ASHFIELD DISTRICT COUNCIL

Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Audit Committee

Date:	**Monday, 20th March, 2023**
Time:	**7.00 pm**
Venue:	**Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield**

For any further information please contact:

Lynn Cain

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01623 457317

If you require an adjustment to enable you to participate or access the meeting, please contact the Democratic Services team at least 48 hours before the meeting.

Audit Committee

Membership

Chairman: Councillor Will Bostock

Councillors:

John Baird	Jamie Bell
Christian Chapman	Kevin Rostance
Dave Shaw	David Walters

FILMING/AUDIO RECORDING NOTICE

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SUMMONS

You are hereby requested to attend a meeting of the Audit Committee to be held at the time/place and on the date mentioned above for the purpose of transacting the business set out below.

Theresa Hodgkinson
Chief Executive

AGENDA

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AUDIT COMMITTEE

Meeting held in the Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield,

on Monday, 30th January, 2023 at 7.00 pm

Present:	Councillor Will Bostock in the Chair;
	Councillors John Baird, Christian Chapman and David Walters.
Apologies for Absence:	Councillor Jamie Bell. Ruth Dennis.
Officers Present:	Lynn Cain and Peter Hudson.
In Attendance:	Mandy Marples and Hannah McDonald (CMAP).

AC.23 Declarations of Disclosable Pecuniary or Personal Interests and/or Non-Registrable Interests

No declarations of interest were made.

AC.24 Minutes

RESOLVED
that the minutes of the meeting of the Committee held on 28 November 2022, be received and approved as a correct record.

AC.25 Capital Strategy 2023/24

The Corporate Finance Manager (and Section 151Officer) presented the refreshed and updated Capital Strategy for 2023/24 and requested Members to note the content and recommend the same to Cabinet.

The report aimed to demonstrate that the Council's capital expenditure plan was affordable, prudent and sustainable and to ensure that all decisions were made with sufficient regard to the long term financing implications and potential risks to the authority. It was also intended that the Capital Strategy would lay out the long term context in which capital expenditure and investment decisions were made giving due consideration to both risk and reward and any impact on the achievement of priority outcomes.

RESOLVED that
a) the contents of the Capital Strategy (CS) for 2023/24 including Annexes 1-3, as presented, be received and noted;

b) Cabinet be recommended to approve the following:

- Capital Strategy
- Commercial Property Investment Strategy
- Commercial Property Indicators.

AC.26 Treasury Management Strategy 2023/24

The Corporate Finance Manager (and Section 151 Officer) presented the report and asked Committee to consider the Treasury Management Strategy for the 2023/24 financial year, as presented.

The Strategy had been prepared in accordance with the requirements of the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Members attention was drawn to the Strategy and the previous investment deposit limit of £5m with the Debt Management Office (DMO). Following the success of the Council's bid for Towns Funding and the resulting delivery of substantial sums of money into the Council's finances, the limit had now been set to 'unlimited' to enable officers to react swiftly and prudently on receipt of any funding allocations in terms of where to invest in the short term.

The new Liability Benchmark analysis included within the Strategy (as now required by the Code) was acknowledged by the Committee including the expansion of treasury management practices in relation to risk management criteria which would now include an Environmental, Social and Governance element.

RESOLVED that

a) the contents of the Treasury Management Strategy (TMS) for 2023/24, including changes to the Annual Investment Strategy, as presented, be received and noted;

b) Cabinet be recommended to approve the Treasury Management Policy Statement incorporating:

- Treasury Management Strategy Statement (TMSS)
- Borrowing Strategy
- Annual Investment Strategy
- Minimum Revenue Provision (MRP) Policy
- Prudential Indicators and Treasury Management Indicators including new Liability Benchmark indicator
- Treasury Management Practices: Risk Management which now includes the Environmental, Social and Governance (ESG) update.

AC.27 Audit Progress Report

Mandy Marples, CMAP Audit Manager, presented the report and summarised audit progress as of 17 January 2023.

One piece of work had been finalised since the last meeting in relation to Climate Change & Sustainability 2022-23. An assurance rating was not applicable for this particular audit, as the work had been undertaken on a consultancy basis due to the Council still being in the developmental stages of formulating their climate change and sustainability response.

To conclude Members were asked to note the recommendation tracking updates as outlined in the report.

RESOLVED that

a) audit assignment progress as of 17 January 2023, as presented to Committee, be received and noted;

b) the Council's Assistant Director for Assets and Investment be invited to a future meeting of the Committee, to give a progress update in relation to the development of the Council's corporate climate change and sustainability response.

The meeting closed at 7.43 pm

Chairman.

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Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**
Date:	**20TH MARCH 2023**
Heading:	**ACCOUNTING POLICIES FOR 2022/23 AND OTHER STATEMENT OF ACCOUNTS MATTERS**
Portfolio Holder:	**DEPUTY LEADER AND EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN**
Ward/s:	**ALL**
Key Decision:	**NO**
Subject to Call-In:	**NO**

Purpose of Report

This report requests approval by the Audit Committee of the Accounting Policies that the Council proposes to adopt for the current financial year in the preparation of the Statement of Accounts 2022/23.

The report also outlines the impact of changes to the Code of Practice on Local Government Accounting on the production of the 2022/23 Statement of Accounts process.

Recommendation(s)

1) Audit Committee approve the Accounting Policies detailed at Appendix A to this report.

2) Audit Committee note that any subsequent amendments or changes to these policies and the associated financial implications will be reported back to this Committee.

Reasons for Recommendation(s)

Part 3 of the Annual Accounts and Audit Regulations 2015 (the Regulations) requires the Council to produce an annual Statement of Accounts. In accordance with International Financial Reporting Standards (IFRS), the Statement of Accounts must include a Statement of Accounting Policies.

The Regulations require a draft of the Statement of Accounts to be prepared and certified by the responsible financial officer by 31 May. The Accounts and Audit (Amendment) Regulations 2021 extended this to the 31 July for the financial year beginning 2021. The extension has not been continued for the financial year beginning 2022, so the deadline reverts to 31 May 2023. The Department of Levelling Up, Housing and Communities is consulting on the deadline so this may be extended. If known, a verbal update will be provided at the meeting. In accordance with best practice for local authorities, the draft Accounting Policies should be reviewed by Audit Committee before the draft 2022/23 Statement of Accounts is produced.

In addition, where IFRS allows a degree of choice, Audit Committee should be aware of and confirm the choices made.

Alternative Options Considered

None, as it is best practice for the Audit Committee to review the Accounting Policies.

Detailed Information

1.1 The Accounting Policies adopted by the Council determine the accounting treatment applied to transactions during the financial year and in the preparation of the Statement of Accounts at the year-end. They determine the specific principles, bases, conventions, rules and practices that will be applied by the Council in preparing and presenting its financial statements. The Accounting Policies are published within the Statement of Accounts in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Government Accounting (the Code of Practice) and incorporate the requirements of International Financial Reporting Standards (IFRS).

1.2 The approval of the Accounting Policies to be applied by the Council demonstrates that due consideration has been given to the policies to adopt and apply and that those charged with corporate governance are fully informed prior to the commencement of the Statement of Accounts preparation.

Accounting Policies

1.3 The Accounting Policies are reviewed each year by officers to ensure all Accounting Policies previously approved are still relevant and are in accordance with the latest version of the Code of Practice and IFRS requirements. Any new requirements are added to the policies and any policies, which are no longer relevant or have no material effect to the Statement of Accounts, are removed.

1.4 The following Accounting Standards have been amended by the Code of Practice in 2022/23:

- IFRS 1: First Time Adoption;
- IAS 37: Onerous Contracts;
- IFRS 16: Leases;
- IAS 41: Agriculture;
- Property, plant and equipment: proceeds before intended use (amendments to IAS 16).

1.5 The application date of the above amendments is the 1 April 2022.

1.6 The amendments make changes to the wording of existing Accounting Standards to add clarity to interpretation and understanding of the Standards. They are not new Accounting Standards. They do not have any material effect and have not resulted in any changes to Ashfield District Council Accounting Policies.

1.7 The proposed Accounting Policies for 2022/23 are included at Appendix A.

Implications

Corporate Plan:

Production of timely and accurate Statement of Accounts is a statutory requirement. Achievement of this reflects sound financial management supporting the Corporate Plan.

Legal:

The agreement of appropriate Accounting Policies is part of the process of ensuring that the Council satisfies its legal obligation to prepare a Statement of Accounts. The report also demonstrates how compliance with the Accounts and Audit Regulations is to be achieved. [RLD 28/02/2023]

Finance: [PH 28/02/2023].

Budget Area	Implication
General Fund – Revenue Budget	There are no direct financial implications. The report outlines the policies to be adopted for production of timely and accurate accounts and demonstrates consideration of other legal and accounting issues attributable to their production.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The Accounting Policies adopted are not updated and in accordance with Code of Practice on Local Government Accounting.	The changes to the Code of Practice on Local Government Accounting Code are reviewed annually and the impact is considered and any updates to the accounting policies are reported to Audit Committee.

Human Resources:

There are no human resource implications.

Environmental/Sustainability

There are no environmental or sustainability implications.

Equalities:

There are no equality implications.

Background Papers

Appendix A – Statement of Accounting Policies.

Report Author and Contact Officer

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Sponsoring Director

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Appendix A

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2022/23 and its position at the year-end 31st March 2023. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise of the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and International Financial Reporting Standards (IFRS).

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

2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed; where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than one working day.

Cash Equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4. Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

6. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.

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

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation, impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

a. Benefits payable During Employment

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

b. Termination Benefits

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

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

c. Post Employment Benefits

Most employees of the Council contribute to the Nottinghamshire Pension Fund, the Local Government Pension Scheme administered by Nottinghamshire County Council. The scheme provides defined benefits (retirement lump sums and pensions) earned as employees work for the Council.

The Nottinghamshire Pension Fund is accounted for as a defined benefit scheme:

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

- Liabilities are discounted to their value at current prices using a discount rate based on an appropriate rate of return on high quality corporate bonds.

- The assets of the Fund attributable to the Council are included in the Balance Sheet at their fair value.

  a) Quoted securities – current bid price
  b) Unquoted securities – professional estimate
  c) Unitised securities – current bid price
  d) Property – market value

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

- Service Cost comprising

  a) Current Service Cost - the increase in liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Account to the services for which the employees worked

  b) Past Service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs

  c) Net interest on the net defined liability (asset), i.e. the net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

d) Re-measurement comprising:

- the return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses - changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

e) Contributions paid to Nottinghamshire Pension Fund - Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end.

The negative balance that arises on the Pensions reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

- **Discretionary Benefits**

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

8. Events after the Reporting Period

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts. For the purposes of consideration, Post Balance Sheet events can occur up to approval of the Statements by the Audit Committee.

9. Financial Instruments

a. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, which are initially measured at fair value, and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for each instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally borrowed.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

b. Financial Assets

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

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

The Council’s business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost.

Financial Assets measured at amortised costs

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Investments are classed as either long-term assets, if repayable after 12 months or longer, or current assets, if repayable within 12 months. Investments are shown in the Balance Sheet at amortised cost, using the effective interest rate that applies to the individual loans that comprise the total borrowing held by the Council. The amount shown in the Balance Sheet represents the outstanding principal due to be repaid to the Council and the interest that is credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year under the loan agreement.

c. Expected Credit Loss Model

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

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

10. Government Grants and Contributions

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

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

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

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

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

Non-specific Grants

These are general grants allocated by central government directly to local authorities as additional revenue funding. They are non-ring-fenced and are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. For example, New Homes Bonus funding.

11. Intangible Assets

Expenditure on assets that do not have a physical substance but are identifiable and controlled by the Council are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

12. Interests in Companies and Other Entities

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts.

(a) Joint Crematorium Committee

The Council is a constituent member of a joint crematorium committee with neighbouring authorities of Mansfield and Newark and Sherwood District Councils. Current activities are split between all the councils based on the number of residents of each district area cremated. The balance sheet is apportioned based on the current year's cremations from each area. The Council's share of running costs and income has been included in the Comprehensive Income and Expenditure Statement and the share of assets included within the Balance Sheet using these apportionments. Due to the nature of the relationship of the Council within the committee, Group Accounts are not required for this entity. Information on the Council's share of the income and expenditure and associated assets and liabilities is shown in note 39 to the Core Financial Statements.

13. Inventories and Long Term Contracts

Inventories are included on the balance sheet at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

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

14. Investment Properties

The Council does hold properties for investment purposes.

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. Leases

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

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

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

a. Operating Leases

The Council as Lessee

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

The Council as Lessor

The Council does act in the capacity as lessor for the leases of land and properties it owns. Rents due under operating leases are accounted for on a straight-line basis as they become due. Land and property leased under operating leases are held as non-current assets within the Balance Sheet and valued in accordance with appropriate valuation practices.

b. Finance Leases

The Council as Lessee

Plant and Equipment held under finance leases are recognised on the Balance Sheet at the lower of the fair value of the asset at the lease inception and the present value of the minimum lease payments. The value of the asset is matched by a liability to pay the finance lessor.

The Council does not have any finance leases where it acts as lessee.

The Council as Lessor

The Council does not have any finance leases where it acts as lessor.

16. Overheads and Support Services

The cost of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

17. Property, Plant and Equipment

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis are classed as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not extend the previously assessed standard of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Property, Plant and Equipment may also include assets held under finance leases, which have been capitalised and included in the Balance Sheet at a value reflecting the fair value of the asset.

A de-minimis asset value of £10,000 has been set and expenditure on new assets of less than this amount is charged to the service revenue account as a proxy for depreciation, unless the expenditure forms part of a larger scheme.

Measurement

Assets are initially measured at cost, which comprises all expenditure that is directly attributable to bringing an asset into working condition for its intended use. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

Asset Category	Basis of Valuation
Property, Plant and Equipment	Fair value determined in the existing use of the asset
Dwellings	Fair value in the existing use value for social housing
Investment Properties	Fair value to reflect market conditions at the

	end of the reporting period
Infrastructure, community assets and assets under construction	Depreciated historic cost once the asset becomes operational

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate for fair value. Where assets have a short useful life then depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued where there have been material changes in their value, but as a minimum every 5 years. The Council's housing stock is re-valued annually by applying an appropriate housing price index to a series of beacon values at the start of the financial year.

Increases in valuations are matched by a credit to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified they are accounted for by a debit to the Revaluation Reserve to the extent that an accumulated gain has been recorded against that asset; where there is no balance or an insufficient balance on the revaluation reserve for that asset the write down of the asset value is charged against the relevant service within the Comprehensive Income and Expenditure Statement.

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

Costs of dismantling assets such as roofs, windows and heating systems in Council Dwellings are included in the costs paid to the main contractor. The main contractor is responsible for the disposal of the dismantled assets. The dismantled assets have been assessed by the valuer as only having a negligible value.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where there is an indication that there is a material impairment in the value of an asset when compared to the carrying value an impairment loss is recognised. The impairment loss is written down to the revaluation reserve to the extent that any balance for that asset is held within the revaluation reserve. Where there is no balance or an insufficient balance then the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than continued service use then it is reclassified as an asset held for sale. The asset is re-valued immediately before classification and then carried at the lower of this amount or fair value less costs of disposal. Where there is a subsequent decrease in the valuation determined on classification to Asset held for sale then a loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in the fair value of assets held for sale are only recognised to the extent that they reverse a previous loss recognised within the Comprehensive Income and Expenditure Statement. Depreciation is not charged on Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying value of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains relating to the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Capital Receipt Reserve within the Movement in Reserves Statement.

