the Council is upgrading its repairs and assets systems to enable improved reporting, data management, and agile working.</p>
	A, C, E	<p>The Scrutiny Committee for Growth &amp; Regeneration also has Homes and Neighbourhoods standards within its remit, and it receives timely updates as part of its annual work programme.</p> <p>A report, setting out progress against the Regulator's concerns, as reported to the Cabinet committee in October 2024.</p>	<p><b>Responsible:</b> Director of Homes &amp; Neighbourhoods</p>
2	<p>Robust governance oversight and management of progress in implementing the significant changes that underpinned the 2024/25 budget that is of key importance to ensuring the financial stability of the Council.</p>	<p><b>2023/24</b></p> <p>The serious financial position was partly mitigated by controls introduced in September 2023 including: -</p> <ul style="list-style-type: none"> <li>• Spending and recruitment controls</li> <li>• Review of all reserves- earmarked or otherwise- to determine if any of those reserves could be used to support the in-year position and if any could be moved to unallocated reserves to bolster the Minimum Working Balance (using a</li> </ul>	<p>2025/26 budget provides significant additional funding for demand pressures and where services have overspent. This is expected to reduce the number and scale of budget variations in year.</p> <p>Regular Monitoring of revenue and capital budgets will continue with monthly updates to Executive Leadership, Cabinet and Council.</p>

No	Original Governance Issue / Theme & Reason for Inclusion	Direction of Travel / Progress to date	Further Action Planned in 2025/26 and beyond, target date for implementation, and Person Responsible
		<p>risk-based analysis - as per CIPFA guidance).</p> <ul style="list-style-type: none"> <li>External review of MRP policy to generate short to medium term revenue savings to help the 2023/24 overspend and to provide balances over the next 2 to 3 years whilst the Council's financial position could be stabilised over the medium term.</li> <li>A review of the Council's Capital Programme with a view to reducing the amount of the Council's Prudential Borrowing given its impact on the General Fund Revenue Budget.</li> </ul> <p>Collectively these actions helped reduce the revenue overspend from £20.3m (Q1 (23/24) projection) to £7.3m at outturn 2023/24 and consequently reduced the reliance on reserves.</p> <p><b><u>2024/25</u></b></p> <p>Completion of a review of the Medium-Term Financial Plan (MTFP) to ensure that it fully reflects both the anticipated income and expenditure of the Council in the period 2025/26 to 2029/30 based on a range of sound assumptions with an aim of providing a more robust base budget going forward.</p> <p>The approved budget for 2024/25 included savings of</p>	<p><b>Summer 2025</b> Refresh of MTFP to Cabinet to reflect new revenue pressures, revised capital plans and reserves strategies.</p> <p>The improvement in the Outturn position and the more robust budget for 2025/26 has helped stabilise the financial position of the Council. Controls will be maintained in 2025/26 until such a time that the S151 Officer is content that savings will be delivered and there are no ongoing budget pressures that cannot be resolved.</p> <p>Intention to improve capital plan governance and reporting and monitoring,</p>
	A, C, E, F	<p>Completion of a review of the Medium-Term Financial Plan (MTFP) to ensure that it fully reflects both the anticipated income and expenditure of the Council in the period 2025/26 to 2029/30 based on a range of sound assumptions with an aim of providing a more robust base budget going forward.</p> <p>The approved budget for 2024/25 included savings of</p>	<p><b><u>Responsible:</u></b> Director of Finance</p>

No	Original Governance Issue / Theme & Reason for Inclusion	Direction of Travel / Progress to date	Further Action Planned in 2025/26 and beyond, target date for implementation, and Person Responsible
		<p>£42m and these are tracked each month as part of the suite of corporate reports.</p> <p>Quarterly reports to Members continue to highlight the in-year financial position and the need to further use short term reserves to balance the budget. The projected overspend of £9.9m was managed down to an Outturn position of £5.6m overspend, with 75% of the planned savings being achieved in year.</p> <p>Ongoing review of capital programme to ensure it remains affordable, with over £70m slipped into future years. The 2024/25 capital plan involved expenditure of £340m but this fell to £150m of actual expenditure, £70m of which slipped into future years. The capital slippage resulted in a £2.5m saving in the revenue budget in 2024/25.</p> <p><b>2025/26 to date</b></p> <p>A balanced budget was approved by Council at the start of March 2025 with £50m to address budget pressures, and £29m of anticipated savings, £11m of which are new.</p> <p>Report to CGAC on MRP policy April 2025.</p>	
3	The management, governance and use of data	The Council's draft Data and Insight Strategy is designed to improve how the Council manages and	The Data and Insights Strategy will be brought forward for sign off in quarter 3,

No	Original Governance Issue / Theme & Reason for Inclusion	Direction of Travel / Progress to date	Further Action Planned in 2025/26 and beyond, target date for implementation, and Person Responsible
	<p>is not always effective, meaning that decisions are not necessarily informed by robust evidence, as well as creating unintended financial and operational risks.</p> <p>A, F</p>	<p>uses data. Its content has regularly evolved as the council's needs have changed in the past two years and is subject to reassessment and sign-off in 2025/26. Implementation of priority activities continues, alongside the Technology and Information Governance Strategies. For example, performance dashboards have been introduced, which supports the regular reporting of performance across the council.</p>	<p>2025/26. This will be subject to a robust implementation programme alongside the Technology Strategy.</p> <p><b>Responsible:</b> Director of Strategy &amp; Innovation</p>
4	<p>The effective implementation of the "Safety Valve" programme to address overspending and historic deficit on special education needs (SEND) budgets as part of the Dedicated Schools Grant (DSG).</p>	<p>There is an agreed plan with the Department for Education to reduce the High Needs Block cumulative deficit by 2029/30. This requires the continuation of the DfE's annual safety valve contributions and funds from the Council (which is factored into the 2025/26 budget and the latest version of the MTFP). This Plan has been revised with agreement of DfE.</p> <p>Council Services will continue to work collaboratively with schools and other partners to effectively manage the High Needs Block expenditure. Woodley Moor, a Satellite to Woodley School and College opened 01/10/2024 enabling an increased number of children to be placed in state funded provision (ahead of the new larger school being built). A similar plan is in train for Josphe Norton Academy to enable more places to be made available locally ahead of the new, larger school being built.</p>	<p>The Safety Valve plan includes</p> <ul style="list-style-type: none"> <li>- New special schools (one to be completed by autumn 2026) with larger capacity to meet sufficiency pressures.</li> <li>- Further Additionally Resourced Provisions and Special School Satellite Provision, (a second phase of new ARPs is due to be in place by 01/09/2025).</li> <li>- More effective processing and resource allocation as a part of the initial EHC needs assessment. (first phase completion by 31/03/2025).</li> <li>- Additional Alternative Provision capacity by way of a DfE approved Free School.</li> </ul>

No	Original Governance Issue / Theme & Reason for Inclusion	Direction of Travel / Progress to date	Further Action Planned in 2025/26 and beyond, target date for implementation, and Person Responsible
	A, E, F	<p>However, substantially increased demand, as well as complexity of need alongside other difficulties means that achievement of the goals requires, and is being given, substantial continued attention.</p> <p>Changes made to processes for Education, Health and Care needs assessments, have meant there is an improvement to timeliness, although issues of volumes, staff turnover and skill shortages across the partnership continue to impact on a full resolution of issues.</p> <p>The DSG deficit is now £63m, which is c £20m higher than the previous year. Further guidance on SEND is anticipated from DfE during 2025.</p>	<p><b>Responsible:</b> Executive Director of Children's Services</p>

## **New Issue**

The annual review of the effectiveness of our governance arrangements in 2025 considered potential areas of heightened concern, risk, or significant uncertainty that require a corporate response. In addition to those issues retained from the 2023/24 Statement, the following new one has emerged through this process which requires further remediation and management action.