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment over a period of their estimated useful lives; freehold land is determined to have an infinite economic life and is not depreciated, assets under construction are not depreciated until they become operational in providing services. Depreciation is calculated using the straight-line method. Assets are depreciated over the estimated economic life of the asset, which has been assessed as being the following periods:

Council dwellings	40 years
Other HRA assets	10 - 80 years
Other Buildings	10 - 80 years
Vehicles, plant and equipment	3 - 10 years
Infrastructure	10 - 40 years
Community Assets	20 years

Revaluation gains are also depreciated. The difference between the depreciation on the current value and that, which would have been charged on the historic value, is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

The Council allocates the costs of an individual asset to its various components to calculate depreciation charges where the value of the asset exceeds £500K and more than one individual component exceeds 20% of the asset value. The impact on depreciation charges for assets below the threshold is not considered material. The componentisation is based on the following elements of the asset:-

- Boilers, heating and plant systems
- Lifts
- Roofs
- Windows and doors

In terms of Council Dwellings, these assets are collectively valued in excess of £500K. However, when comparing the value of depreciation charged on a component basis compared to the current 40-year life straight-line methodology, the difference is not considered material. Council Dwellings are therefore not currently subject to componentisation but the policy is to be reviewed on an annual basis.

18. Heritage Assets

The Council's Heritage Assets held are Historical Monuments, Statues and Artwork. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, no depreciation is charged on Heritage Assets as they are deemed to have an indeterminate life and have a high residual value.

Historical Monuments
The Council has seven Cenotaphs that are located at various outside locations throughout the District. These monuments are reported in the Balance Sheet on an average replacement cost basis, which has been agreed following discussions with our internal valuer.

Statues and Artwork Collection
The collection includes Statues, Sculptures and Mosaics situated within the local town and village streets throughout the Council. The collection depicts the Council's mining and engineering history to ensure the knowledge, culture and understanding of our heritage is preserved for future generations. An artwork example would be The Flight of Fancy sculpture that represents the Rolls Royce Flying Bedstead thrust measuring machine that was developed to research the use of direct lift. These items are reported in the Balance Sheet on an historic cost

basis or on an insurance valuation basis and were mainly purchased from grant funding.

Non Balance Sheet Items
The Council also holds a collection of items that are not recognised on the Balance Sheet as cost information is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. These items are believed to have a value of £10k or less. The majority of the collection is street mosaics, murals and sculptures purchased through grant funding or produced by the public art events. The Council has also received a number of donations including a Knitting machine and a Stocking machine dating back to the 18^{th} and 19^{th} century, both of which are believed to be forerunners to the Spinning Jenny. It is difficult to obtain a valuation on these two items as there is no comparable item that provides a market value. Most assets are located on public streets, in parks or are on display within public council buildings. A few items are stored securely in the Council's Offices and not currently available for public viewing however, ways of making these items more accessible are being developed.

Heritage Assets – General
Heritage Assets are reviewed by the Council for impairments such as where an item has suffered physical deterioration or breakage. Any impairment is measured and recognised within the Revaluation Reserve. The Council works closely with the Ashfield War Memorial Committee to preserve and maintain the local historical monuments. All other Heritage Assets are reviewed and maintained as required. Disposal proceeds are disclosed separately in the notes to the financial statements and accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

19. Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year; where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

b. Contingent Liabilities

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

c. Contingent Assets

A Contingent Asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent Assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

20. Reserves

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

The level of reserves and balances is reviewed annually to ensure they are appropriate. The General Fund Balance, Earmarked Reserves and Reserves arising from Capital Receipts together with Capital Grants Unapplied are deemed to be usable reserves in that they may be used to fund future expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement benefits and employee benefits; these are termed unusable reserves and are not available to be used to fund future expenditure.

21. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

22. Value Added Tax

Value Added Tax (VAT) is excluded from all income and expenditure received and paid by the Council except where it is classed as irrecoverable by HM Revenue and Customs.

23. The Collection Fund

i) Council Tax

The Council includes its share of the accrued Council Tax due for the year within its Comprehensive Income and Expenditure Statement. The difference between this sum and the local precept for Council and parish activities is reversed through the General Fund Balance to ensure only the level of Council Tax required to pay for Council activities is credited to the General Fund in the year. The balance is taken to the Collection Fund Adjustment Account, within the Balance Sheet.

Amounts collected on behalf of the other preceptors of Nottinghamshire County Council, Nottinghamshire Police Authority and Nottinghamshire Fire Authority are treated as either debtors or creditors depending upon the respective share of the Collection Fund attributable to these bodies at 31st March.

ii) Business Rates

The Council includes its share of accrued Business Rates due for the year within its Comprehensive Income and Expenditure Statement. The difference between this sum and the forecast amount due to the Council is reversed through the General Fund Balance to ensure only the level of Business Rates required to pay for Council activities is credited to the General Fund in the year. The balance is taken to the Collection Fund Adjustment Account, within the Balance Sheet.

Amounts collected on behalf of the other partners of the pool (Central Government, Nottinghamshire County Council and Nottinghamshire Fire Authority) are treated as either debtors or creditors depending upon the respective share of the Collection Fund attributable to these bodies at 31st March.

24. Fair Value Measurement

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

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

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

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

- Level 3 – unobservable inputs for the asset or liability.

Ashfield DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**
Date:	**20TH MARCH 2023**
Heading:	**PENSION ASSUMPTIONS FOR 2022/23 STATEMENT OF ACCOUNTS**
Portfolio Holder:	**DEPUTY LEADER AND EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN**
Ward/s:	**ALL**
Key Decision:	**NO**
Subject to Call-In:	**NO**

Purpose of Report

The report is to allow Members to consider the proposed assumptions to be used by the Pension Fund Actuary in preparing the International Accounting Standard (IAS) 19 – Employee Benefits figures to be reported in the Council's Annual Statement of Accounts for 2022/23.

Recommendation(s)

Members are asked to consider the Actuary's briefing note attached as Appendix A and the proposed IAS 19 assumptions detailed within it, and to agree the assumptions as the basis for the calculation of the pension figures required for the 2022/23 Statement of Accounts.

Reasons for Recommendation(s)

It is best practice that the actuarial assumptions intended to be used in preparing the IAS 19 figures in the Statement of Accounts are considered prior to their application and used in the compilation of the Actuary's report. As such, this report delivers the Council's obligations as part of the preparation of the 2022/23 Statement of Accounts.

Alternative Options Considered

Members could recommend that a bespoke report be used for the calculation of the Council's figures. This would incur an additional cost and require reasoning for the departure from the proposed assumptions.

Detailed Information

1.1 IAS 19 - Employee Benefits, is one of the Financial Reporting Standards that the Council must comply with when producing its annual Statement of Accounts. IAS 19's basic requirement is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

1.2 To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the Nottinghamshire County Council Pension Fund Schemes Actuary, Barnett Waddingham, use certain assumptions to reflect expected future events, which may affect those costs. The assumptions used are designed to lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.

1.3 The calculated costs and the underlying assumptions, based upon the advice of the Actuary and the administering authority, Nottinghamshire County Council will be used in preparing the Council's 2022/23 Accounts.

1.4 The calculation of Ashfield District Council's net pension liability (the difference between the assets held and projected liabilities) as at 31 March 2022 was £109.768m. This is a material component of the Council's balance sheet, and therefore its net worth. As such it is important that the Council is supportive of the assumptions being made by the Actuary in their calculations. This year's net position will be affected by the assumptions used.

1.5 The results of the overall valuation can be volatile from year to year as the fund's investments are in a range of asset types whose performance will vary from year to year while liabilities are assessed on the basis of corporate bond yields. The results to some degree reflect the relative movements in these financial instruments.

1.6 The responsibility for setting the assumptions rests with the employer and alternative assumptions can be used by the Actuary. However, the Actuary would impose additional fees for this work. The accounting requirements of IAS 19 do not require that every individual estimate is a "best estimate". Directors (or equivalent) of the organisation should be satisfied that the combined effect of the assumptions as a whole is reasonable.

1.7 The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used, and this year's proposed assumptions are listed below and detailed in the Actuary's briefing note at Appendix A.

1.8 The proposed financial assumptions for 2022/23 are:

- **Expected Return on Assets**. The Actuary anticipates that a typical local Government Pension Fund might achieve a return of around -6% to 31 January 2023. Although this may vary depending on the individual fund's investment strategy.
- **Discount Rate**. The discount rate is applied to the employer's liabilities to calculate their future values. This discount rate applied by the Actuary is derived by reference to market yields on high quality corporate bonds and by calculating a Single Equivalent Discount Rate (SEDR). The rates used are those that match the duration of the employer's liability. This is consistent with the approach proposed by the Actuary and adopted by Ashfield District Council in previous years.
- **Inflation Expectations.** The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI). As there is limited information on CPI- linked assets the Actuary derives an implied Retail Prices Inflation (RPI) assumption and adjusts for the differences between RPI and CPI. The levels of future Retail Prices Inflation (RPI) are assessed based on the yields on fixed interest and index linked government securities over the period of the duration of the liabilities by calculating a Single Equivalent Inflation Rate

(SEIR). The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of between 0.25% and 0.8% depending on the duration of the employer liabilities.

- **Salary Increases** – The Actuary has proposed to use the assumption that salary increases are in line with CPI plus 1.0% p.a. This is consistent with the standard approach proposed by the Actuary and adopted by Ashfield District Council last year.

1.9 The overall impact of the assumptions for an average employer is set out below. It is to be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Ashfield may be different from the assessment below.

Estimated effect of changes in Actuary's assumptions on employers' liability in 2022/23

Assumption	**Duration of Individual Employee Liability (Years)**			
	10	**15**	**20**	**25**
Discount Rate (SEDR)	Decrease of 17%	Decrease of 24%	Decrease of 30%	Decrease of 36%
Inflation (SEIR)	Decrease of 8%	Decrease of 8%	Decrease of 7%	Increase of 7%
Overall Expected Impact	Decrease of 24%	Decrease of 30%	Decrease of 35%	Decrease of 41%

1.10 The assumptions are based on the pre accounting date pension briefing note, provided by the Actuary on the 13th February 2023 and it is based on market information to 31 January 2023.

Supreme Court ruling in McCloud/Sargeant case

1.11 The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015.

1.12 As previously reported an estimated adjustment was made in 2018/19 to reflect the Supreme Court ruling in McCloud/Sargeant case. Remedial regulations are expected in 2023 and uncertainty over the benefit changes proposed for the LGPS will remain until these have been finalised. If an allowance was already made for McCloud/Sargeant at a previous accounting date, then no explicit adjustment will be made in 2022/23.

Implications

Corporate Plan:

There is no impact to the long-term outcomes and corporate priorities.

Legal:

There are no legal implications as a result of the report. [RLD 28/02/2023]

Finance: [PH 28/02/2023].

Budget Area	**Implication**

General Fund – Revenue Budget	There are no direct financial implications as a result of this report. The report sets out assumptions that the Actuary uses to calculate the pension position for the Council under IAS 19 to show the estimated net value of the Council's portion of the pension fund (assets less liabilities). This is a balance sheet figure and charges to the Comprehensive Income and Expenditure Statement are reversed through statutory accounting entries.
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	As above
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
Employee Benefits figures reported in the Council's Annual Statement of Accounts for 2022/23 are misstated.	Assumptions are as advised by the Pension Fund Actuary. The assumptions are considered by Audit Committee.

Human Resources:

There are no human resources implications

Environmental/Sustainability:

There are no environmental or sustainability issues.

Equalities:

There are no equalities implications

Background Papers

Appendix A – Barnet Waddington Briefing Note
Appendix B - Barnet Waddington Glossary

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Accounting reporting as at

31 March 2023

Employer briefing note pre-accounting date

Barnett Waddingham LLP
13 February 2023

Contents

Introduction and executive summary

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

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

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

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

BARNETT WADDINGHAM
beyond the expected

How has the balance sheet changed over the year?

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

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

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

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

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

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

How much will my IAS19/FRS102 report cost?

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

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

Where can I get further information?

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

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

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

Valuation of the employer's assets

Asset performance

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

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

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

How are my assets valued?

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

Valuation of the employer's liabilities

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

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

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

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

Financial assumptions

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

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

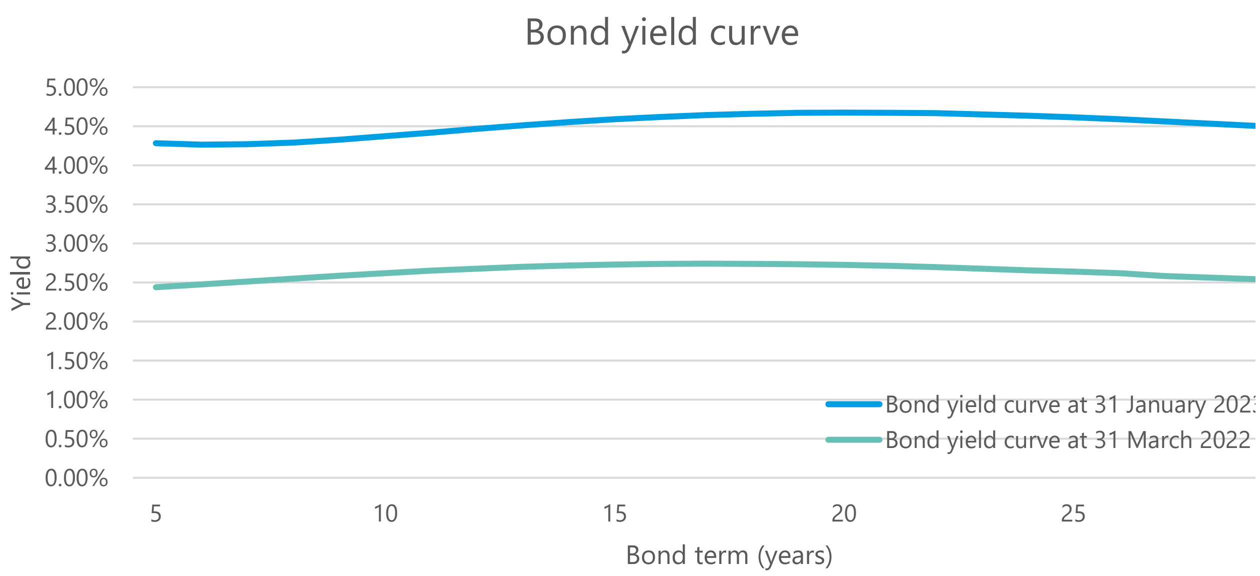
Discount rate

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

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

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

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



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

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

Source: Merrill Lynch

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

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

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

Assumptions are rounded to the nearest 0.05%.

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

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

Comparison to previous accounting date

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

Inflation expectations

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

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

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

Retail Prices Index (RPI) assumption

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

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

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

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

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

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

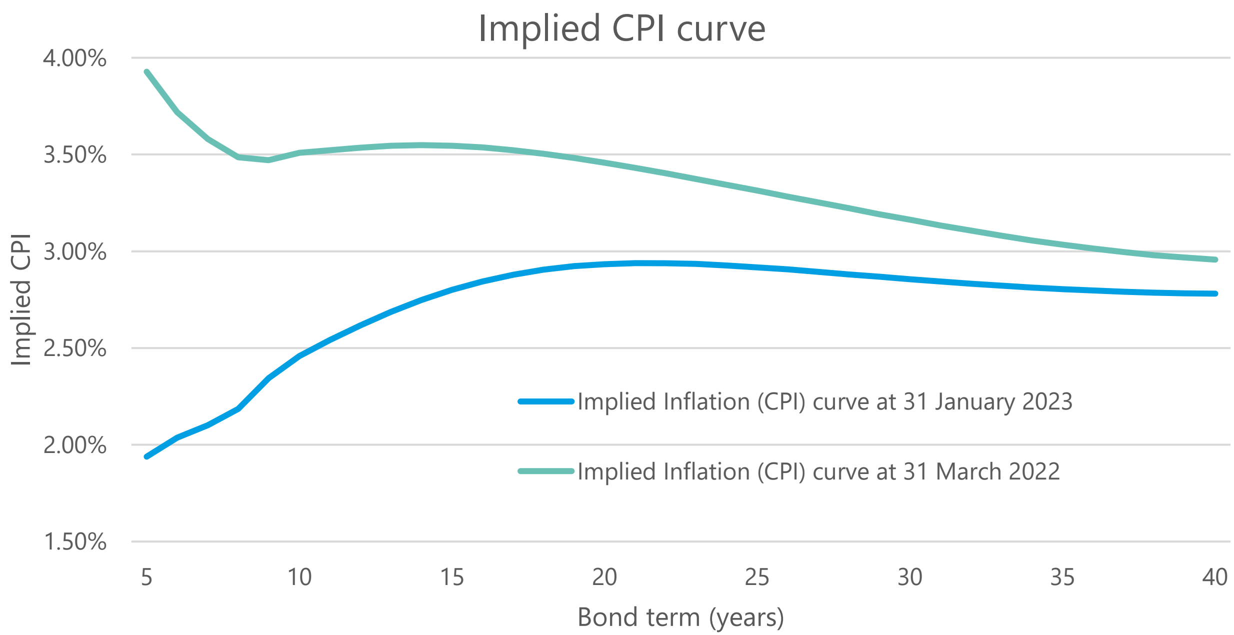
Difference between RPI and CPI

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

Consumer Prices Index (CPI) assumption

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

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



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

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

Source: Barnett Waddingham based on Bank of England data

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

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

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

Assumptions are rounded to the nearest 0.05%.

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

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

Comparison to previous accounting date

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

Salary increases

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

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

Comparison to previous accounting date

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

Overall impact of changes to financial assumptions

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

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

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

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

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

Demographic assumptions

Mortality assumption

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

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

Base table mortality

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

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

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

Future improvements to mortality

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

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

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

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

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

Other demographic assumptions

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

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

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

Additional requirements

Experience items allowed for since the previous accounting date

2022 valuation update

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

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

Allowance for actual pension increases

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

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

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

Accounting modeller

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

Valuation of unfunded benefits

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

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

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

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

Other considerations

McCloud/Sargeant judgments

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

Impact on liabilities

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

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

Please see FAQs for further details.

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

Settlements and curtailments

Employers accounting under the IAS19 standard

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

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

Employers accounting under the FRS102 standard

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

ACTION: Our default approach for IAS19 reports is to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We provide each administering authority with a summary of the events we are aware of and these will be communicated to each employer. If the employer does not want to treat all the events in this way then we would strongly recommend that they engage with their auditor in advance of the preparation of their report to understand their materiality limit and establish which events fall outside of this.

Unless instructed otherwise we will proceed with our default approach and please note that additional fees will apply, details of which can be provided by the administering authority.

Our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date. We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the employer, but please note that this will incur additional charges.

Details of whether the remeasurement approach has been adopted at an event date or not will be set out in the employer's report.

Please see FAQs for further details.

Goodwin case

We do not intend to make any adjustments to accounting valuations as a result of the Goodwin case. Please see FAQs for further details.

Guaranteed Minimum Pension (GMP) equalisation and indexation

Impact of Lloyds judgment on past transfer values

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and DLUHC on this. Whilst no guidance nor data is available, our standard approach currently is to make no allowance to reflect this judgment. Please see FAQs for further details.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

Our standard assumption for GMP is that the fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome. Please see FAQs for further details.

Associated risks of participating in a defined benefit scheme

In general, participating in a defined benefit pension scheme means that an employer is exposed to a number of risks:

Risk	Comment
Investment risk	The fund may hold investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, the short-term volatility can cause additional funding to be required if a deficit emerges.
Interest rate risk	The fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
Inflation risk	All of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
Longevity risk	In the event that the members live longer than assumed a deficit will emerge in the fund. This may be mitigated by a longevity insurance contract if held by the fund. There are also other demographic risks.
Climate risk	Climate risk can be grouped into two categories; Physical and Transitional risks. Physical risks are direct risks associated with an increased global temperature such as heatwaves and rising sea levels. Transitional risks are the costs of transitioning to a low carbon economy. These risks will manifest themselves in many of the other risks detailed above which the fund is exposed to, for example investment returns may be affected.
Regulatory risk	Regulatory uncertainties could result in benefit changes to past of future benefits which could result in additional costs.
Orphan risk	As many unrelated employers participate in each fund, there is an orphan liability risk where employers leave the fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers in that fund.

All of the risks above may also benefit an employer e.g. higher than expected investment returns or employers leaving the fund with excess assets which eventually get inherited by the remaining employers.

For further details on the funding strategy please see the relevant LGPS fund's latest Funding Strategy Statement.

Appendix 1 Financial assumptions

Duration (years)	Discount rate	RPI	RPI/CPI Gap	CPI
5	4.40%	3.05%	0.80%	2.25%
6	4.45%	3.10%	0.75%	2.35%
7	4.45%	3.15%	0.70%	2.45%
8	4.50%	3.15%	0.65%	2.50%
9	4.50%	3.20%	0.60%	2.60%
10	4.50%	3.15%	0.60%	2.55%
11	4.50%	3.15%	0.55%	2.60%
12	4.50%	3.20%	0.55%	2.65%
13	4.50%	3.20%	0.50%	2.70%
14	4.50%	3.15%	0.50%	2.65%
15	4.50%	3.15%	0.45%	2.70%
16	4.50%	3.15%	0.45%	2.70%
17	4.50%	3.15%	0.40%	2.75%
18	4.50%	3.15%	0.40%	2.75%
19	4.50%	3.15%	0.40%	2.75%
20	4.50%	3.15%	0.35%	2.80%
21	4.50%	3.10%	0.35%	2.75%
22	4.50%	3.10%	0.35%	2.75%
23	4.50%	3.10%	0.35%	2.75%
24	4.50%	3.10%	0.30%	2.80%
25	4.50%	3.10%	0.30%	2.80%
26	4.50%	3.10%	0.30%	2.80%
27	4.50%	3.10%	0.30%	2.80%
28	4.50%	3.10%	0.30%	2.80%
29	4.50%	3.10%	0.25%	2.85%
30	4.50%	3.05%	0.25%	2.80%

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beyond the expected

FRS102/IAS19/IAS26 Glossary and FAQs

Barnett Waddingham LLP
9 February 2023

FRS102/IAS19/IAS26 Glossary and FAQs

The purpose of this note is to provide LGPS funds, fund employers and their advisers with some further explanatory details about the reports we produce in accordance with Financial Reporting Standard 102 (FRS102), International Accounting Standard 19 (IAS19) and International Accounting Standard 26 (IAS26).

It is divided into a Glossary of terms followed by some Frequently asked questions (FAQs). Where certain terms are explained in more detail in the glossary these are highlighted in **bold**.

If you have any questions please get in touch with the relevant LGPS fund in the first instance.

Background

This document complements a briefing note discussing assumptions and an indication of the likely trend in results issued as part of each accounting exercise. In contrast, this document describes the fundamentals of the accounting standards and is only expected to be updated occasionally (e.g. when the standards change).

Sponsors of defined benefit pension schemes are required to account for the cost of providing retirement benefits and reserve for any outstanding liabilities associated with the schemes they sponsor. They are also required to make certain disclosures about these schemes in the notes to their accounts.

FRS102, IAS19 and IAS26 are accounting standards that set out the accounting treatment for retirement benefits. For UK listed companies and local authorities IAS19 applies; for other UK entities FRS102 applies. Companies with overseas parents may need to make disclosures under other standards. IAS26 applies for pension fund accounting.

A key feature of the standards is the requirement for liabilities to be valued using a discount rate assumption set with reference to yields on “high quality” corporate bonds.

It should be noted that the actual contribution rates required by employers for each fund are calculated every three years following a triennial actuarial valuation and these are calculated using assumptions set by the Fund Actuary. The discount rate assumption in particular is generally set with reference to expected future investment returns of the fund unlike the accounting standards which value the liabilities using solely the yields on corporate bonds. Therefore, the contribution rates paid by employers are not affected by the accounting results.

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Glossary of terms

Glossary of terms

Included in this section:

Actuarial gains & losses

The components of the actuarial gain or loss on assets are:

- the difference between the actual investment return on the assets over the year, and the interest on assets, plus
- an experience item, if applicable.

The components of the actuarial gain or loss on liabilities are:

- the effect on the value of liabilities of any change in financial assumptions (e.g. discount rate, assumed future inflation growth) from those used in the previous year, plus
- the effect on the value of liabilities of any change in demographic assumptions (e.g. mortality) from those used in the previous year, plus
- an experience item, if applicable.

For more details on experience items, please see the "Gains and Losses" section of the FAQs.

Administration expenses

Both accounting standards require the administration expenses to be recognised when the administration services are provided and to be reported as a separate item in the Profit and Loss (P&L) statement.

Note that this does not include expenses in relation to investment management as this is incorporated in the **Return on Fund** assets.

Change in demographic assumptions

This shows the impact on the value of the liabilities of any changes in the demographic assumptions since the previous accounting date. More detail is detailed in the **Demographic assumptions** section.

The same demographic assumptions may be adopted between triennial funding valuations and so there may not be a change in demographic assumptions item each year.

The demographic assumption which is likely to have the most significant effect on the value of liabilities is the mortality assumption i.e. how long members will live. For example, when changes in mortality assumptions results in a decrease in the life expectancy of members this will result in a decrease in the value of liabilities. This is because the term that members are expected to live in retirement would be shorter so fewer benefits will be paid out.

Change in financial assumptions

This shows the impact on the value of the liabilities of any changes in the financial assumptions since the previous accounting date.

Financial assumptions reflect market conditions at the accounting date and so are likely to change each year.

The financial assumptions which have the most significant impact on the value of liabilities are the **discount rate** and the assumed rate of pension increases.

If the assumed discount rate is higher than at the previous accounting date this will result in a decrease in the value of liabilities and vice versa. Conversely, if the assumed rate of pension increases is higher than at the previous accounting date this will result in an increase in the value of liabilities and vice versa.

Contributions by employer including unfunded

This is the total value of the contributions paid by the employer to the fund including the normal contributions in respect of benefit accrual by active members, contributions towards any deficit and any early retirement strain contributions.

If **unfunded benefits** (usually pensions in payment) are paid through the fund and are to be included in the accounting report, then payments in respect of unfunded benefits are included here as well.

For more information on the inclusion of unfunded benefits, please see the "Do I need to include unfunded benefits on my balance sheet?" section of the FAQs.

Current service cost

The **current service cost** represents the cost to the employer of the benefits earned by active members during the accounting period calculated on an FRS102/IAS19 basis. This is added to the liabilities and is not the same as the employer contributions paid to meet these 'new' benefits. It is calculated using assumptions at the start of the accounting period which means that it is not a fixed percentage of payroll and it is expected to vary from one accounting period to the next as assumptions change.

Under both standards this is a component of the **Service cost** in the P&L.

Curtailment

These will typically be the FRS102/IAS19 equivalent of early retirement costs. The actual strain payments to be paid by the employer to the fund are calculated by the administering authority using a different set of assumptions and so the curtailment cost under FRS102/IAS19 is unlikely to be the same as the strain contributions the employer pays.

In our calculations we calculate the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement only. The employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we only calculate the cost of curtailments which affect the employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately. Under both standards the curtailment cost is a component of the **Service cost** in the P&L.

Defined benefit obligation

This is also referred to as the past service liabilities. This is the value of the benefits accrued by all members to date, based on actuarial assumptions such as future increases to salaries, future mortality rates, future inflation rates etc.

Demographic assumptions

These are the assumptions used to generally provide estimates of the likelihood and timing of benefits and contributions being paid. This consists of all the non-financial assumptions used to value the liabilities including the mortality assumptions, (i.e. how long members are likely to live for), the rates of members retiring and the rate at which members exchange pension for cash at retirement.

Discount rate

Pensions and lump sums will be paid at some point in the future and so a rate known as the **discount rate** is used in order to express these expected future payments as a value at a present date.

It is analogous to a rate of interest; to illustrate this, if we put £100 into a savings account today, it is expected to grow with interest every year to become a higher amount in the future. Similarly, if we are aiming to have £100 at a future date then we only need to deposit a smaller amount now which will accumulate with interest to give £100 later.

A higher discount rate means that the future payments have a smaller value now i.e. a lower pension liability.

The accounting standards prescribe that the discount rate should be based on market yields at the reporting date of a 'high-quality corporate bond' of equivalent currency and **term** to the scheme liabilities. The discount rate can be derived using a number of different approaches. The current Barnett Waddingham approach is to use the Single Equivalent Discount Rate (SEDR) method.

Duration

When we talk about the duration of the liabilities we mean the average time to payment of benefits. This is used interchangeably with the **term** of the liabilities.

Further details of the approach used to estimate the duration please see the "How is the employer duration calculated?" section of the FAQs.

Interest cost

At the end of the accounting period the existing pension benefits are closer to payment than they were at the start of the accounting period, and so the value of the liabilities increases over the period with interest in line with the discount rate. This is the interest cost.

The interest cost forms part of the **net interest on defined liability** (in the P&L).

Interest on assets

The interest on assets item is calculated with reference to the **discount rate**. This forms part of the **net interest on defined liability** (in the P&L).

One of the most common questions we are asked by employers is how their asset amount has been calculated.

Go to the FAQ on how are my assets calculated to find out more.

Liabilities

These are also referred to as the **defined benefit obligation**.

Net interest on defined liability

This is the **interest cost** on liabilities less the **interest on assets**. The net interest on defined liability figure is a component of the P&L.

Past service cost

Additional benefits granted during the accounting year give rise to a **past service cost**, for example, an employer decision to award additional service to a retiring employee.

Under both standards this is a component of the **service cost** in the P&L.

Remeasurements

Remeasurements are recognised in Other Comprehensive Income which is effectively the total of the **actuarial gains and losses** from the changes in the assets and liabilities over the accounting period. This will include the investment return on the assets in excess of interest, change in assumptions (financial and demographic) as well as any experience adjustments.

More detail about this is in the "Gains and Losses" section of the FAQs.

Return on assets less interest/ Return on Fund assets in excess of interest

This item is the investment return on fund assets above (or below) that which was assumed at the previous accounting date. The investment return is net of investment management expenses and is provided in the 'Assets' section of your report. Under IAS19 and FRS102 the interest/assumed return on assets is the discount rate assumed at the previous accounting date.