**New Issue which requires action**

No	<b><u>Governance Issue / Theme</u></b>	<b><u>Reason for Inclusion</u></b>	<b><u>Action Taken and Planned in 2024/25 and beyond</u></b>
1	Ensuring that the council effectively manages contracts and projects.	Both external and internal auditor’s reports have highlighted concerns about the effectiveness of contract management arrangements in some areas. This relates to ongoing management of long term contracts, and also the effective commissioning and delivery of (typically) construction projects.	<p>Transformation team support obtained, and a project group has been established with attendance from key stakeholders in the organisation to review and update arrangements in contract management to ensure best practice.</p> <p>All senior leadership teams have been attended to ascertain their views and steer around the project. The Contract Assurance Board have agreed the refreshed strategic governance framework.</p> <p>Four workstreams have been identified and are progressing well within the associated timeline which is scheduled for completion in September 2025.</p> <p>The first workstream of strategic governance framework refresh has been completed and the group is moving onto learning resources.</p> <p><b><u>Responsible:</u></b> Director of Legal, Governance &amp; Commissioning</p>

The Executive Leadership Team and the Corporate Governance & Audit Committee will monitor progress during 2025/26 and beyond.

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Kirklees Council

# Annual Governance Statement 2023/24

January 2025

## Overall Conclusion & Opinion

We have carefully considered the effectiveness of the Council's governance framework and have been advised by the Corporate Governance and Audit Committee. We acknowledge responsibility for ensuring that there is a sound system of governance, which is particularly supported by the authority's code of governance.

We are satisfied that the Council's overall governance arrangements are in accordance with our governance framework and Code of Corporate Governance.

We will continue to enhance our governance arrangements as recommended in the Action Plan that underpins this Statement. We are satisfied that these steps will address the need for improvements that were identified in our review and have monitored their implementation during 2024/25 and will continue to do so in conjunction with the Corporate Governance & Audit Committee.

Signed:

Cllr. Carole Pattison, Leader of the Council

Steve Mawson, Chief Executive

Kevin Mulvaney, Service Director Finance (S151 officer)

## Introduction

All local authorities are required to produce an Annual Governance Statement. This is intended to provide information about how the council is governed to achieve effective and efficient service delivery compliant with all obligations.

This report sets out the scope of responsibilities, the purpose of a governance framework, the key parts of the framework, a review of the effectiveness of these processes in 2023/24, an indication of what would be a key governance issue, an assessment of progress against governance issues raised in previous years and new issues that have arisen during 2023/24.

## Statement Scope

Kirklees Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

Kirklees Council has a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework *Delivering Good Governance in Local Government 2016*. A copy of the Code is available from the Monitoring Officer. The current version can be found at <https://www.kirklees.gov.uk/beta/council-and-democracy.aspx#your-council>

This Statement explains how the Council has complied with the Code during 2023/24 and up to the date that the Statement of Accounts is approved and thus meets the requirements of the Accounts and Audit Regulations 2015, and the Accounts and Audit (Amendment) Regulations 2020. It provides assurance about the Council's governance framework, including the other entity in the Group Accounts, a joint venture, Kirklees Stadium Development Limited, to enable readers of the consolidated Accounts to be satisfied that arrangements are in place to govern spending and safeguard assets. Where specific improvements and/ actions are ongoing or needed, brief information is provided about the key issues and the main areas of work that have been progressed during 2023/24 and those which are planned or ongoing in 2024/25.

## The purpose of the governance framework

Corporate governance is a phrase used to describe how organisations direct and control what they do. For local authorities this also includes how a Council relates to the communities that it serves. The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and through which it engages with, leads and accounts to its communities. Effective governance should enable the Council to monitor the achievement of its key objectives and to assess if this has led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of the Council's governance framework, designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve its aims, objectives and policies and can only provide reasonable, but not absolute, assurance of effectiveness.

## The key parts of the governance framework

- A Local Code of Corporate Governance overseen by the Service Director Legal, Governance & Commissioning and the Corporate Governance and Audit Committee, to assess operational practice and behaviour, and prepare this Statement.
- A Council Constitution.
- A Corporate Plan, *Our Council Plan*, which outlines how officers will seek to run the Council to meet our community commitments and key objectives and quarterly performance monitoring of progress in doing so.
- A Leader and Cabinet model of governance.
- A corporate governance, audit and scrutiny process as set out in the Constitution.
- Oversight and delivery of the Council Programme, including several officer boards as described in the Constitution.
- Statutory officer roles performed by the Chief Executive as Head of Paid Service, the Service Director Legal, Governance & Commissioning as Monitoring Officer and the Service Director Finance as Section 151 Officer. The S151 Officer is a professionally qualified accountant and reports directly on financial matters to the Chief Executive as a member of the Executive Leadership Team (ELT).
- The Monitoring Officer who has responsibility for the Constitution and ensuring the legality of Council actions and decision making.
- The S151 Officer who has responsibility for ensuring that the financial management arrangements conform with all of the governance requirements of the five principles that define the core activities and behaviours that belong to the role in the CIPFA *Statement on The Role of the Chief Financial Officer in Local Authorities (2014)*.
- Codes of conduct defining the standards of behaviour for Members and employees.

- A Counter Fraud, Bribery and Corruption Policy and arrangements that endeavour to comply with the CIPFA Code and best practice.
- A Risk Management Strategy.
- Systems of financial and business internal control.
- An internal audit section, which is compliant with the Public Sector Internal Audit Standards and Code of Ethics.
- Whistle-blowing arrangements.
- A complaints system for residents and service users.
- Business continuity arrangements.
- A senior manager to act as the Caldicott Guardian to protect the confidentiality of patient and service-user information.
- A Data Protection Officer reporting directly to the Chief Executive and a Senior Information Risk Officer (Monitoring Officer).
- Arrangements to manage other parts of the Council's (financial) Group. The S151 Officer monitors and reports on the financial effectiveness of the joint venture company, KSDL, whose accounts are subject to external audit.

## **2023/24 Review of effectiveness**

Kirklees Council has a legal responsibility for conducting, at least annually, a review of the effectiveness of its governance framework. The review is informed by several sources including the work of the executive managers, the Head of Audit & Risk's annual report, the external auditor and other review agencies and inspectorates and Member Committees.

The council believes that its processes and arrangements effectively deliver the key elements of the governance framework and continue to be regarded as fit for purpose

The Council has four bodies / committees jointly responsible for monitoring and reviewing governance. These are:

- The Executive (Cabinet)
- The Corporate Governance & Audit Committee (CGAC)
- The Overview & Scrutiny Committee; and
- The Standards Committee.

The main parts of the review process are described below:

1. Annual Review of effectiveness of the system of internal control

In accordance with the requirements of the Accounts and Audit Regulations 2015 and Public Sector Internal Audit Standards (PSIAS), the CGAC approved the annual review of the effectiveness of its system of internal control and internal audit at its meeting in May 2024. The Head of Audit has confirmed audit arrangements have continued to be compliant with prevailing professional standards and code of ethics.

2. Risk Management

The overall framework, system and processes is working well and continues to be developed and embedded across all parts of the Council. Any new and emerging risks / and any high risks not being controlled effectively have been raised during the year and escalated to ELT as appropriate. These included matters related to the financial stability of the Council, SEND, associated parties, housing generally and property conditions specifically, employment and staffing- particularly in the context of hard to fill posts and the impact that this can have on performance in certain operational areas.

3. Head of Audit's Annual Assurance Opinion

The proportion of areas where control issues have arisen during the year is growing but nevertheless the Head of Audit has reported he has obtained sufficient assurance that overall, the Council's systems of governance, risk management and internal control continue to be generally sound and operate reasonably consistently across Services. No new issues of significant concern were reported.

4. External Auditor's Review

The audit of the Council's 2023/24 financial statements and Annual Report (VFM Review) is scheduled for approval at CGAC in January 2025 and includes reference to areas such as Safety Valve, Financial Position, Housing regulator which are addressed in this Statement.

In December 2023, the 2022/23 financial statements were approved with an unqualified opinion. The 2022/23 Annual Report received by the CGAC in January 2024 reflected that the previous year's Report had been made only in the preceding July and so the significant weakness in financial sustainability and accompanying key recommendation remained in place for the current year of account. Whilst noting good progress had been made in addressing the recommendation concerning short term savings that could be delivered quickly, further developments in the governance of the savings plan and co-ordination with the longer-term transformation programme had yet to be addressed, in addition to a robust solution to rebuilding reserves.

A second new key recommendation was made concerning the Council's Dedicated School Grant deficit position, as it judged the remediation plan agreed with the DfE had faltered, albeit that since then the Council has been proactive in ongoing negotiations to identify a way forward. No significant areas of weakness were identified either in governance arrangements, or those for identifying economy, efficiency and effectiveness.

5. Cabinet

No new significant issues to report arose from the Committee's work this year.

6. Corporate Governance & Audit Committee

During 2023/24 the CGAC reviewed aspects of the Council's constitution and governance arrangements and noted or approved revisions or made recommendations to Council as appropriate. CGAC also received assurance from various second line of defence mechanisms in their 2023/24 annual reports, such as regarding health and safety, emergency planning and business continuity, information governance and customer corporate standards on complaint handling, and a review of the Ombudsman and Third Stage Complaints received, together with details of the Whistleblowing concerns that have been received. Recognising the need to ensure that both new and existing members of the Committee have the appropriate support and skills to conduct their role, training sessions are provided at various intervals, and this includes treasury management, over which the Committee has corporate oversight. No new significant issues to report arose from the Committee's work this year.

7 Overview & Scrutiny Management Committee

During 2023/24 the Committee and its four Panels were themselves reviewed following a review of the Council's governance arrangements and key issues faced and strategies and responses to manage these. No new significant issues arose from the work of the Overview & Scrutiny process this year.

8. Standards Committee

During the year, the Committee reviewed various aspects of Member conduct arising from an increased volume of complaints, but none individually or collectively were of sufficient significance to warrant reporting in this Statement.

9. Role of the Chief Financial Officer

During 2023/24 the previous Service Directors of Finance (SDF) retired, and his successor then left the Council after a short period of tenure and an Interim appointment was made pending the arrival of the new Chief Executive. A permanent appointment was made subsequently and the new incumbent started in the role in May 2024, a role which continues to reflect the governance arrangements set out in the CIPFA Statement, which are required to ensure he is able to operate effectively and perform his core duties compliant with the Constitution. The Council's financial management arrangements continue to fully conform to those set out in the Statement.

Assessments by a previous SDF and Internal Audit confirmed prior to 2023/24 that the Council was compliant with the CIPFA Financial Management Code, although there are some aspects of operations that can be strengthened further in line with recommendations made by Internal Audit at that time.

10. Role of the Monitoring Officer / Senior Information Risk Owner

The Service Director performing this role left the Council at the start of June 2024 and has been replaced accordingly. She had reviewed information governance and security matters as Chair of the Information Governance Board within the context of an internal review of the Board's terms of reference and increasing focus on an enabling and supportive role, as well as wider assurance concerning organisational governance and compliance with the Constitution.

The Council's Code of Corporate Governance as adopted in 2017 reflecting *CIPFA/SOLACE Delivering Good Governance Framework 2016* includes a requirement for regular review and best practice would suggest this may even be an annual process. This was subject to reviewed in 2020. No other Issues identified other than those included in the 2022/23 Statement. (see new areas 1).

11. Officer Governance

No new significant issues to report arose from the ELT's work this year.

Officer Boards as prescribed in the Constitution have continued to drive forward the Transformation Programme with strategic oversight from the ELT and escalation of appropriate issues, with particular emphasis on revenue budget and capital plan management. These arrangements are subject to both Cabinet and Scrutiny oversight and are covered in the financial position of the Council in this Statement.

12. Significant Partnerships

Partnerships range from the joint venture partnership and thematic partnerships and their subsidiaries to key contractual agreements managing substantial amounts of public money. The main contact officer for each Partnership is responsible for assessment of the governance arrangements and providing details of any significant changes to the membership and circumstances of the partnership. Senior officers use this information to assess the potential risk that the partnership presents to the reputation or financial standing of the Council. Every six-months, a report is provided to ELT as part of the quarterly assurance meetings that updates on key issues and risks across partnership working and the key partnerships.

Whilst the revised and strengthened governance framework has become embedded, the Council is continuing to work on a number of areas where there is scope for arrangements to be improved further.

13. Corporate Financial Management and Corporate Performance & Impact Reports

Twice-yearly Corporate Performance and Impact reports, covering key activities and the outcomes within the Council Plan, continued to be produced in 2023/24 in line with the expectations of the Administration. The Council will return to quarterly performance reporting, including a renewed set of key performance indicators to accompany the Council Plan priorities from quarter 1 2024/25. This will provide greater visibility of performance in key areas to aid an understanding of the effectiveness of the organisation. Overall understanding of the impact of the Council's performance and delivery of services continues to be the key purpose of reporting.

#### 14 External Inspections, Regulatory Action & Peer Reviews

The central repository of the objectives, outcome and future timetable of all external inspections, audits, accreditations and reviews established by the Corporate Planning and Co-ordination Team from information provided by Service Directors enables areas for improvement and recommendations to be implemented to be identified quickly and progress monitored accordingly to ensure complete corporate oversight. This process will be embedded further into the work of the Team. A review is currently underway to identify any themes, and they will be communicated as part of preparation for the forthcoming Corporate Peer Challenge.

All Strategic Directors are set an annual objective of participating in LGA Peer Reviews to ensure organisation learning from best in class.

### **What would be a Significant Governance Issue**

The annual corporate review process has identified and evaluated both progress with addressing ongoing issues from the 2022/23 Statement and some new areas. Those issues that meet one or more of the following criteria (suggested by CIPFA / SOLACE) have been regarded as *significant* and are included in this Statement:

- A) It undermines / threatens the achievement of our four key Council priorities:
  - to address our financial position in a fair and balanced way.
  - to strive to transform council services to become more efficient, effective, and modern.
  - to continue to deliver a greener, healthier Kirklees and address the challenges of climate change.
  - to continue to invest and regenerate our towns and villages to support our diverse places and communities to flourish.
- B) It is a significant failure to meet the principles of good governance.
- C) It is an area of significant concern to an inspector, regulator or external audit.
- D) The head of internal audit, one of the statutory officers or the Corporate Governance & Audit Committee has recommended it be included.
- E) It is an issue of public or stakeholder concern.
- F) It is an issue that cuts across the organisation and requires cooperation to address it.

## Progress with the Significant Governance Issues in last year's (2022/23) Statement

Our previous Statements recognised that many issues are complex, and sometimes not solely under the Council's direct control. These often take longer than one year to address and some feature in a similar form for a number of years, though some aspects can be resolved during the year. A change of focus or circumstance with an issue may result in it being retained but in a revised form in the following year's Statement.

Good governance is about taking actions and making continuous improvement. Sufficient progress has been made since the 2022/23 Statement in addressing several of the issues highlighted last year, and consequently these have been omitted from those described in this Statement.

### Issues from the 2022/23 Statement which are considered to be completed

<u>2022/23 ISSUE</u>	<u>ACTION TAKEN</u>
Corporate Planning & Resource Allocation processes and timing are not sufficiently joined to facilitate delivery of the Council's key objectives.	The two processes have been better synchronised so that the resource allocation process enables delivery of the Corporate Plan, with joint consideration and approval at Budget Council at the start of March 2024.
Partnership Governance and building on new relationships needed developing further.	A revised and strengthened governance framework has become embedded, although the Council is continuing to work on those areas where there is scope for arrangements to be further improved.
Governance of decision making, Member roles and place-based working needed strengthening.	Continued implementation and development of the current governance model with a focus on pre-decision scrutiny and delivery of improved communication and training to those involved.
Assimilation of new personnel into key corporate management roles within the Executive Leadership Team.	Appointments have been made to all the key posts concerned and effective new working relationships have been developed.