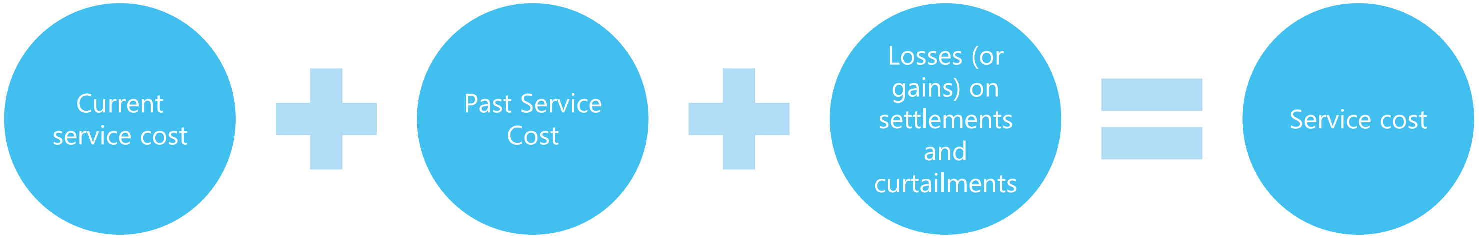
If the return on fund assets is lower than the discount rate this will result in an actuarial loss.

The magnitude of this item will be dependent on how much the actual return on Fund assets differs from the discount rate at the previous accounting date.

Service cost

The service cost is made of three key components:

- Current service cost; plus
- Past service cost; plus
- Losses (or gains) on settlements and curtailments.



Settlement

A settlement will generally occur where there is a bulk transfer of members in to or out of the Fund or an employer's share of the Fund. The settlement loss or gain reflects the difference between the transferred asset share, and the value of the transferred liabilities when calculated on an FRS102/IAS19 basis. This value may be different when compared to figures calculated for non-accounting purposes due to different assumptions being used. Under both standards this is a component of the **Service cost** in the P&L.

Special event

Under the IAS19 standard, when determining any past service cost or gain or loss on **settlement** or **curtailment**, the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. However, IAS19 notes that the extra **remeasurement** at the event date does not need to be applied where the application of that remeasurement is immaterial.

Where a remeasurement approach is required, we refer to this as a special event. Where an event is included but does not require the remeasurement approach, it is not a special event.

Term

Please see definition of **duration** above.

Unfunded benefits

Unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years (CAY) pensions. Such benefits are usually charged to the employer as they are paid. Other unfunded benefits include gratuities and enhanced teacher's pensions which are recharged to the employer, and pensions in respect of some other public sector pension schemes. This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the employer has responsibility for funding by paying contributions to the Fund.

Frequently Asked Questions (FAQs)

BARNETT WADDINGHAM
beyond the expected

Frequently asked questions (FAQs)

Included in this section:

Balance sheet

Assumptions

Pension costs

Gains and losses

Regulatory

- What is the impact of the Lloyds judgment on past transfer values?
- What is the impact of the recent GMP indexation consultation response?
- Does the McCloud judgment have any impact on LGPS liabilities?
- Does the outcome of the Goodwin case have any impact on LGPS liabilities?

Miscellaneous

- Is the projected unit method being used?
- How are investment expenses allowed for?
- What checks are carried out on the data underlying the calculations?
- How is the employer duration calculated?
- What commutation factor is used in the calculations?

If there are any questions that do not appear on this list, please get in touch with the Fund in the first instance.

Balance sheet

How are my assets calculated?

Notional assets

Assets are not separately held for each employer; each fund holds assets in respect of all the employers in the fund and each employer has a notional share of these assets. For example, the contributions an employer makes into the fund are not paid into a separate employer account and invested independently, but are paid into the whole fund along with all other employers' contributions and invested as a whole. However, they are taken into account when calculating a notional asset figure for actuarial valuations and employer work.

Asset calculation – actuarial valuations

Assets are fully re-apportioned at each triennial funding valuation. To do this for an employer, we accumulate the employer's notional market value of assets from the previous funding valuation, allowing for the Fund's actual returns and cashflows in respect of the employer which include employer and employee contributions, pensions and retirement lump sums paid, and transfers in and out etc. In general, cashflows are assumed to occur halfway through the year. We also allow for any notional asset transfers which may occur between employers when members transfer between employers in the Fund.

We also adjust the assets by a smoothing factor to be consistent with our measurement of the liabilities. We essentially look at the asset value over each day for the six month period around the valuation date (based on published market indices) and take the average.

Asset calculation – accounting valuations

In order to calculate asset values for accounting valuations, the starting point is the most recent funding valuation and the process is then similar to the above but may involve approximations. For example, if the fund's actual returns have not yet been calculated for any period, we will calculate the notional return based on suitable market indices.

The assets will change from year to year: increasing with contributions paid into the fund and investment returns earned; and decreasing as benefits (such as lump sums and pensions) are paid out of the fund.

Thus, the employer's asset share is not a fixed percentage of the fund and is expected to vary over time.

We use market value of assets for FRS102 and IAS19 calculations therefore no smoothing factor is applied.

Auditor views

Auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date.

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we may use details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

What is the Defined Benefit Obligation and how is this calculated?

The Defined Benefit Obligation is the accounting label for what is usually known as the value of the pension liabilities of the employer. The pension liabilities for an employer are the promised benefit payments (e.g. pensions, lump sums) due in the future from the fund to its members. The Defined Benefit Obligation is the value of these liabilities calculated using a set of assumptions on an FRS102/IAS19 basis, which includes how these payments will increase over time, how long they will be paid out for (i.e. how long each member is likely to live for) and the **discount rate** to apply to them to give a current value.

The Defined Benefit Obligation depends on the amount of the benefits so will increase as benefits are accrued and reduce as benefits are paid out. The value will also increase or decrease as the assumptions used to calculate their value change.

Do I need to include unfunded benefits on my balance sheet?

Unfunded benefits may be paid through the fund and recharged to the employer.

FRS102 and IAS19 both state that all retirement benefits should be accounted for when the member earns the benefit and not when it is paid by an employer. Therefore when a member retired and was awarded unfunded benefits the value of all future payments should have been taken into account at the point of retirement. This value would generally be expected to reduce over time as the benefits are paid out.

If you have unfunded benefits which are to be included in the accounting figures that we prepare, then you should make us aware of these.

Why have my numbers changed since the last accounting date?

The figures in the accounting disclosures are expected to change from one accounting period to the next. Some figures may be expected to be broadly consistent, however, many figures are unrelated year on year. Guidance on differences that can be expected are set out in the tables below. These tables replicate the reconciliation tables that are disclosed in our reports.

Liability reconciliation items	Factors causing difference in value compared to equivalent item at previous accounting date
Opening defined benefit obligation	
Current service cost	• varies with active member payroll • changes in financial assumptions (at start of accounting period)
Interest cost	• change in discount rate assumption (at start of accounting period) • varies with size of defined benefit obligation
Change in financial assumptions	• not comparable with value at previous accounting date • depends on extent of change in financial assumptions at last accounting date vs current accounting date
Change in demographic assumptions	• not comparable with value at previous accounting date • depends on extent of change in demographic assumptions at last accounting date vs current accounting date
Experience loss/(gain) on defined benefit obligation	• not comparable with value at previous accounting date • depends on how actual experience incorporated compares with previous assumptions
Liabilities assumed / (extinguished) on settlements	• not comparable with value at previous accounting date • depends on settlement events
Estimated benefits paid net of transfers in	• not necessarily comparable with previous accounting date as includes one off cashflows (such as retirement lump sums)
Past service costs, including curtailments	• not comparable with value at previous accounting date • depends on past service costs and curtailment events
Contributions by Scheme participants and other employers	• varies with active member payroll
Unfunded pension payments	• changes in unfunded benefit paid
Closing defined benefit obligation	

Asset reconciliation items	Factors causing difference in value compared to equivalent item at previous accounting date
Opening fair value of Fund assets	
Interest on assets	• change in discount rate assumption (at start of accounting period) • varies with size of fair value of Fund assets
Return on assets less interest	• not comparable with value at previous accounting date • depends on Fund return over accounting period and interest on assets
Other actuarial gains/(losses)	• not comparable with value at previous accounting date • depends on how actual experience incorporated compares with previous assumptions
Administration expenses	• varies with size of fair value of Fund assets • depends on fund's level of administration expenses
Contributions by employer including unfunded	• varies with active member payroll and unfunded benefits paid • depends on additional one off contributions
Contributions by Scheme participants and other employers	• varies with active member payroll
Estimated benefits paid plus unfunded net of transfers in	• not necessarily comparable with previous accounting date as includes one off cashflows (such as retirement lump sums)
Settlement prices received / (paid)	• not comparable with value at previous accounting date • depends on settlement events
Closing Fair value of Fund assets	

Assumptions

What is the difference between assumptions for a funding valuation and an accounting valuation?

The purpose of a funding valuation is to set the contributions payable by employers, and these are typically based on a set of ongoing assumptions. An accounting valuation on the other hand is prepared to meet statutory disclosure requirements and is included in the employer's annual accounts. Therefore, the purposes are different. The results from the two valuation types can be significantly different due to the different assumptions used.

The assumptions adopted for a funding valuation are set by the Fund Actuary following discussion with the administering authority. Broadly, they are set with reference to the long-term expected cost of providing LGPS benefits and take into account the investment strategy of the fund and the expected return on each asset class that the fund invests in. In contrast, FRS102 and IAS19 are fairly prescriptive accounting standards which aim to allow employers' pension obligations to be compared with each other.

Generally, the demographic assumptions used for both valuations are the same and determined every three years as part of the triennial funding valuation. However, updates may be made between funding valuations to reflect the latest industry views on future mortality rates.

The main area where funding valuations for our funds and accounting valuations differ is in the derivation of the **discount rate**. For funding valuations, the discount rate adopted is based on the expected investment return of the assets actually held by the fund. For FRS102/IAS19, the discount rate is required to be determined with reference to the market yield on 'high quality' corporate bonds and with consideration of the **duration** of the employer's liabilities.

Generally, corporate bond yields will be lower than the return assumed for a funding valuation as the fund is likely to invest in a mixture of assets include higher return seeking assets such as equities and property. Therefore we would expect that employers' costs and liabilities under FRS102/IAS19 will be higher than those calculated in a funding valuation as the discount rate used is lower.

It is important to note that the accounting position has no bearing on the contributions that the employers actually pay into the fund. Contribution rates are set every three years as part of the triennial valuation.

Why is the inflation assumption different to current inflation levels?

The current level of inflation that is widely reported each month is a measure of how prices have increased in the recent past, usually over the last year. However, in order to project cashflows to and from the fund over the future lifetime of the fund, we are interested in what inflation will do in the future and therefore we have to make an assumption about expected future levels of inflation over the long term. We do this by using information published by the Bank of England.

How much scope is there for 'tweaking' the assumptions?

One of the objectives of FRS102 and IAS19 is to ensure that organisations all account for pension costs on a consistent market-related basis so there is not intended to be a huge amount of scope to deviate away from typical market assumptions. We do provide a recommended set of assumptions but the employer is ultimately responsible for the assumptions that are adopted.

One key area in which the employer can exercise more control is the assumption about future levels of pay increases as they will have more knowledge of likely future pay awards for their staff.

If you would like more information on the options available to employers regarding bespoke assumptions please get in touch with your LGPS fund.

Pension costs

How are settlements/curtailments/past service costs treated under IAS19?

The IAS19 standard requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019.

Common events for LGPS employers that this amendment may apply to include outsourcings, academy conversions and unreduced early retirements.

The **remeasurement** requirement complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not. If relevant, the employer should also consider any guidance in relation to this set out by The Chartered Institute of Public Finance & Accountancy (CIPFA) in its most recent *Code of Practice on Local Authority Accounting in the United Kingdom*.

Why is the current service cost different from the contributions paid?

Contributions are required from the employer to meet the cost of the benefits being earned by current employees, and to pay off any past service deficit. Minimum contributions are certified when a new employer joins the Fund and then again at each triennial funding valuation. These certified contributions are calculated using assumptions made at each funding valuation and reflect, amongst other things, the return assumed to be earned by the assets actually held by the Fund.

The **current service cost** in FRS102/IAS19 only includes the employer cost of benefits being earned by current employees and does not include the cost of paying off any past service deficit. The assumptions used for FRS102/IAS19 are usually different to those used for the funding valuation. In particular, the **discount rate** is prescribed by FRS102/IAS19 and is unlikely to reflect the Fund's actual asset allocation. This means the current service cost calculated for FRS102/IAS19 is likely to be different to the cost covered by the certified minimum contributions.

Why is the current service cost different from the previous year?

The current service cost is the cost of benefits accrued over the period based on the assumptions at the start of the period i.e. the assumptions at the previous accounting date or the most recent **remeasurement** date.

Therefore this will be affected by:

- the difference in the assumptions adopted at the previous accounting date (and any remeasurement dates) compared to the assumptions adopted for calculating the previous accounting date's current service cost; and
- the change in payroll over the accounting period compared to that over the previous accounting period.

What if the reported contributions paid are different to the actual contributions paid?

The discrepancy may be because full cashflows for the accounting period were not available for the report, and therefore they were estimated based on part-year cashflows. We can revise the disclosure to take account of the actual contributions paid but we recommend that you agree with your auditor that this is necessary on the grounds of materiality.

Gains and losses

What is an experience gain or loss?

Accounting reports are prepared each year using a number of estimates and approximations in the roll-forward process on both the assets and the liabilities. This experience adjustment is essentially a correction of the estimates made in previous accounting reports.

Employers are likely to see an experience item in an accounting report prepared following a full membership valuation, such as a triennial funding valuation, to allow for actual experience such as pension increases, member movements and mortality.

What does actual less expected return on Fund assets mean?

The "expected" return on the Fund assets for a year is simply based on the **discount rate** assumption at the start of the period (or the last remeasurement date). If actual Fund returns, net of investment management expenses, have been higher than the discount rate assumption this figure will be positive but if they were lower this will be negative.

Why is there an experience gain or loss on the assets?

To determine the employer asset share for an accounting report we may need to estimate various pieces of financial information, including cashflow information such as contributions received, benefits paid and fund returns. However, at a triennial funding valuation we get full cashflow data for each year and actual audited Fund returns. We then determine each employer's asset share accurately at the triennial valuation date and the experience item emerges as the difference between the three years' worth of estimated rolled-forward assets and the accurate figure. There may also be differences between the accounting and funding valuation asset figures due to allowance for any transfers or outsourcings that may not have been resolved in time to be included in the relevant accounting years.

Why is there an experience gain or loss on the liabilities?

To determine the value of the employer liabilities for an accounting report we roll forward the results from the most recent funding valuation, using the financial and demographic assumptions set for accounting purposes.

After each triennial valuation we recalculate the accounting liabilities using up to date membership data and results. An experience item emerges which reflects the difference between the actual experience of the members of the Fund and what was assumed for them in the previous accounting reports. For example, if members died earlier than assumed this will result in an **actuarial gain** as the liabilities will be lower than estimated in the roll forward, or if members received higher than assumed salary increases then there will be an **actuarial loss** as the liabilities will be higher than estimated.

Experience gains or losses may also arise each year due to other experience updates. For example, employers may choose to allow for inflation experience each year. This would result in an experience gain or loss depending on how pension increase experience compared to what was assumed at previous accounting dates.

What is the change in assumptions?

This is a combination of the impact on the value of the liabilities due to any changes in the financial and demographic assumptions since the previous accounting date.

See the change in demographic assumptions and change in financial assumptions sections above for more detail.

Regulatory

What is the impact of the Lloyds judgment on past transfer values?

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and DLUHC on this.

What is the impact of the recent GMP indexation consultation response?

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

For details on our standard assumption for GMP, please see the latest briefing note.

Does the McCloud/Sargeant judgment have any impact on LGPS liabilities?

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

On 13 May 2021 the Government issued a ministerial statement on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases relating to age discrimination. The statement confirms that changes will be made to the LGPS Regulations to compensate members directly affected by the change to career average benefits from 1 April 2014. Draft regulations are expected in 2023 and are expected to come into force on 1 October 2023.

The potential cost of the judgment on employers' liabilities is very much dependent on the membership profile of the employer and assumed future salary increases. For example, an employer with a high proportion of active members with service in the remedy period and a high salary increase assumption is likely to be more affected than an employer with a low proportion of active members with service in the remedy period and a low salary increase assumption.

We have taken the view to include an allowance for the McCloud judgment in employers' accounting liabilities as a default unless the employer chooses to opt out. To estimate the cost of the remedy, we have estimated the equivalent final salary benefit that would have been earned instead of post 2014 CARE benefits by the active members since the 1 April 2014 Scheme reform (2015 for Scottish funds) up to 31 March 2022 (the date up to which the protections will apply). This approach essentially assumes that the draft remedy regulations will come into force.

Does the outcome of the Goodwin case have any impact on LGPS liabilities?

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

As this has just recently been announced, we do not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. Any indication of cost at this stage will only be a rough estimate as in most cases, funds will not have this information or data to hand. It is our understanding that the Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds.

At the time of producing this document, we do not yet have the results of GAD's review. However, it is our expectation that the impact on the value of LGPS liabilities as a whole, and for the majority of employers participating in the LGPS, will not be material. It is possible that the impact on individual employers will vary depending on their specific membership profile; although any cases resulting in a significant impact are likely to be few and far between.

Miscellaneous

Is the projected unit method being used?

Yes

How are investment expenses allowed for?

Investment expenses are included in the estimated Return on Fund assets. Therefore, the 'Return on assets less interest' element of the asset reconciliation includes allowance for investment expenses.

Investment expenses not included in 'Administration expenses' and are therefore not contained within in the Profit and Loss statement, however, as they are included in the 'Return on assets less interest', investment expenses are included in the Remeasurements in other comprehensive income.

What checks are carried out on the data underlying the liability calculations?

One of the key items of data underlying our calculations is the member data used for the starting point of the liability roll forward. The member data is generally that from the most recent funding valuation and therefore has been passed through a vigorous data checking process as part of the valuation. As the member data has been sufficiently cleansed for the purpose of the funding valuation, we believe it is also reasonable for the purpose of the accounting roll forward. The key checks carried out on the data include:

- Consistency of static member data items (such as sex and date of birth) to previous valuation
- Consistency of changeable member data items to previous valuation. For example:
    - Reasonable change in salary for active members
    - Reasonable level of accrual for active members
    - Deferred and pensioner member pensions have increased as expected based on LGPS pension increases
- Reconciliation of employer membership to ensure that all previous members accounted for (or no longer in data as expected) and new members look reasonable

How is the employer's duration calculated?

The employer's duration is estimated using the Macaulay duration and this is calculated using membership data from the latest triennial valuation.

The employer duration is recalculated at the accounting date to reflect the financial assumptions at the accounting date, using the data from the latest triennial valuation.

What commutation factor is used in the calculations?

A commutation factor of 12 is adopted for our calculations in line with the benefit structure set out in the LGPS Regulations.

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central midlands audit partnership

Ashfield District Council – Audit Progress Report

Audit Committee: 20 March 2023

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Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

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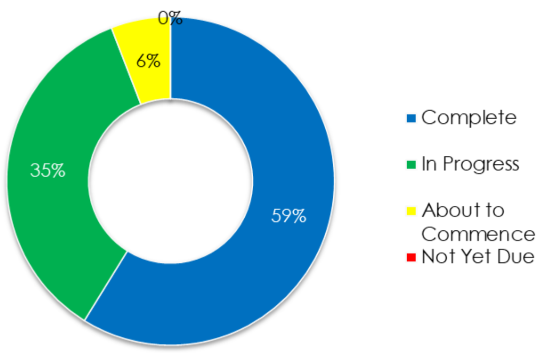
CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

AUDIT DASHBOARD

Plan Progress



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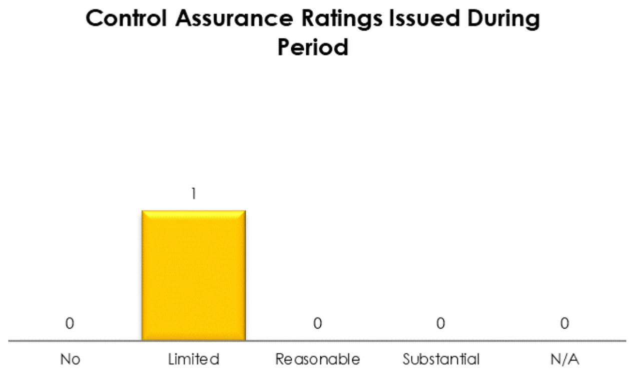

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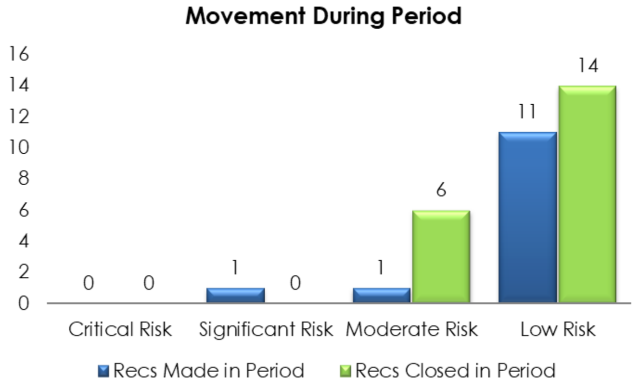
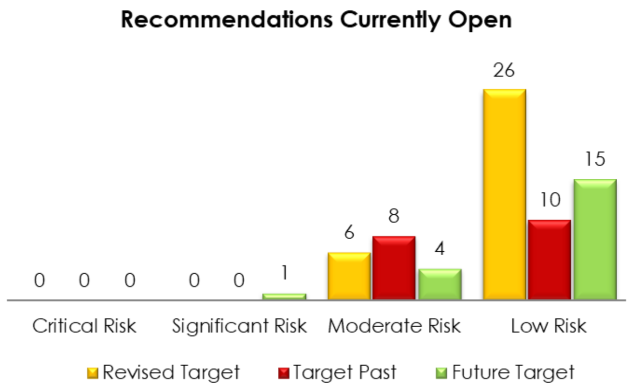
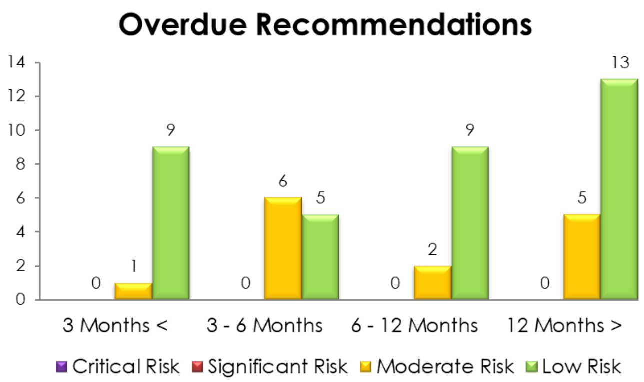


Recommendations



Recommendations



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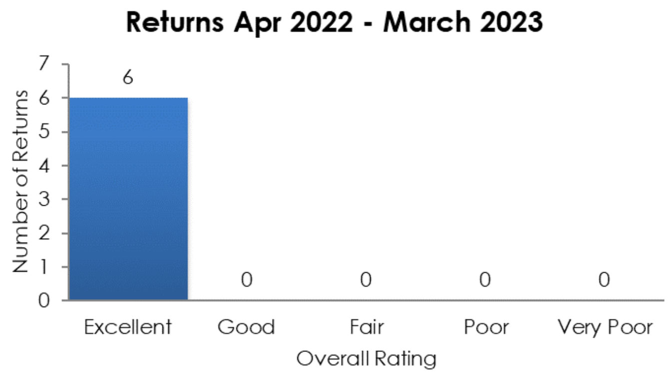


AUDIT PLAN

Progress on Audit Assignments

The following table provides the Committee with information on how audit assignments were progressing as of 3 March 2023.

2022-23 Jobs	Status	% Complete	Assurance Rating
Anti-Fraud & Corruption 2022-23	In Progress	40%	
Organisational Culture and Ethics 2022-23	Allocated		
General Ledger – Data Analytics 2022-23	In Progress	45%	
Treasury Management 2022-23	Final Report	100%	Reasonable
IT Asset Inventory 2022-23	Final Report	100%	Limited
Estates 2022-23	Draft Report	95%	
Licensing 2022-23	Final Report	100%	Reasonable
Section 106 2022-23	In Progress	90%	
Leisure Centre 2022-23	In Progress	90%	
Future High Streets Fund 2022-23	In Progress	40%	
Housing – Data Quality 2022-23	Final Report	100%	No
Climate Change & Sustainability 2022-23	Final Report	100%	N/A
Health & Safety 2022-23	Final Report	100%	Limited
Homes England Grant	Complete	100%	N/A
B/Fwd Jobs	**Status**	**% Complete**	**Assurance Rating**
Accounting Systems	Final Report	100%	Substantial
Corporate Credit Cards 2021-22	Final Report	100%	Reasonable
Planning	Final Report	100%	Reasonable

Audit Plan Changes

None to report.

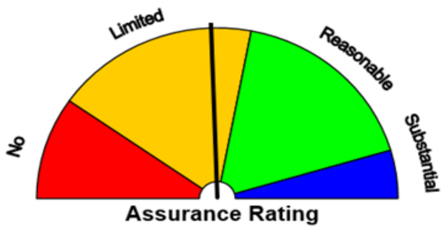
AUDIT COVERAGE

Completed Audit Assignments

Between 18 January 2023 and 3 March 2023, the following audit assignment has been finalised since the last progress update was given to the Audit Committee.

Audit Assignments Completed in Period	Assurance Rating	Recommendations Made				% Recs Closed
		Critical Risk	Significant Risk	Moderate Risk	Low Risk	
Health & Safety 2022-23	Limited	0	1	1	11	31%
TOTALS		**0**	**1**	**1**	**11**	**31%**

Health & Safety 2022-23



Control Objectives Examined	Controls Evaluated	Adequate Controls	Partial Controls	Weak Controls
There are controls and processes in place to ensure asbestos is recorded and appropriate regulations are followed.	9	1	7	1
The Council has controls and processes in place to ensure that it mitigates the risk of legionella.	10	5	4	1
TOTALS	**19**	**6**	**11**	**2**

Summary of Weakness	Risk Rating	Agreed Action Date
The Council guidance, policies and procedures for asbestos had not been reviewed or did not include expected revision dates.	Low Risk	31/03/2023
The asbestos register for non-domestic properties did not document the full date of the last inspection, only the year for the next inspection; it was therefore difficult to ensure the inspections had been undertaken annually.	Low Risk	31/01/2023
The full Asbestos Management Surveys had not been completed on the communal areas of domestic properties since 2004.	Low Risk	Risk Accepted
Three employees asbestos awareness training was not up to date and not all trade operatives had non-licensed asbestos work training.	Low Risk	18/05/2023

Neither the domestic communal areas asbestos register nor the list of non-domestic properties with asbestos had been reconciled against the asset register to ensure all properties had been accounted for.	Low Risk	30/06/2023
The non-domestic properties' asbestos records were retained in an area where access had not been restricted to officers with a genuine business need.	Low Risk	31/01/2023
The Asset and Investments service area had spent over £26,000 with an asbestos surveying and removal company in the year to 31 October 2022, without a contract being in place.	Moderate Risk	31/03/2023
There were two occasions where the Council was unable to provide evidence of the asbestos survey or what had happened to some asbestos noted in the register.	Low Risk	31/03/2023
The Council did not have a dedicated Corporate Legionella Management Policy/Procedural Guidance in place.	Low Risk	30/04/2023
The contractor had not consistently provided evidence that legionella inspections had been undertaken in accordance with the requirements of the water testing and check schedule provided to them.	Significant Risk	31/03/2023
The non-domestic properties' legionella records were retained in an area where access had not been restricted to officers with a genuine business need.	Low Risk	31/01/2023
The lists of properties with water systems had not been reconciled to the asset register.	Low Risk	30/06/2023
The recommendations from legionella risk assessments which were classed as best practice, had not been implemented.	Low Risk	31/03/2023

RECOMMENDATION TRACKING

Final Report Date	Audit Assignments with Open Recommendations	Assurance Rating	Recommendations Open		
			Action Due	Being Implemented	Future Action
14-Feb-19	Risk Registers	Reasonable	1	0	0
24-Apr-18	ICT Performance Management	Reasonable	0	2	0
16-Aug-19	Fire Safety	Reasonable	0	1	0
12-Mar-19	Treasury Management & Banking Services	Reasonable	0	1	0
03-Dec-19	Data Quality & Performance Management	Reasonable	0	1	0
31-Jan-20	Information Governance	Reasonable	0	1	0
21-Jun-21	Management of Fraud Risk	Limited	0	9	0
10-May-21	People Management	Reasonable	0	5	0
21-Jun-21	Delegated Decisions	Reasonable	0	1	0
16-Aug-21	Teleworking Security	Reasonable	0	3	0
05-Oct-21	PCI Compliance in Organisational Transformation	Reasonable	0	2	0
28-Feb-22	Outdoor Recreation - Sports Bookings	Limited	0	1	3
03-Mar-22	Risk Management 2021-22	Reasonable	0	0	1
29-Mar-22	Scrutiny	Reasonable	0	1	0
08-Apr-22	Accounting Systems 2021-22	Substantial	0	3	0
11-Jul-22	Planning	Reasonable	3	0	0
28-Jul-22	Housing - Data Quality 2022-23	No	6	0	4
25-Oct-22	Licensing 2022-23	Reasonable	0	0	4
10-Nov-22	IT Asset Inventory 2022-23	Limited	8	0	0
23-Jan-23	Health & Safety 2022-23	Limited	0	1	8
		TOTALS	**18**	**32**	**20**

Action Due = The agreed actions are due, but Internal Audit has been unable to ascertain any progress information from the responsible officer.

Being Implemented = The original action date has now passed and the agreed actions have yet to be completed. Internal Audit has obtained status update comments from the responsible officer and a revised action date.

Future Action = The agreed actions are not yet due, so Internal Audit has not followed the matter up.