**Issues from the 2022/23 Statement where further work or time to embed improvements is still required**

No	Governance Issue / Theme & Reason for Inclusion	Direction of Travel / Progress to date	Further Action Planned in the remainder of 2024/25 and beyond, and target date for implementation, & Person Responsible
1	<p>Ensure there is corporate oversight of progress to address the health and safety issues raised in connection with housing properties and the complete buildings portfolio, ensuring that management and operational arrangements provide for the health and safety of all Council tenants, employees and residents.</p>	<p>The Housing Regulator issued formal notice in March 2024, identifying areas where the Council needs to improve its compliance, specifically for the treatment of damp, mould and condensation and fire safety. Since then, the Council has met with the Regulator on a monthly basis to provide assurance on progress against an agreed Action Plan. The Regulator has undertaken to work with the Council to secure delivery, rather than apply statutory sanction.</p> <p>The Council alerted the Regulator in July 2024, concerning the correct inspection, testing and assurance regime for water quality in all tenanted properties. The Council has implemented the correct testing arrangements, (October 2024), with properties prioritised according to a risk assessment</p> <p>An Improvement Board has been established, independently chaired, and reporting directly to the Cabinet committee, which is meant to address all areas of activity subject to oversight by the government Regulator of Social Housing.</p> <p>The Scrutiny Committee for Growth &amp; Regeneration also has Homes and Neighbourhoods standards within its remit, and it receives timely updates as part of its annual work programme.</p>	<p>Continue to deliver the Action Plan agreed with the Regulator within the timescales specified. (continuous)</p> <p>Assurance is provided to the Building Safety Assurance Board, Homes and Neighbourhoods Improvement Board, Regulator. (all monthly)</p> <p>Internal process review led by Director of Homes and Neighbourhoods, with input from the corporate Transformation Team, as part of the Improvement Programme (quarterly programme reporting)</p>

	A, C, E	A six-monthly report, set out progress against the Regulator’s concerns, as reported to the Cabinet committee in October 2024.	<b>Responsible:</b> Director of Homes & Neighbourhoods
2	Robust governance oversight and management of progress in implementing the significant changes that underpin the 2024/25 budget that is of key importance to ensuring the financial stability of the Council.	<p><b>2023/24</b></p> <p>The serious financial position was partly mitigated by controls introduced in September 2023 including: -</p> <ul style="list-style-type: none"> <li>• Spending and recruitment controls</li> <li>• Review of all reserves- earmarked or otherwise- to determine if any of those reserves could be used to support the in-year position and if any could be moved to unallocated reserves to bolster the Minimum Working Balance (using a risk-based analysis - as per CIPFA guidance).</li> <li>• External review of MRP policy to generate short to medium term revenue savings to help the 2023/24 overspend and to provide balances over the next 2 to 3 years whilst the Council’s financial position could be stabilised over the medium term.</li> <li>• A review of the Council’s Capital Programme with a view to reducing the amount of the Council’s Prudential Borrowing given its impact on the General Fund Revenue Budget.</li> </ul> <p>Collectively these actions helped reduce the revenue overspend from £20.3m (Q1 (23/24) projection) to £7.3m at outturn 2023/24 and consequently reduced the reliance on reserves.</p>	<p><b>For 2024/25</b></p> <p>Continue to update monthly projections and to implement use of reserves to balance in year overspends.</p> <p><b>For 2025/26</b></p> <p>Budget proposals to Cabinet in December 2024 and out for consultation.</p> <p>Budget 2025/26 to be taken to February Cabinet and March 2025 Council for approval.</p> <p>2025/26 budget provides significant additional funding for demand pressures and where services have overspent. This is expected to reduce the number and scale of budget variations in year.</p> <p>Regular Monitoring of revenue and capital budgets will continue with monthly updates to Executive Leadership, Cabinet and Council.</p> <p><b>Summer 2025</b></p>

		<p><b><u>2024/25</u></b></p> <p>Completion of a review of the Medium-Term Financial Plan (MTFP) to ensure that it fully reflects both the anticipated income and expenditure of the Council in the period 2025/26 to 2029/30 based on a range of sound assumptions with an aim of providing a more robust base budget going forward.</p> <p>The approved budget for 2024/25 included savings of £42m and these are tracked each month as part of the suite of corporate reports.</p> <p>Quarterly reports to Members continue to highlight the in-year financial position and the need to further use short term reserves to balance the budget. At Q2 (24/25), the projected overspend was £9.9m after using £3m of unallocated reserves.</p> <p>Ongoing review of capital programme to ensure it remains affordable, with over £70m slipped into future years.</p>	<p>Refresh of MTFP to Cabinet to reflect new revenue pressures, revised capital plans and reserves strategies.</p>
	A, C, E, F		<p><b><u>Responsible:</u></b> Director of Finance</p>
3	The management, governance and use of data is not always effective, meaning that decisions are not necessarily informed by robust evidence, as well as creating unintended	The council's draft Data and Insight Strategy is designed to improve how the Council manages and uses data. Its content has regularly evolved as the council's needs have changed in the past two years and is subject to reassessment and sign-off in 2025/26. Implementation of priority activities continues,	The Data and Insights Strategy will be brought forward for sign off in quarter 3, 2025/26. This will be subject to a robust implementation programme alongside the Technology Strategy.

	financial and operational risks. A, F	alongside the Technology and Information Governance Strategies. For example, performance dashboards have been introduced, which supports the regular reporting of performance across the council.	<b>Responsible:</b> Director of Strategy & Innovation
4	The effective implementation of the “Safety Valve” programme to address overspending and historic deficit on special education needs (SEND) budgets as part of the Dedicated Schools Grant (DSG).	<p>There is an agreed plan with the Department for Education to reduce the High Needs Block cumulative deficit by 2029/30. This requires the continuation of the DfE’s annual safety valve contributions and funds from the Council (which is factored into the 2025/26 budget and the latest version of the MTFP). This Plan has been revised with agreement of DfE.</p> <p>Council Services will continue to work collaboratively with schools and other partners to effectively manage the High Needs Block expenditure. Woodley Moor, a Satellite to Woodley School and College opened 01/10/2024.</p>	<p>The Safety Valve plan includes</p> <ul style="list-style-type: none"> <li>- New special schools (one to be completed by September 2026)</li> <li>- Further Additionally Resourced Provisions and Satellite Provision, (the second phase of A due to be in place by 01/09/2025)</li> <li>- More effective processing and resource allocation as a part of the initial SEND assessment. (completion by 31/03/2025)</li> </ul>
	A, E, F	However, substantially increased demand, and other difficulties means that achievement of the goals requires substantial continued attention.	<b>Responsible:</b> Executive Director of Childrens Services

## New Issues

The annual review of the effectiveness of our governance arrangements in 2024 considered potential areas of heightened concern, risk, or significant uncertainty that require a corporate response. In addition to those issues retained from the 2022/23 Statement, the following new ones have emerged through this process which require further remediation and management action.

### New Issues which require action

No	<u>Governance Issue / Theme</u>	<u>Reason for Inclusion</u>	<u>Action Taken and Planned in 2024/25 and beyond</u>
1	The Code of Corporate Governance has not been reviewed formally since March 2020.	The Code underpins arrangements and the environment in which this Statement is compiled. (B)	<p>The Code will be reviewed in line with CIPFA / SOLACE good governance practice by the Service Director, Legal, Governance &amp; Commissioning to ensure it remains fit for purpose in the current position of the Council and the outcome reported to the CGAC in February 2025 and posted on the website.</p> <p><b><u>Responsible:</u></b> Director of Legal Governance &amp; Commissioning</p>
2	Ensuring Accident Reporting is timely and in accordance with statutory regulations.	The Council was issued a Notice of Contravention by the Health & Safety Executive (HSE) for late reporting. (E)	<p>Awareness has been raised across the Council. Communication on prompt accident reporting was circulated to all Kirklees Leadership Forum members in June 2024. Senior management are monitoring compliance closely with performance is reported to the Health and Safety Oversight Board.</p> <p>Managers must report accidents to the Corporate Health &amp; Safety Team within 24 hours who will notify the HSE as required</p> <p>These measures have proved effective to date in improving management notification of accidents.</p> <p><b><u>Responsible:</u></b> Head of Health Protection</p>

The Executive Leadership Team (ELT) and Corporate Governance & Audit Committee (CGAC) will monitor progress during 2024/25 and beyond.