Ashfield District Council – Audit Progress Report

Audit Assignments with Recommendations Due	Action Due			Being Implemented		
	Significant Risk	Moderate Risk	Low Risk	Significant Risk	Moderate Risk	Low Risk
Risk Registers	0	0	1	0	0	0
ICT Performance Management	0	0	0	0	2	0
Fire Safety	0	0	0	0	1	0
Treasury Management & Banking Services	0	0	0	0	0	1
Data Quality & Performance Management	0	0	0	0	0	1
Information Governance	0	0	0	0	1	0
Management of Fraud Risk	0	0	0	0	1	8
People Management	0	0	0	0	0	5
Delegated Decisions	0	0	0	0	0	1
Teleworking Security	0	0	0	0	1	2
PCI Compliance in Organisational Transformation	0	0	0	0	0	2
Outdoor Recreation – Sports Bookings	0	0	0	0	0	1
Scrutiny	0	0	0	0	0	1
Accounting Systems 2021-22	0	0	0	0	0	3
Planning	0	2	1	0	0	0
Housing – Data Quality 2022-23	0	5	1	0	0	0
IT Asset Inventory 2022-23	0	1	7	0	0	0
Health & Safety 2022-23	0	0	0	0	0	1
TOTALS	**0**	**8**	**10**	**0**	**6**	**26**

Ashfield District Council – Audit Progress Report

Highlighted Recommendations

The following recommendations, that have not yet been implemented, are detailed for Committee's scrutiny.

Being Implemented Recommendations

Information Governance	**Rec No. 4**
Summary of Weakness / Recommendation	Risk Rating
Sensitive, personal data was being stored in locations which were not suitably restricted to only those officers with a genuine business need to access such information. We recommend that management take appropriate action to ensure that all personal, sensitive data is secured in files, within restrictive sub-folders, with access limited to only those officers who have a genuine business need to access such information.	Moderate Risk
Management Response/Action Details	Action Date
The IT Security Policy Framework is under review. As part of this review we will ensure it is updated to take account of GDPR requirements. Specifically, we will introduce the following measures to assist with ensuring access to data is suitably restricted to only those officers with a genuine business need to access such information: - Starters/Transfers/Leavers E-Form – to be completed by the Section Manager. This form will identify access rights of starters, amendments for staff transferring internally and identify when staff leave the Council. This will be used in conjunction/cross-references with the report received from HR on a quarterly basis. - E-Form for completion by Managers/Directors for folder access changes. - Introduction of new file structure guidelines and cascade through ELT/ALT, DMTs and MOD. - Provision of Group Access Permission lists on a quarterly basis to Service Managers for checking and confirmation/amendment. IT to meet with individual Managers to confirm, amend and clarify what is required of Managers as part of this new process.	30/06/2020
Status Update Comments	Revised Date
Actions have been taken to restrict folders and files. Internal Audit will be reviewing these actions as part of the ICT Key Controls audit. We are currently in the process of migrating documents to Sharepoint/Teams which will introduce private channels. This will make it easier for managers to check who has access to the data held in them.	30/06/2022

ICT Performance Management	**Rec No. 1**
Summary of Weakness / Recommendation	Risk Rating
Despite commitment to performance management in the Council's latest Technology Strategy, we could not find any documented performance management metrics and goals to support this. Similarly, performance metrics for IT did not appear to be subject to annual review, or agreed or monitored by the Council. We recommend that Management defines performance management metrics for the IT service, and implements policies and procedures for monitoring and reporting compliance. Metrics, goals and targets should also be subject to annual review.	Moderate Risk

Management Response/Action Details	Action Date
There is a review of the ICT Helpdesk due shortly where performance metrics will be defined and agreed.	01/09/2018
Status Update Comments	**Revised Date**
The Service Manager for ICT has updated audit that a prerequisite for this recommendation is the implementation of a new helpdesk system which will have appropriate reporting capabilities. The first version of the ICT Service Desk software is now in place but ICT still need to review its reporting capabilities. The post of Service Desk Team Leader is currently being advertised. The Service Manager for ICT has requested a further extension whilst the newly appointed service desk team leader investigates the implementation of the recommendation. To be resolved with the implementation of the House on the Hill service desk application.	30/11/2022

ICT Performance Management	**Rec No. 2**
Summary of Weakness / Recommendation	Risk Rating
Reviews of the team's performance in relation to the resolution of incidents and service requests did not appear to comply with a formal schedule, and evidence of previous reviews could not be provided as the actions/discussions were not documented in minutes. We recommend that Management defines a schedule for reviewing performance of incident and request resolution times, and ensures any agreed actions are documented in minutes which are retained.	Moderate Risk
Management Response/Action Details	Action Date
There is a review of the ICT Helpdesk due shortly where performance metrics will be defined and agreed.	01/09/2018
Status Update Comments	Revised Date
The Service Manager for ICT has updated audit that a prerequisite for this recommendation is the implementation of a new helpdesk system which will have appropriate reporting capabilities. The first version of the ICT Service Desk software is now in place but ICT still need to review its reporting capabilities. The post of Service Desk Team Leader is currently being advertised. The Service Manager for ICT has requested a further extension whilst the newly appointed service desk team leader investigates the implementation of the recommendation. To be resolved with the implementation of the House on the Hill service desk application.	30/11/2022

Teleworking Security	Rec No. 2
Summary of Weakness / Recommendation	Risk Rating
Accounts with Remote Desktop Gateway access permissions were not always being disabled in a timely manner for leavers, creating data protection risks. We recommend that management defines, documents and implements a more comprehensive approach to disabling network access for former employees or 3rd parties. This could include populating the account expiration date in advance, once a leavers date has been agreed with the employee to reduce the risk of administrative error.	Moderate Risk
Management Response/Action Details	Action Date
We will review the process. We do have quite comprehensive processes in place but it is still possible to miss people leaving in the short term (they should get detected later due to another process). We will review each part of the process to ensure they are being carried out properly and look at implementing the "expiration date" where possible.	01/10/2021
Status Update Comments	Revised Date
Process is to be documented and added to Service Desk guidelines. 3rd party accounts are not left active when not in use. It will be raised that we need a proper process in place once HR comes back into the Council.	30/09/2022

Fire Safety	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
Not all entrance doors to flats comply with Fire Safety Regulations. We recommend that the Council reviews all flat entrance doors to identify those which do not comply with Fire Safety Regulations, or those that have failed recent government tests. The Council should then take action to ensure the appropriately accredited fire safety doors are installed at the entrances to all flats.	Moderate Risk
Management Response/Action Details	Action Date
An assessment of all flat entrance doors has been completed and the results forwarded to the Assets & Investment Section for building into future door replacement programme(s). However, due to uncertainties around the manufacture, testing, certification and subsequent affected supply of composite fire doors, it is currently not possible to identify a definitive timescale for completion. The option to use alternative timber fire doors of the appropriate fire safety standards and specification are currently being looked into.	31/03/2020
Status Update Comments	Revised Date
Standard fire doors (majority); installations to commence 07/02/22. The works are not yet complete. We have continued to have difficulties in terms of supply to source doors which comply with the regulations and at a fair price and meet other requirements. We have also had difficulty with closing strengths of doors (which stopped us from fitting Sherwood Court doors previously). We are making progress in terms of sourcing suppliers and our Contractor, J Tomlinson are hoping to fit the remaining doors as follows:- • Leaseholder fire doors (Feb/March) • Sherwood Court doors (requiring additional works to the door heads and surrounds up to ceiling height (March/April) • Fire doors with sidelights (April/May).	31/05/2023

Management of Fraud Risk	**Rec No. 6**
Summary of Weakness / Recommendation	Risk Rating
The Council did not have trained fraud investigators with professional accreditation to review and investigate all areas of potential fraud. We recommend that the Council ensure they have access to fully trained fraud investigators, who can be called upon to investigate any areas of suspected fraudulent activity.	Moderate Risk
Management Response/Action Details	Action Date
The Council will consider how to access a suitably trained fraud investigator.	30/04/2022
Status Update Comments	Revised Date
Action still being progressed.	31/03/2023

Action Due

Planning	**Rec No. 2**
Summary of Weakness / Recommendation	Risk Rating
There were no processes in place that enabled management to monitor progress against tasks detailed on the Local Plan Work Programme. We recommend that management is provided with performance information, linking to the Local Plan Work Programme, from the Forward Planning Team on a regular basis.	Moderate Risk
Management Response/Action Details	Action Date
The team will be asked to provide a monthly report to the Assistant Director on a monthly basis.	31/07/2022
Status Update Comments	Revised Date

Planning	**Rec No. 1**
Summary of Weakness / Recommendation	Risk Rating
There was a lack of audit trail regarding changes made to the Local Plan Work Programme and the status of tasks completed. We recommend that the Forward Planning Team ensure that there is an audit trail of changes to the Work Programme and the status of each task. The Work Programme should be updated regularly.	Moderate Risk
Management Response/Action Details	Action Date
This will be developed in the interim, but a key focus of the new team Manager will be project management of the work programme	31/10/2022
Status Update Comments	Revised Date

Housing Data Quality 2022-23	Rec No. 3
Summary of Weakness / Recommendation	Risk Rating
The data in the component fields within the Capita Housing System did not accurately reflect the details of the Gas Servicing Certificates. The spreadsheets used as an alternative to the System contained blank fields and therefore were not a reliable audit trail for the gas servicing process. We recommend that the Council ensure the data in the component fields within the Capita Housing System accurately reflects details of the Gas Servicing Certificates. The Council should consider looking into an automated process for uploads of all boiler and flue data and consider system data quality checks.	Moderate Risk
Management Response/Action Details	Action Date
Current component data to be extracted and cleansed. Automated system is available moving forward and is being enhanced to work with the new MOT style anniversary servicing window. Creation of role to ensure Capita data is reconciled, accurate and relevant.	30/11/2022
Status Update Comments	Revised Date

Housing Data Quality 2022-23	Rec No. 4
Summary of Weakness / Recommendation	Risk Rating
There were three different components for electrical testing within the Capita Housing System, all containing inconsistent information and possible errors. We recommend that any duplicated components are made 'historical' in the System and that processes are put in place to ensure the current component is updated in a timely manner following electrical condition testing activities.	Moderate Risk
Management Response/Action Details	Action Date
Current component data to be extracted and cleansed. A new service contract has been introduced which will present new (rationalised) coding to capita. As also effects Decent Homes data detailed testing is required to ensure the integrity of the DHS calculation. Creation of role to ensure Capita data is reconciled, accurate and relevant.	31/10/2022
Status Update Comments	Revised Date

Housing Data Quality 2022-23	Rec No. 5
Summary of Weakness / Recommendation	Risk Rating
Data Matching and testing identified that the smoke detector component fields within the Capita Housing System do not accurately reflect the true status of the smoke detectors in Council properties. We recommend that the smoke detector components are updated to ensure they accurately reflect the status of each smoke detector and that a process is developed to ensure they continue to be updated. This process should ensure data quality checks are performed to ensure accuracy and completeness of smoke detector component data maintained within the Capita Housing System.	Moderate Risk
Management Response/Action Details	Action Date
Current component data to be extracted and cleansed. System is already partly automated; however acceleration of the programme means that both in-house and contractors are installing alarms meaning the use of both TM for in-house and a data loader for contractor. Creation of role to ensure Capita data is reconciled, accurate and relevant.	30/11/2022
Status Update Comments	Revised Date

Housing Data Quality 2022-23	Rec No. 6
Summary of Weakness / Recommendation	Risk Rating
The three components in the Capita Housing System relating to boilers and flue types contained information that was inconsistent for the majority of the Council's properties. We recommend that the Council ensures the data included in the Capita Housing System components for boiler and flue type is accurate and consistent with other data in the system.	Moderate Risk
Management Response/Action Details	Action Date
Current component data to be extracted and cleansed. Flue type is currently held at attribute level and will be moved to form part of the boiler make/model. Creation of role to ensure Capita data is reconciled, accurate and relevant.	30/11/2022
Status Update Comments	Revised Date

Housing Data Quality 2022-23	Rec No. 10
Summary of Weakness / Recommendation	Risk Rating
Access to the various Excel spreadsheets used to record component works such as checks, installations and replacements, had not been appropriately restricted. We recommend that management reviews the permissions on the folders storing the Excel spreadsheets that currently represent a master copy of component related works. Where possible, access to amend the data in the files should be significantly restricted, and other users where appropriate should only be given read only access permissions.	Moderate Risk
Management Response/Action Details	Action Date
All housing folders to be reviewed for permissions/restrictions NB needs to be measured against the move to SharePoint /Windows 365 as to the appropriate time to enact. IT to restrict access to housing specific folders (file holding areas) to a list of identified users, preferably belonging and controlled by departmentally assigned Active Directory group(s).	31/10/2022
Status Update Comments	Revised Date

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central midlands audit partnership

Ashfield District Council –
Internal Audit Plan 2023-24 & Audit Charter

Audit Committee: 20 March 2023

Ashfield DISTRICT COUNCIL

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Our Vision

To bring about improvements in the control, governance and risk management arrangements of our Partners by providing cost effective, high quality internal audit services.

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CMAP central midlands audit partnership

Providing Excellent Audit Services in the Public Sector

Introduction

Purpose of Report

The purpose of this report is for the Board to approve the Internal Audit Charter and Annual Internal Audit Plan for 2023-24.

Role of Internal Audit

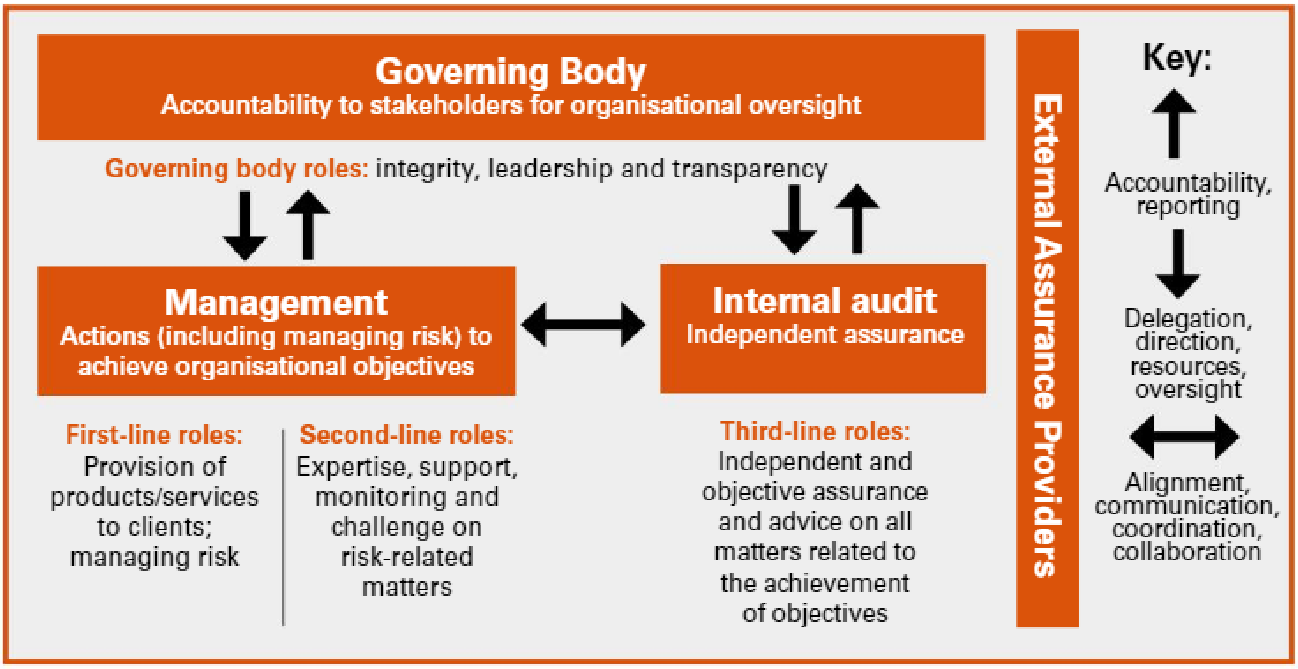
All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015.