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**REPORT TITLE: INTERNAL AUDIT QUARTERLY REPORT 4 2024/25  
JANUARY 2025 TO MARCH 2025**

<b>Meeting:</b>	<b>Corporate Governance &amp; Audit Committee</b>
<b>Date:</b>	<b>20 June 2025</b>
<b>Cabinet Member</b> (if applicable)	
<b>Key Decision Eligible for Call In</b>	<b>No No – Information report</b>
<b>Purpose of Report</b> To provide a report of Internal Audit activity during the final quarter of 2024/25	
<b>Recommendations</b> <ul style="list-style-type: none"> <li>• That the report be noted</li> <li>• The Committee determine if any action is required as a result of this report</li> </ul> <b>Reasons for Recommendations</b> <ul style="list-style-type: none"> <li>• This provides information about activity of internal audit in this period, and the level assurance in the organisation. There may be issues identified which the Committee feels merits further work.</li> </ul>	
<b>Resource Implications:</b> <ul style="list-style-type: none"> <li>• None from this report, other than the potential costs or savings from implementing recommendations</li> </ul>	
<b>Date signed off by Executive Director &amp; name.</b>	Not applicable
<b>Is it also signed off by the Service Director for Finance?</b>	
<b>Is it also signed off by the Service Director for Legal Governance and Commissioning?</b>	

**Electoral wards affected:** all

**Ward councillors consulted:** none

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

One 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.

**Has GDPR been considered?** yes

**1. Executive Summary**

The Council has to have an Internal Audit function. Each quarter Internal Audit reports on its activity. The report also provides information about use of Regulation of Investigatory Powers Act investigations. There were none this period. There is an additional report on progress on the implementation of recommendations.

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

2.1 The information required about Internal Audit activity is included in the attached report. There is a further small amount of information contained in a private report.

2.2 An appendix A to this report includes a report on progress with implementing all recommendations made during the year 2023/24, and 2024/25 which should have been implemented by 31<sup>st</sup> March 2025. In summary all of the fundamental recommendations have been implemented, two only partially, but with reasonable mitigation. Two thirds of the significant recommendations have been implemented fully with partially implementation of 30% and no action on 4%. A recommendations implementation update will now be a regular feature of quarterly reporting.

**3. Implications for the Council**

Having an effective internal audit function, as a part of a strong assurance and governance framework is important for the Council. Implementing audit findings should help to improve internal control, assurance and or governance.

**3.1 Working with People**

No directly applicable.

**3.2 Working with Partners**

No directly applicable.

**3.3 Place Based Working**

No directly applicable.

**3.4 Climate Change and Air Quality**

No directly applicable.

**3.5 Improving outcomes for children**

No directly applicable.

**3.6 Financial Implications**

Refers in part to improving strategic and operational financial controls.

**3.7 Legal Implications**

No directly applicable.

**3.8 Other (e.g. Risk, Integrated Impact Assessment or Human Resources)**

Implementation of internal audit recommendations should improve overall control arrangements and promote good governance.

- 4. Consultation**  
There have been discussions with Executive Leadership Team (ELT)
- 5. Engagement**  
ELT have seen and are aware of the content of this report
- 6. Options**  
Not applicable
- 7. Next steps and timelines**  
Contributes to the Annual Internal Audit report.
- 8. Contact officer**  
Martin Dearnley Head of Audit & Risk.
- 9. Background Papers and History of Decisions**  
None.
- 10. Appendices**  
Appendix A: recommendations implementation update  
Private appendix
- 11. Service Director responsible**  
The Head of Risk & Internal Audit holds responsibility for the planning, operation and reporting by Internal Audit.  
The statutory officers with a responsibility for overseeing the internal audit function are  
Samantha Lawton Service Director for Legal Governances & Commissioning  
Kevin Mulvaney Service Director for Finance

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# **Internal Audit & Counter Fraud Quarterly Report**

**Quarter 4 2024/25  
January to March**

## 1 Introduction

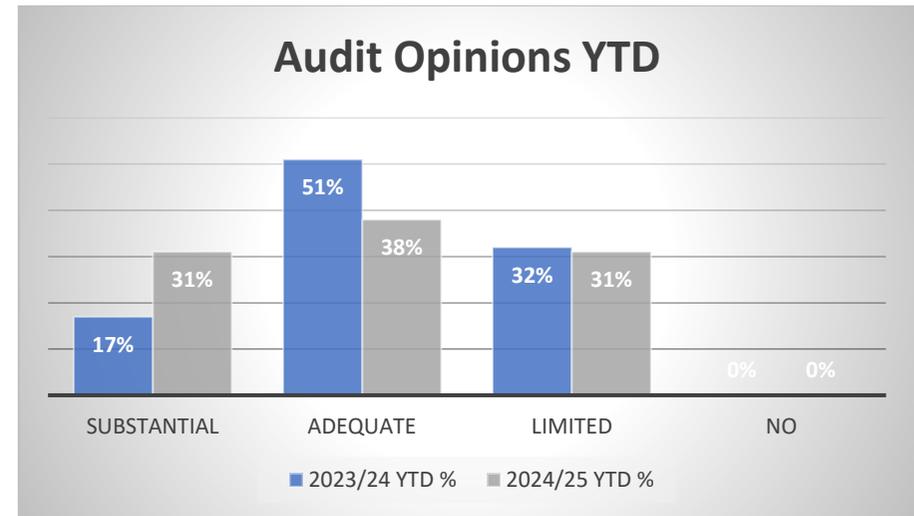
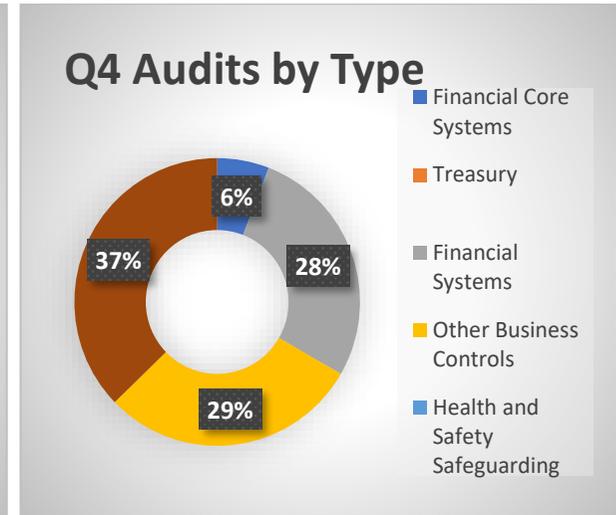
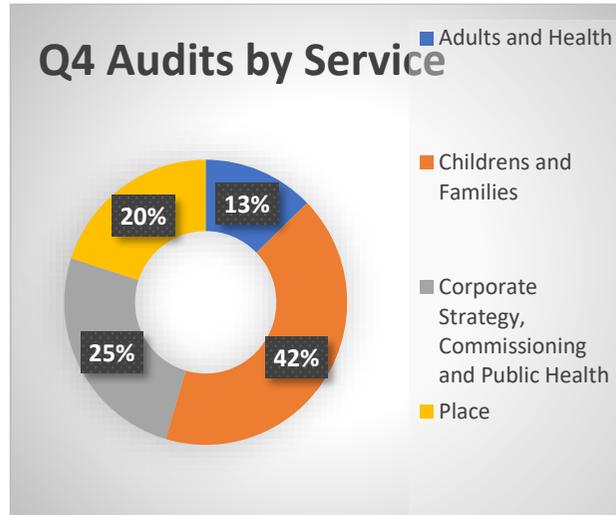
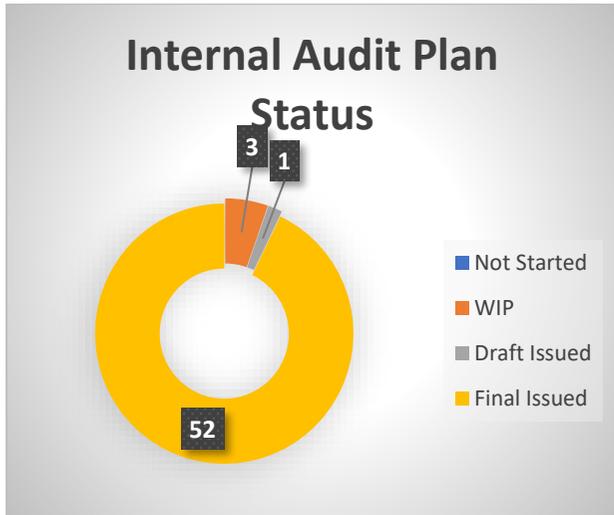
This report sets out the work of Internal Audit completed in the period shown above. All work included has reached a final, except if shown otherwise, management have accepted the findings and agreed to implement the recommendations, or, in the case of employee investigations, any disciplinary action 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



### **3 Planned Audit Work Completed in the Period**

#### **3.1 Financial System and Service Audits**

	<u>Audit</u>	<u>Opinion</u>	<u>Recommendations</u>		
			Fundamental	Significant	Merits Attention
	<b><u>Core Financial Systems</u></b>				
	<b><u>Finance</u></b>				
039	External Grant Income	<p><b><u>Adequate Assurance</u></b></p> <p>The array of new grant providers and new grants has multiplied since the last audit, many of whom then require declarations from the Head of Internal Audit and /or S151 Officer as to the proper expenditure usage of their award, The overall proportion of income from the Government, non or quasi-governmental bodies and other organisations is very significant.</p> <p>Corporate oversight and horizon scanning of grants awarded and receivable by Services from a growing list of sponsors is provided by the External Funding and Resources Officer, in the Policy and Partnerships Team. Enhanced corporate records would help improve monitoring and planning processes.</p> <p>Finance staff continue to monitor grants when awarded and have the appropriate controls in place for oversight and for timely reconciliation particularly in relation to un-ringfenced grants. Sample testing established that all</p>	0	3	2

		<p>grant income due had been received and accounted for correctly.</p> <p>A review of the systems and processes for the receipt of grants confirmed that these had been established over several years and were found to be generally satisfactory and adhered to including grant determination letters received and stored appropriately under the relevant finance team file structure.</p>			
	<b><u>Other Financial Systems and Processes</u></b>				
	<b><u>Finance</u></b>				
	West Yorkshire Pension Fund	<p><b><u>Substantial Assurance</u></b></p> <p>The Director of Finance asked for assurance to support his annual declaration to the Fund that the systems and procedures in SAP (payroll and ledger) were sufficiently robust to ensure contribution deductions and resultant payments of contributions are robust for employees in the Fund.</p> <p>Initial sample testing managed to reconcile SAP modules at a higher level.</p>	0	0	3
	<b><u>Highways &amp; Streetscene</u></b>				
040	Waste Management Contract	<p><b><u>Adequate Assurance</u></b></p> <p>Expenditure for the 2023/24 financial year was £17.6m, with a budget for 2024/25 of £18.2m. The contract payment process is based on an annual fixed charge and a gate fee per tonne. The contract has a 30-year duration (25+5years of extensions) and is currently in year 27.</p>	0	4	4

		<p>The audit provided assurance that overall effective arrangements are in place, and contract payments in 2024/25 in terms of the volume and type of waste, as evidenced as per the pricing document, were valid.</p> <p>Areas to strengthen and improve were noted, as the three-year contract extension due to start in April 2025 had not yet been signed and it was noted that the latest version of the Risk Register did not reflect the need for a new procurement. Regular on-site monitoring was not taking place, diminishing assurance that the required contract standards are adhered to.</p>			
	<b>Children and Families</b>				
041	Youth Justice Service	<p><b>Limited Assurance</b></p> <p>A routine financial audit of the Council's Youth Justice Service was undertaken as part of the 2024/25 internal audit plan. The last audit review was carried out in November 2016 which received a "substantial assurance" audit opinion. The Youth Justice Service's Financial Administration arrangements were reviewed to ascertain an opinion on the controls and risks associated for:</p> <ul style="list-style-type: none"> <li>• Cash &amp; Security</li> <li>• Petty Cash</li> <li>• Ordering and Invoice Procedures (incl. Purchasing Cards)</li> <li>• Budget Monitoring/Financial Overview</li> </ul> <p>The scope of the review was agreed to be extended to include a review of information sharing arrangements specifically in relation to a multi-agency decision making panel identified occasions of disproportionate information sharing. This was identified and raised by the Youth Justice Service Manager. There were concerns that the information being share was not always proportionate to the circumstances and occurred prior to receiving</p>	2	6	2

		<p>consent. These instances occurred at a weekly 'out of court disposal panel' (O OCD) partnership meeting.</p> <p>Although most areas were given a substantial assurance opinion, a fundamental recommendation was made relating to GDPR arrangement requiring external disclosure to be proportionate to the cases presented and that correct parental consent should be sought. Testing from a sample of 10 cases showed that 70% were regarded as disproportionate.</p> <p>The audit opinion for cash and security arrangements petty cash system, process and reconciliation lacked assurance due to a fundamental absence of controls to prevent fraud and error. The amount of cash handling is limited to below £1,000 per annum therefore is deemed as low risk but this contributed to the overall limited assurance opinion for this particular audit.</p> <p>It should be noted that cash handling has been found to be an issue in other areas of the council with similar findings and recommendations.</p>			
	<b><u>Other Business Controls</u></b>				
	<b><u>Legal, Governance &amp; Commissioning</u></b>				
<b><u>042</u></b>	Local Code of Corporate Governance	<p><b><u>Substantial Assurance</u></b></p> <p>Under the 2016 Governance Framework, CIPFA / SOLACE recommends that all local government bodies develop a local code of governance. The local code should set out how the authority's governance arrangements work towards meeting the seven principles of good governance, as set out in the Framework. The aim of the code is to enable the three most senior</p>	0	0	0

		<p>statutory officers to work together effectively to best advise their authority, implement its decisions, and help achieve good outcomes.”</p> <p>The audit coincided with a review as an action from the Annual Governance Statement and it was confirmed that the proposals that subsequently were reported to this Committee represented a strengthening of already sound arrangements.</p>			

**3.2 Recommendation Follow - Up Audit Work Completed in the Period**

	<u>Audit</u>	<u>Opinion</u>	<u>Recommendations</u>		
			Fundamental	Significant	Merits Attention
	<b><u>Children and Families</u></b>				
043	EHCP Team	<p><b><u>Limited Assurance</u></b></p> <p>For the reasons outlined in the report the audit opinion remains at Limited Assurance however, given the level of scrutiny already afforded to this area by the council, it is proposed that this team is not audited for at least 18 months to allow for further sustained progress to be made so that the new control environment can be suitably tested.</p> <p>There has been much progress made since the last audit however this has been slower than anticipated in the original action plan. This should not take away from the immense amount of work that is being carried out by the team under difficult conditions. The primary challenges are staff turnover and increase and complexity of demand. A new structure is in place, but some staff have left, and vacancies persist at both management and</p>	1	4	1

		<p>practitioner level. It will be a challenge to fill these and reduce staff turnover as things currently stand which is creating a perpetual time-consuming cycle where challenging fundamental change is difficult. New strategies on recruitment and retention have been recommended and are being established along with realistic timeframes for further progress.</p> <p>There has been a change in the system used for case management which provides a much better framework for control. This only took place in the last few months and there is still some reliance on spread sheets however this should be phased out once the system is further embedded. The system change has created some unintended reporting issues with data for the team and the wider council. Data analysis should shape work undertaken and without this management are reliant on anecdotal evidence that could be misleading. External additional specialised resource has just been approved address data quality, management and reporting issues but costs, and increase in risk have been created that could possibly have been avoided if the migration was completed more cohesively with all relevant parties.</p> <p>The team are primarily concentrating on new case compliance. There has been an increase of over 25% of statutory compliance since the last audit on new referrals however, annual reviews and other fundamentals such as communication, complaints and data analysis are not being fully prioritised because of resource pressure creating an element of backlog.</p> <p>Proactive communication is a fundamental problem, largely down to resource restraint. There is still a large volume of queries that come to the EHCP team that are not intended for the service that need to be filtered out. New email addresses have been set up to address this in part and a new local offer has been put into place. It is recommended that overall communication strategy</p>			
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		needs analysing to ensure that Kirklees is being presented as one entity rather than separate teams and key messages on strategy, policy and process are clear for those using SEND services. Although elements of this are outside the scope of the EHCP team's remit, the consequences of not doing this impacts greatly on an already overrun team and may also be creating inefficiencies in other teams across the council.			