The organisation's Internal Audit service is provided by Central Midlands Audit Partnership (CMAP). The Partnership was formed as a Joint Board under section 101 of the Local Government Act 1972. It currently serves 6 public sector organisations and Derby City Council is the host authority. The legal agreement between the Partners has recently been renewed and runs for 5 years until 31 March 2025.

Internal Audit provides the Audit Committee and senior management with objective assurance on the organisation's overall control environment, comprising the systems of governance, risk management, and internal control and highlights control weaknesses together with recommendations for improvement. This helps senior management demonstrate that they are managing the organisation effectively. Internal Audit's work significantly contributes to the organisation's statutory Annual Governance Statement (AGS).

Internal Audit is part of the organisation's governance framework which can be summarised in the three lines model shown below.

IIA Global's Three Lines Model:

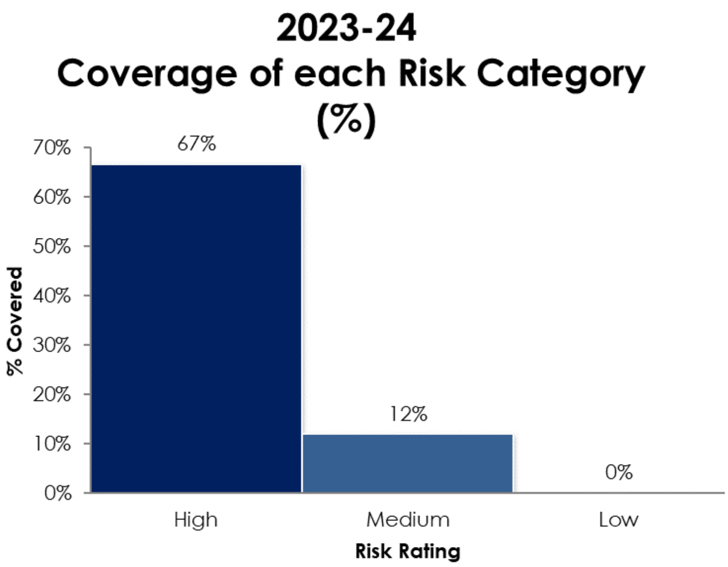


Internal Audit Plan

The Public Sector Internal Audit Standards (PSIAS) state that annually the Chief Audit Executive is responsible for developing a risk-based plan. In this instance, the Chief Audit Executive is Mandy Marples, Audit Manager.

The annual Audit Plan sets out proposals on how this will be achieved in the year ahead. It is a flexible Plan that allows Internal Audit to respond to emerging and changing risks during the year.

The Audit Plan must incorporate sufficient work to enable the Chief Audit Executive to give an opinion on the adequacy of the organisation's overall control environment. Equally Internal Audit must be adequately resourced with the necessary level of skilled and experienced staff to deliver the Audit Plan.



Progress in completing the audit plan, will be submitted to the Audit Committee as part of regular Internal Audit Progress reports.

Internal Audit Charter

An Internal Audit Charter is a formal document that defines internal audit's purpose, authority, responsibility and position within an organisation. The Internal Audit Charter describes how internal audit will provide value to the organisation, the nature of the services it will provide and the specific focus or emphasis required of internal audit to help the organisation achieve its objectives.

Having an Internal Audit Charter also establishes the internal audit activity's position within the organisation, including reporting lines, authorising access to records, personnel, and physical properties relevant to the performance of engagements; also defining the scope of internal audit activities. A copy of the current Internal Audit Charter is attached at Appendix B. It is the role of the Audit Committee to review and approve the 'Internal Audit Charter' on an annual basis.

Approach to Audit Planning

Internal Audit takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, Internal Audit must determine its own judgment of risks following a thorough consultation process. We endeavour to consult with relevant managers to further understand the risk areas where internal audit assurance will be appropriate.

A risk based audit plan has been compiled in consultation with the organisation's Management, using the organisations' risk registers and CMAP's bespoke risk assessment model which considers the following 8 measures of risk

Impact	Materiality	Potentially, how much money could the organisation lose if this area is not properly controlled?
	Criticality	How critical is this function to the effective running of the organisation's core activities?
	Sensitivity	How important is this area in the opinion of senior management and the Board?
	Strategic Effect	How does this function affect the organisation's long term aims and objectives?
Likelihood	Changes	What changes (staffing, procedural, IT, legislative) has this area been subject to?
	Complexity	How complex is the area under review?
	Review Process	How often is this area reviewed by audit and other agencies?
	Inherent Risks	How susceptible is this area to fraud and irregularity?

Once the scores for each of the 81 auditable areas identified have been input to the risk model, along with the date when the area was last audited, the risk model will automatically generate a plan of suggested audit coverage. Senior management are consulted on the proposed plan and their views are taken account of before producing the final, ranked list of areas to audit. This year's risk assessment identified 12 High risk areas, 67 Medium risk areas and 2 Low risk area.

Types of Audit Work

Key Financial Systems Audit - Much of Internal Audit's assurance work comes from the review of the risks and controls associated with the organisation's financial systems. External Audit will also review the work on the key financial systems to assist them when determining their opinion on organisation's annual accounts.

Systems / Risk Based Audits - The auditor's prime role is to review the internal control systems developed by management to mitigate operational risks and report upon the adequacy of those controls (see below for control examples). An organisation's overall internal control system is the product of all of those systems and processes that the organisation has created to deliver its business objectives, both financial and non-financial.

Control categories with examples

Preventive
Separation of duties, access controls, authorisation

Detective
Exception Reports, reconciliations, control totals, error reports

Directive
Accounting manuals, documented procedures, training and supervsion

Corrective
Error, incident and complaint handling, virus isolation

- **Separation of Duties** – Division of duties between the appointment and payment of staff
- **Organisational** – Budgets, Performance taregts and KPI's
- **Authorisation** – Authority Levels, spending limits, passwords and user ID
- **Personnel** – Recruitment and selection, staff appraisal procedures
- **Supervision** – Day-to-day oversight of staff and physical activities
- **Physical** – Door entry systems, restricted access to files
- **Accounting** – Control account and bank reconciliation
- **Management** – Team meetings and briefings, CRSA

Source: Chartered Institute of Internal Auditors – Resources – Control

IT Audit – Typically our IT auditing coverage focuses on the following:

- **Infrastructure** - Infrastructure audits cover perimeter defences, authentication, management and monitoring, and devices. Infrastructure audits help provide assurance that the organisation's private network is protected from internet attacks, unauthorised or inappropriate access via local or remote attacks, and also ensure the organisation has the necessary monitoring and incident analysis to maintain and analyse the Network.
- **Applications** - Application audits cover thin and fat client applications, and both internal (Intranet) or external (Web) applications. Applications audits typically focus on CIAA (**C**onfidentiality, **I**ntegrity, **A**vailability and **A**ccountability risks) to ensure attackers cannot exploit vulnerabilities to gain unauthorised access to sensitive corporate data.

Governance/Ethics Reviews - The governance framework comprises the systems and processes, and culture and values, by which the organisation is directed and controlled. Internal Audit reviews corporate systems such as Risk Management, Health & Safety, Data Quality, Anti–Fraud and should consider organisational ethics, values and culture.

Procurement/Contract Audit - Procurement involves the process of acquisition from third parties, and spans the whole life cycle from the initial concept (determining the need), through buying and delivery, to the end of a service contract. The audit approach to procurement should primarily concern the organisation's corporate procurement strategy and associated management structures and processes, including contract procedure rules and detailed procurement guidance.

Consultancy - Consultancy work may be driven by risk-based planning but may also be at the request of management where its risk and control systems and processes are embryonic or not yet mature or being subject to review and amended. Consultancy work adds to CMAP's knowledge base and contributes to the overall internal audit opinion and/or assurance rating. The consultancy activities that CMAP undertake are designed to add value to the organisation's effectiveness, efficiencies and above all, achievement of strategic goals, aspirations and aims.

Client Support Work

To support the organisation, a number of days have also been set aside for the following:

Audit Management – There are certain management tasks that are specific to each Partner organisation, such as, reporting to Audit Committee, Audit Risk Assessment & Planning etc. These require a contingency of days to be planned.

Advice & Emerging Issues - On an ad-hoc basis, Audit is called upon to provide risk and control advice on issues throughout the organisation. This consultancy work is a very important service and requests for Audit input are considered to be a good measure of the quality of the Audit service and of the satisfaction of our clients.

Anti-Fraud/Probity/Investigations - Internal Audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within the Organisation. Internal Audit's role includes promoting anti-fraud best practice, testing and monitoring systems through probity work and advising on change where it is needed. Internal Audit also may be involved in the investigation of suspected internal fraud, theft or major irregularity (where there is some form of alleged financial irregularity, which may have resulted in financial loss to the organisation).

Follow-up Audits - Internal Audit is committed towards ensuring that control improvements are achieved and all agreed actions are acted upon. We have developed a recommendation tracking database, which allows us to monitor, follow-up and report upon the status of all management's actions in respect of agreed audit recommendations.

Brought Forward Jobs - Any incomplete audits from the 2022-23 Audit Plan will need to be concluded in 2023-24.

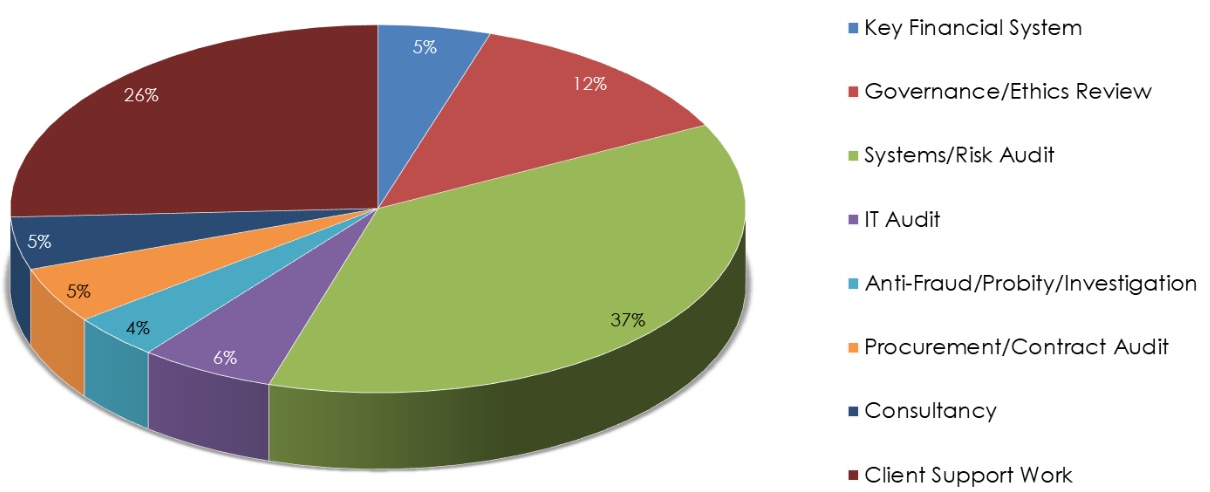
Appendix A - Audit Plan Detail

Our risk assessment of the organisation activities, in consultation with senior management, has concluded that the following audits will be undertaken in 2023-24:

Audit Plan Assignments	Risk Rating	Indicative Quarter
Key Financial Systems Reviews		
Revenues Systems	High	Q2
Governance/Ethics Reviews		
Information Governance	Medium	Q1
Data Management	Medium	Q1
Anti-Fraud/Probity/Investigation		
Anti-Fraud & Corruption	Medium	Q1
System/Risk Reviews		
Trade Waste	Medium	Q3
Pest Control	Medium	Q2
Markets	Medium	Q2
Outdoor Recreation – Equipment Safety	Medium	Q2
Responsive & Planned Maintenance	Medium	Q3
Health & Safety - Lifts	Medium	Q1
Commercial Investment Property	High	Q3
IT Audit Reviews		
Cyber Security & Entity Level Controls	High	Q1
Consultancy		
Finance System Implementation	High	Q1
Procurement/Contract		
Contract Procedure Rules	High	Q4

The detailed scope of each audit assignment will be agreed with the relevant managers nearer the commencement of the audit. The cost of the Internal Audit Service is £115,384, as agreed by the Operational Group.

Audit Plan 2023-24 per Type of Audit



Appendix B - Audit Charter

Purpose & Mission

The purpose of the Organisation's internal audit service is to provide independent, objective assurance and consulting services designed to add value and improve the Organisation's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit service helps the Organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The internal audit service will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' (IIA) International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to **senior management**[1] and the **Board**[2] regarding the internal audit service's conformance to the Code of Ethics and the Standards.

Authority

The Chief Audit Executive will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Director of Legal & Governance. To establish, maintain, and assure that the Organisation's internal audit service has sufficient authority to fulfil its duties, the Audit Committee will:

- Approve the internal audit service's charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit service's budget and resource plan.
- Receive communications from the Chief Audit Executive on the internal audit service's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.
- The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including in private meetings without management present.

[1] The PSIAS defines **senior management** as "Those responsible for the leadership and direction of the Council" which in this instance is the organisation's **Corporate Leadership Team.**

[2] The Standards require that Internal Audit report to the **Board.** CIPFA have via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that 'Board' may refer to an audit committee to which the governing body has delegated certain functions. In this instance this would be the **Audit Committee**.

The Audit Committee authorises the internal audit service to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the organisation, as well as other specialised services from within or outside the organisation, in order to complete the engagement.

Independence & Objectivity

The Chief Audit Executive will ensure that the internal audit service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the organisation or its affiliates.
- Initiating or approving transactions external to the internal audit service.
- Directing the activities of any organisation employee not employed by the internal audit service, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.

- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit service.

The Chief Audit Executive will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the organisation. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the organisation's strategic objectives are appropriately identified and managed.
- The actions of the organisation's officers, directors, employees, and contractors are in compliance with the organisation's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the organisation.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Audit Executive will report periodically to senior management and the Audit Committee regarding:

- The internal audit service's purpose, authority, and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.

- Any response to risk by management that may be unacceptable to the organisation.

The Chief Audit Executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit service may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit service does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Audit Executive has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the organisation’s business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the organisation are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit service.

- Ensure adherence to the organisation's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Ensure conformance of the internal audit service with the Standards, with the following qualifications:
    - If the internal audit service is prohibited by law or regulation from conformance with certain parts of the Standards, the Chief Audit Executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
    - When the Standards are used in conjunction with requirements issued by CIPFA, the Chief Audit Executive will ensure that the internal audit service conforms with the Standards, even if the internal audit service also conforms with the more restrictive requirements of CIPFA.

Quality Assurance & Improvement Programme (QAIP)

The internal audit service will maintain a quality assurance and improvement programme that covers all aspects of the internal audit service. The program will include an evaluation of the internal audit service's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit service and identify opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Audit Committee on the internal audit service's quality assurance and improvement programme, including results of internal assessments (both on-going and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the internal audit service.

Central Midlands
Audit Partnership

Ashfield
DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**
Date:	**20 MARCH 2023**
Heading:	**CORPORATE GOVERNANCE AND ANTI-FRAUD UPDATE**
Executive Lead Member:	**NOT APPLICABLE**
Ward/s:	**NOT APPLICABLE**
Key Decision:	**NO**
Subject to Call-In:	**NO**

Purpose of Report

Robust Corporate Governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes. The Council has a framework of policies and procedures in place which collectively make up its governance arrangements. The report sets out the arrangements for preparing the Annual Governance Statement for 2022/23.