### **3.3 School Audits**

<b>044-046</b>	<b>Substantial Assurance</b>	<b>3</b>
<b>047-048</b>	<b>Adequate Assurance</b>	<b>2</b>
<b>049-050</b>	<b>Limited Assurance</b>	<b>2</b>
	<b>No Assurance</b>	<b>0</b>

### **3.4 Significant and Fundamental Recommendation Themes**

<b><u>Fundamental/Significant Recommendation Themes</u></b>	<b><u>No. of audits identified</u></b>
Information management - GDPR	3
Information management – data protection-DPIA	5
Contract Management	6
Cash Handling (note this is now a very small part overall income)	4

## **4 Investigations and other Audit Activity**

### **4.1 Corporate**

#### **National Fraud Initiative 2024/25 – Exception Reports**

The Council is obliged to participate in the government controlled national fraud initiative, which compares various data sets supplied by local authorities with other data sets sourced from government departments. Exception reports for the majority of datasets became available immediately before Christmas 2024 and work has commenced to review and investigate as appropriate based on areas of highest risk. The outcome of the Initiative will be reported in due course.

Data for the annual Council Tax Single Person Discount (SPD) Electoral Register Review was provided to Exchequer Services of 2+ adults registered to vote at properties with a SPD in force, plus details of those becoming 18 this year also with an SPD claim at the same address to incorporate into their account validation processes.

### **4.2 Family Support & Child Protection**

#### **Stronger Families Programme**

The DfE announced in October 2024 that payments by results process will be stopping at the end of this financial year for the Stronger Families Programme, so Kirklees will no longer need to process data and evidence outcomes in the current way. It was also announced that all local authorities will get their full allocated funding for 2024/25 regardless of how many claims they submit. Therefore, the scrutiny that had been applied over the last 15 months due to the data integrity issue, was reduced, but a sample of cases were reviewed to fulfil the current requirements of the programme with no errors found.

### **4.3 People Services**

#### **BACS Bureau Accreditation Submission**

Having audited the system controls as reported in Quarter 3, the final submission document was reviewed this quarter to ensure it reflected wider IT and business continuity arrangements and was presented in the context of the current position of the Council. Advice and a small number of amendments were made accordingly. The submission was successful, and the accreditation has been retained.

## **4.4 Adults & Health**

### **Mosaic (IT System) Post Implementation Review**

Mosaic allows case management in adult services and carries out the relevant customer charging and replaces the previous Carefirst system. In its current state, it is a basic version without many of the anticipated efficiencies or advantages that were set out at the beginning of the project. The project management board and team have conducted a well-managed exercise throughout the implementation phase, including a really strong training strategy and delivery; capturing any lessons learned to take forward to the next project but it was found that a lack of specialist Mosaic resource from the outset of the project led to delays and unforeseen issues during the implementation phase which in turn led to vastly increased project costs. Capital and revenue costs were £452k and £169k higher than the original business case which had a budget of £2m and £347k.

The system was delivered 2 years behind the original schedule. It took 4 years to deliver the system from the point of inception to go-live, other local authorities have taken a similar amount of time to complete such a system change which could suggest that the original planned timeframes were overly ambitious, and it was found that some of the delays were outside the control of the council. However, there are lesson learned to be taken forward to the wider council and subsequent system project teams.

## **5. Counter Fraud Work**

### **5.1 Housing and Blue Badge Fraud**

<b>Investigation Type</b>	<b>Cases Brought Forward</b>	<b>New Referrals</b>	<b>Ongoing</b>	<b>Closed Prosecutions</b>	<b>Closed: No Fraud Proven or Warning Issued</b>	<b>Applications Cancelled</b>	<b>Properties Returned and Application Cancelled</b>
Right To Buy	21	3	17			6	1
Tenancy Fraud	17	5	15		7		
Multi-Agency/Service Cases	2		1		1		
Blue Badge	40	44	31	21	32		

There has been a large increase in Right to Buy applications in general since June 2024. The amount of RTB applications has reduced this quarter however there is currently a 11-week backlog in checks. This has presented a knock-on effect to the fraud team who process the associated credit checks.

The frauds being encountered are becoming more complex, and cases are becoming longer. Often searches suggest fraud is being committed in other aspects of the suspects lives, resulting in increasing referrals to the Police and other government agencies.

### **5.2 Council Tax and Business Rate Fraud**

<b>Investigation Type</b>	<b>Cases Brought Forward</b>	<b>New Referrals</b>	<b>Ongoing</b>	<b>Closed Prosecutions</b>	<b>Closed: No Fraud Proven</b>	<b>Closed: Referred to Other Government Agency</b>
Council Tax	4	1	2			3
Business Rate	4		4			
COVID Grants	2		1			1

**5.3 HD-One Payment Fraud**

Investigation Type	Q4	YTD	Ongoing	YTD Fraud Attempted	YTD Fraud Successful	YTD Monies Reclaimed
Payment Fraud	0	9	1	7	1	1

No fraud reported this quarter. There is an issue with the chargeback process being abused by some individuals to avoid certain payments and debt collecting mechanisms. A new policy and process are currently being produced to help combat this issue.

**5.4 Adult Social Care – West Yorkshire Financial Exploitation and Financial Abuse Team**

**WYFEAT – Adult Social Care (April – March 2025)**

Referrals Received	Investigations	Pre-Investigations	Safeguarding Only	Yet to be designated	Closed	Value (£): YTD
13	1	1	1	1	9	6040

**5.5 Other Investigative Work**

Investigation Type	YTD
Money Laundering Cases	4
HR Investigations	2

**6. Regulation of Investigatory Powers Act investigations**

None this period. Officer training planned for Q1/Q2 2025/26.

## **APPENDIX A**

### **RISK SERVICES- INTERNAL AUDIT**

#### **PROGRESS WITH IMPLEMENTING INTERNAL AUDIT RECOMMENDATIONS**

At the conclusion of each audit recommendations are made where necessary to improve the control environment and /or manage the level of risk involved. Recommendations are classified threefold as follows:

##### **Fundamental –**

A recommendation, often requiring immediate action that is key to maintaining an appropriate control environment and thereby avoiding exposure to a significant risk to the achievement of the objectives of the system, process or location under review. Any single fundamental recommendation leads to a Limited Assurance opinion.

##### **Significant –**

A recommendation requiring action that is necessary to improve the control environment and thereby avoid exposure to a risk to the achievement of the objectives of the system, process or location under review. More than 4 significant recommendation leads to a Limited Assurance opinion.

##### **Merits Attention –**

A recommendation where action is advised to enhance control or improve operational efficiency.

Service Directors / Heads of Service are asked to agree recommendations contained within an Action Plan and identify an owner to oversee implementation by a specific date.

To date, assurance that this has happened has been obtained from follow up audits arising from any audit resulting in a Limited Assurance opinion; updates on recommendations made in other audits typically have had to wait for the next cyclical audit. A greater focus on the overall position has been driven more recently by the requirements of the revised internal audit professional standards that applied from April 2025 and further development of the corporate risk management process, whereby implementation of agreed audit recommendations, especially key ones, is a very important part of managing down the residual degree of risk in a system, process or activity.

**Status of all planned 2024/25 audits with Key Recommendations agreed and due for completion by 31 March 2025**

	Fundamental				Significant			
<u>Directorate</u>	Completion Due	Complete	Partially Complete	No action /reply	Completion Due	Complete	Partially Complete	No action
<b>Adults &amp; Health</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>19</b>	<b>12</b>	<b>7</b>	<b>0</b>
Carephones	1	0	1	0	8	7	1	0
Domiciliary Care Payments					2	1	1	0
Assessment of Care	0	0	0	0	4	4	0	0
Gateway to Care	0	0	0	0	5	0	5	0

	Fundamental				Significant			
<u>Directorate</u>	Completion Due	Complete	Partially Complete	No action /reply	Completion Due	Complete	Partially Complete	No action
<b>Children &amp; Families</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>38</b>	<b>16</b>	<b>21</b>	<b>1</b>
Regional Adoption Agency					1	0	1	0
Leaving Care					6	4	2	0
Direct Payments					16	4	11	1
Foster Care IFAs					1	1	0	0
School Admissions					2	2	0	0
School Exclusions					3	0	3	0
EHCP Team	1	0	1	0	9	5	4	0

	Fundamental				Significant			
<u>Directorate</u>	Completion Due	Complete	Partially Complete	No action	Completion Due	Complete	Partially Complete	No action
<b>Public Health &amp; Corporate Resources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18</b>	<b>16</b>	<b>2</b>	<b>0</b>
e-tendering					1	1	0	0
Agency Labour					4	4	0	0
Members' Code of Conduct & Allowances					3	3	0	0
Accounts Payable					4	4	0	0
Bank Reconciliation					3	1	2	0
Election Payments					3	3	0	0

	Fundamental				Significant			
<u>Directorate</u>	Completion Due	Complete	Partially Complete	No action	Completion Due	Complete	Partially Complete	No action
<b>Place</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>23</b>	<b>21</b>	<b>0</b>	<b>2</b>
Gas Servicing					1	1	0	0
Tenancy Allocation	1	1	0	0	11	9	0	2
Fire Risk Management					4	4	0	0
Waste Management Contract					4	4	0	0
Highways Structures					1	1	0	0
Fuel Procurement & Control					2	2	0	0
<b>Total – all Directorates</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>98</b>	<b>65</b>	<b>30</b>	<b>3</b>
<b>% Total</b>		<b>33</b>	<b>67</b>	<b>0</b>		<b>66</b>	<b>31</b>	<b>3</b>

Only three **Fundamental** recommendations made during the year were due to have been implemented by 31 March. Management have confirmed one has been actioned but two remain incomplete (albeit in these 2 areas, actions have been taken to mitigate the risks and address elements of the fundamental recommendation). Management have also confirmed that **66% of Significant** recommendations have been actioned and all but 3 of the remainder have been progressed in some way.

## **Incomplete Recommendations Detail**

### **Children & Families**

**Regional Adoption Agency** – One significant recommendation remains outstanding but has been partially completed. This relates to contract management.

**Direct Payments** – There have been slight delays in the completion of recommendations. These should now be completed in the first half of 25/26 with most of the completed items being presented for sign off at C&F May SLT. One recommendation on the review of payroll companies is dependant on work being completed alongside the adult direct payments audit which was completed a quarter after this audit.

**Leaving Care** – Two recommendations which relate to the financial processes for petty cash sign off have not yet been implemented. These are due to be addressed during the first half of 2025/26.

**School Exclusions** – There are 4 significant recommendations that are partially completed however there has been a large amount of change in how the team operates. The recommendations that are outstanding relate to improvements in contract management and data collection, dissemination and analysis as well as a need for a review of the Fair Access Panel which is currently underway. There was a delay in the tender process which means that contract management is not fully embedded however there is someone in role and this has now begun.

**EHCP Team** – Narrative to this is in the body of the Q4 report.

### **Adults & Health**

#### **Carephones**

The fundamental point will be looked at as part of the Rethink exercise which is looking at all current arrangements. In the interim mitigations are in place that reduce this to significant classification. Due to delays in the Mosaic system implementation, the remaining (partially completed) recommendation will be addressed in 2025/26.

### **Domiciliary Care Payments**

This outstanding significant recommendation is due to the resource capacity required to complete it. An audit has been scheduled to look at brokerage which will encompass some of this.

The partially completed recommendation has been Incorporated into the transformational savings project which is due for completion by Sept-25.

### **Gateway to Care**

Implementation, to the extent possible/practical, will be undertaken follow the merger with Kirklees Direct.

### **Public Health & Corporate Resources**

Service management have confirmed all have been implemented, apart from two relating to Bank Reconciliation where minor retrospective record corrections are required, which will be completed by the end of Q2 2025/26.

### **Place**

Service management have confirmed all recommendations have been actioned, apart from those regarding Tenancy Allocation awaiting the implementation of CX.

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# Agenda Item 15

## Corporate Governance and Audit Committee – Outline Agenda Plan – 2025/26

MEETING DATE	ITEMS FOR CONSIDERATION
20 June 2025	<ol style="list-style-type: none"> <li>1. Treasury Outturn Report (Reference to Council)</li> <li>2. Annual Governance Statement (draft)</li> <li>3. 2024-25 Audit Plan</li> <li>4. QR4 of Internal Audit</li> <li>5. Annual Report of Internal Audit</li> <li>6. District Heating Update</li> <li>7. Culture of Financial Challenges and Maximising income</li> <li>8. Procurement Motion</li> </ol>
1 August 2025	<ol style="list-style-type: none"> <li>1. Annual Corporate Emergency Planning &amp; Business Continuity</li> <li>2. External Audit Verbal Progress update</li> <li>3. Annual report of the Committee (Reference to Council)</li> <li>4. Q1 of Internal Audit - April – June 2025</li> <li>5. Update on progress against External Auditors recommendations</li> <li>6. Corporate Customer Standards Annual Report 2024/25</li> <li>7. IT supporting mandatory training</li> </ol>
26 September 2025	<ol style="list-style-type: none"> <li>1. Annual Report on bad debt write offs 2024/25</li> <li>2. External Auditors progress report</li> <li>3. Outside Bodies Nominations</li> <li>4. Polling district and places review</li> <li>5. Risk assurance process on selected services</li> <li>6. Information Governance Annual Report</li> </ol>
28 November 2025	<ol style="list-style-type: none"> <li>1. Treasury 6-month Outturn Report</li> <li>2. Q2 of IA -July – September 2025</li> <li>3. External Audit Progress Report</li> <li>4. Risk Management Update</li> </ol>
30 January 2026	<ol style="list-style-type: none"> <li>1. Dates of Council Meetings (Reference to Council)</li> <li>2. Customer Complaints Interim Report</li> <li>3. Annual Governance Statement</li> <li>4. Final Accounts</li> <li>5. Treasury Strategy Report</li> <li>6. 2024-25 Auditors Annual Report (Value for Money)</li> <li>7. External Review of Internal Audit – Progress Report</li> </ol>
20 March 2026	<ol style="list-style-type: none"> <li>1. External Audit Verbal Progress Report</li> <li>2. Q3 of IA – October – December 2025</li> <li>3. Amendment to Financial Procedure Rules (Reference to Council)</li> <li>4. Amendments to Contract Procedure Rules (Reference to Council)</li> <li>5. Changes to Constitution (Reference to Council)</li> </ol>

24 April 2026	<ol style="list-style-type: none"><li>1. Annual Report of Internal Audit 2024/25</li><li>2. Q4 of IA – January – March 2026)</li><li>3. Internal Audit Plan 2026/7</li><li>4. 2025-26 Audit Plan</li><li>5. Informing the Audit Risk Assessment</li><li>6. District Heating Update</li></ol>
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