The report gives an overview of the Anti-Fraud and Data Matching work undertaken during the past year.

The report also provides the Committee with an update in relation to how the Whistleblowing Policy has operated in the preceding 12 months and recommends some minor amendments to the Whistleblowing Policy.

Recommendation(s)

Committee is asked to:

1. **Note the process for preparing the 2022/23 Annual Governance Statement;**
2. **Note the overview of the Anti-Fraud and Data Matching work undertaken during the past year contained in the report.**
3. **Approve the minor changes to the Whistleblowing Policy in accordance with the draft attached to the report at Appendix 1; and**
4. **Note how the Whistleblowing Policy has operated during 2022/23.**

Reasons for Recommendation(s)

It is best practice for the Council to review its Corporate Governance arrangements annually as part of the preparation of the Annual Governance Statement and to compare this to the expectations set out in the Local Code of Corporate Governance.

Fraud and Corruption are serious issues which can affect the services the Council provides, undermine the achievement of corporate objectives and impact upon the public's confidence in the integrity of Council Officers and elected Members. The Council is therefore committed to the prevention, detection and investigation of all forms of fraud and corruption whether these are attempted from within or external to the organisation. The Council is committed to creating an environment that is based on the prevention of fraud and corruption. This is achieved by promoting openness and honesty in all Council activities.

To ensure the Committee is adequately informed to enable it to monitor the operation of the Whistleblowing Policy in accordance with the Committee's Terms of Reference as set out in the Constitution. To ensure the Whistleblowing Policy is reviewed regularly and kept up to date.

Alternative Options Considered

The Committee may consider alternative changes to the draft Whistleblowing Policy which must be in accordance with the law and Council procedures.

Detailed Information

Corporate Governance

Introduction

Robust Corporate Governance ensures organisations are doing the right things in the correct manner in an open, honest, inclusive and accountable way. Good governance leads to good management, performance and outcomes. The Council has a framework of policies and procedures in place which collectively make up its governance arrangements. This includes various policies and procedures which set out the Council's approach to preventing, detecting and investigating fraud and corruption.

The following policies and procedures were reviewed, updated and approved by this Committee in March 2022:

- Anti-Bribery Policy
- Anti-Money Laundering Policy Statement and Procedure
- Prosecution Policy
- Whistleblowing Policy

The Anti-Fraud and Corruption Policy and Strategy and the Fraud Response Plan require updates during 2023/24. The Council's Contract Procedure Rules are in the process of being reviewed currently in order to be considered for approval at the Annual General Meeting in May 2023 as part of the Constitution review.

Local Code of Corporate Governance

The Local Code of Corporate Governance sets out the Council's arrangements and is based on the guidance "Delivering Good Governance in Local Government" published by CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives) in 2016.

The CIPFA/SOLACE guidance identifies seven core principles and various sub principles; the recommended Local Code of Corporate Governance is based on these seven core principles. The seven principles are:

A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
B. Ensuring openness and comprehensive stakeholder engagement
C. Defining outcomes in terms of sustainable economic, social and environmental benefits
D. Determining the interventions necessary to optimise the achievement of the intended outcomes
E. Developing the Council's capacity, including the capability of its leadership and the individuals within it
F. Managing risks and performance through robust internal control and strong public financial management
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Local Code of Corporate Governance informs the Annual Governance Statement. The Local Code of Corporate Governance is subject to annual review to inform the governance framework for the following year. The Code was reviewed at the end of 2022 and some minor changes were approved at the meeting of this Committee in November 2022. The Local Code of Corporate Governance will be reviewed and brought back to this Committee towards the end of this calendar year.

Annual Governance Statement

The Annual Governance Statement (AGS) is prepared in order to publicly report on the extent to which the Council has complied with its Local Code of Corporate Governance. The AGS looks at how the effectiveness of the Council's governance arrangements have been monitored and evaluated during the year and looks at any planned changes. The AGS will be prepared in order to be presented as part of the draft Statement of Accounts which must be produced by 31 May 2023, unless this deadline is extended as a consequence of a recent consultation on the Accounts production deadline.

The preparation of the AGS will follow the process set out below:

- The initial review of the effectiveness of the Council's governance framework has been conducted by the Council's Executive Director - Governance (Monitoring Officer).
- To inform the process, the Corporate Leadership Team has carried out a Corporate Assurance Assessment and each Executive Director has provided a Statement of Assurance.
- The Constitution review, performance reporting and risk management arrangements will be taken into account.
- The results of all this review work will be set out in a draft Annual Governance Statement prepared by the Executive Director - Governance (Monitoring Officer).

- The Corporate Leadership Team will review the draft Statement and consider whether the improvements proposed represent an appropriate and proportionate response to any significant governance issues identified.
- The draft Governance Statement, modified to reflect the views of the Corporate Leadership Team, will be circulated to existing Members of the Council's Audit Committee.
- The Executive Director - Governance (Monitoring Officer) will finalise the Annual Governance Statement in readiness for the finalisation of the 2022/23 Statement of Accounts.
- The draft Annual Governance Statement will be presented and explained to Audit Committee members as part of the induction of Councillors following the District elections in May in advance of formal approval.
- The Audit Committee at its meeting in July 2023 will be asked to formally approve the draft Annual Governance Statement as part of the draft Statement of Accounts.

Anti-Fraud

Fraud and Corruption are serious issues which can affect the services the Council provides, undermine the achievement of corporate objectives and impact upon the public's confidence in the integrity of Council Officers and elected Members. The Council is therefore committed to the prevention, detection and investigation of all forms of fraud and corruption whether these are attempted from within or external to the organisation. The Council is committed to creating an environment that is based on the prevention of fraud and corruption. This is achieved by promoting openness and honesty in all Council activities.

In order to ensure the Council takes a corporate approach to dealing with fraud and corruption, the Anti-Fraud and Corruption Strategy Group was established a few years ago and meets on a quarterly basis. The Group consists of the Executive Director - Governance (Monitoring Officer) and representatives from Finance, Legal, Estates, Revenues and Benefits, Housing, Central Midlands Audit Partnership (CMAP), Procurement/Corporate Risk Management and Human Resources with other officers brought on to the group as necessary. The Group develops and delivers an annual work plan.

The Council's arrangements regarding Anti-Fraud, including Data Matching, to ensure appropriate operational resilience and resource levels was considered as part of the Decision Making Accountability work being undertaken by the Local Government Association. As this work has only recently concluded as part of the recent Corporate Leadership Team and Extended Leadership Team review, the revision of the Anti-Fraud and Corruption Policy and Strategy and Fraud Response Plan has not been undertaken as planned and will be presented to a future Audit Committee for consideration and approval. The responsibility for Anti-Fraud will, following a transition and handover period, be moving to the Corporate Resources Director's remit.

The work of the Anti-Fraud and Corruption Strategy Group includes a quarterly review of the Fraud Risk Register. There are no high level risks which require reporting to the Committee.

During the past 12 months:

- Tenancy Fraud Training (provided by the Housing Quality Network) was delivered to Housing employees
- Fraud Webinars provided by Barclays Bank have been attended by finance employees, including in relation to Fraud & Cyber Security and Insider Fraud
- The Tenancy Fraud Procedure (Housing Management Department) was reviewed and updated in February 2023

- 20 tenancy fraud reports have been received about Council owned properties from 1 April 2022 to 7 March 2023. Most were reports of alleged abandonment and alleged subletting. All reports of fraud have been reviewed and considered. Following investigations, it became apparent that some were malicious reports. Some of the reports related to tenants who had submitted their 4 weeks' notice to terminate the tenancy. Of the 20 reports, there were no incidents of fraud which required further, detailed investigation.

Whistleblowing Policy

The Council has in place a Whistleblowing Policy which sets out a process for people to confidently report concerns, such as fraud. This policy makes it clear that people can report their concerns without fear of reprisals.

Paragraph 8.1 of the Whistleblowing Policy states that:

> *"The Monitoring Officer has overall responsibility for the maintenance and operation of this policy. This Officer maintains a record of concerns raised and the outcomes (but in a form which does not endanger your confidentiality) and will report these to the Standards and Personnel Appeals Committee and the Audit Committee once a year. The Whistleblowing Policy will also be reviewed on a bi-annual basis."*

A review of the policy has been undertaken and two small changes to the policy are recommended to take account of new job titles for two officers. The revised draft policy is attached at Appendix 1; the changes are highlighted in red.

The Standards and Personnel Appeals Committee received a whistleblowing update report at its meeting on 9 March 2023 and approved the changes to the Policy as set out in Appendix 1.

Application of Policy during the Preceding 12 Months

During the period starting April 2022 to the present, there has been **one** report made under the whistleblowing policy drawn to the Monitoring Officer's attention.

The complaint was raised anonymously. The complaint related to the process for Councillors to update their Register of Interests and whether a breach of the Members' Code of Conduct had occurred. The issues raised were considered by the Monitoring Officer and no further action was necessary as there was no evidence of a breach of the Members' Code of Conduct.

Previous Application of Policy

The following table sets out the application of the Whistleblowing Policy for the past 8 years to the present date:

YEAR	TOTAL NUMBER OF COMPLAINTS	NO FURTHER ACTION	MANAGEMENT RECOMMENDATIONS	DISCIPLINARY/ GRIEVANCE INVESTIGATION
2015	2	1	1	0
2016	2	0	1	1
2017	3	1	1	1
2018	3	1	0	2

2019	4	3	1	0
2020	1	0	1	0
2021	0	0	0	0
2022	1	1	0	0
2023 to date	0	0	0	0

Implications

Corporate Plan:

To ensure we deliver high-quality public services we have adopted a set of corporate values which underpin the successful delivery of our priorities. How we work is as important as what we do. The Council's values are:

- People Focussed
- Honest
- Proud
- Ambitious

It is important that the Council has the most effective infrastructure and support to enable:

- The delivery of the Corporate Plan
- Financial sustainability to continue to deliver key services
- A productive workforce that delivers services well

Legal:

The Whistleblowing Policy has been written to take account of the Public Interest Disclosure Act 1998 which protects workers making disclosures in good faith. [RLD 17/03/2022]

Finance: No direct financial implications arising from this report. [PH 09/03/2023].

Budget Area	Implication
General Fund – Revenue Budget	N/A
General Fund – Capital Programme	N/A
Housing Revenue Account – Revenue Budget	N/A
Housing Revenue Account – Capital Programme	N/A

Risk:

Risk	Mitigation

Failure to maintain integrity and confidence in the Whistleblowing Policy and its applications.	Annual reporting to the Audit Committee and Standards and Personnel Appeals Committee. Annual update on the application of the policy. Update reporting in accordance with the policy to the Whistleblower (if identified). Identification of trends in disclosure to inform Management. The review ensures compliance with the governance framework and assists with the annual governance review.

Human Resources:

Regular review, maintenance and consistent application of the Whistleblowing Policy infers good employment practices. As such it is important to maintain the integrity of the policy. There are no other Human Resource issues identified in the report.

Environmental/Sustainability

There are no Environmental/Sustainability issues identified in the report or the policies reviewed.

Equalities:

There are no equalities issues identified as a direct result of the report. Equalities issues would be considered as part of any whistleblowing investigation.

Other Implications:

None.

Reason(s) for Urgency

Not applicable.

Reason(s) for Exemption

Not applicable.

Background Papers

Not applicable.

Report Author and Contact Officer

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01623 457009

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ASHFIELD DISTRICT COUNCIL

WHISTLEBLOWING POLICY

Executive Director of ~~Legal and~~ Governance and Monitoring Officer

APPROVED:
Standards and Personnel Appeals Committee – 8 March 2023
Audit Committee – 20 March 2023

REVIEW:
March 2024

Version Control

Version Number	Detail
Original	January 2008
Revised V1	January 2011
Revised V2 due	1st July 2013
Revised V2 (Website)	25 February 2014
Revised V3	14th April, 2014
Revised V4	20 July 2015
Revised V5	14 March 2016
Revised V6	28 March 2018
Revised V7	18 March 2019
Revised V8	29 July 2020
Revised V9	28 March 2022
Revised v10	20 March 2023

WHISTLEBLOWING POLICY

1. Introduction

1.1 Employees, Councillors and the public may have concerns about some form of inappropriate conduct within the Council. Usually these concerns are easily resolved. However, when they are about unlawful conduct, financial malpractice or dangers to the public or the environment, it can be difficult to know what to do.

1.2 You may be worried about raising such issues or may want to keep the concerns to yourself, perhaps feeling it's none of your business or that it's only a suspicion. You may feel that raising the matter would be disloyal to colleagues, managers or to the organisation. You may fear harassment or victimisation. You may decide to say something but find that you have spoken to the wrong person or raised the issue in the wrong way and are not sure what to do.

1.3 Ashfield District Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we encourage employees, Councillors and the public with serious concerns about any aspect of the Council's work to come forward and voice those concerns. It is recognised that certain cases will have to proceed on a confidential basis. This policy document makes it clear that you can do so without fear of victimisation, discrimination or disadvantage. This Whistleblowing Policy is intended to encourage and enable you to raise serious concerns within the Council rather than overlooking a problem or reporting it outside.

1.4 This policy applies to all employees, Councillors, partners, volunteers, contractors, suppliers and the public.

2. Aims of this Policy

2.1 This policy aims to:

- encourage you to feel confident in raising concerns at the earliest opportunity
- provide avenues for you to raise concerns and receive feedback on any action taken
- allow you to take the matter further if you are dissatisfied with the Council's response
- reassure you that you will be protected from reprisals or victimisation if you have reasonable belief that you have made any disclosure in good faith

3. Scope of this Policy

3.1 In this Policy, "Whistleblowing" means:

The disclosure of information which relates to some danger, fraud or other illegal or unethical conduct connected with the workplace, be it of the employer or its employees.

3.2 This Policy is intended to enable those who become aware of wrongdoing in the Council affecting some other person or service, to report their concerns at the earliest opportunity.

3.3 The Policy is not intended to replace existing procedures:

- If your concern relates to your own treatment as an employee, you should raise it under the existing grievance or bullying / harassment procedures (in other word, personal grievances)
- If a member of the public has a concern about services provided to them, it should be raised as a complaint to the Council
- Complaints of misconduct by Councillors are dealt with under a separate procedure (the Monitoring Officer can advise you in relation to this process)

3.3 Under this Policy you should report any serious concerns that you have that:

- make you feel uncomfortable in terms of known standards
- are not in keeping with the Council's Procedure Rules and policies
- fall below the established standards of practice
- amount to improper conduct

The concern may be something that relates to:

- conduct which is an offence or a breach of the law
- disclosures relating to miscarriages of justice
- deliberate breach of a Council policy or official code or regulation
- misuse of public funds or other assets
- possible fraud or corruption
- the endangering of health and safety of the public and/or other employees,
- damage to the environment
- unethical conduct
- the deliberate concealment of information which would constitute evidence of any of the above

4. Safeguards

Your Legal Rights

4.1 This policy has been written to take account of the Public Interest Disclosure Act 1998 which protects workers making disclosures about certain matters of concern, when those disclosures are made in accordance with the Act's provisions and in good faith.

The Act makes it unlawful for the Council to dismiss anyone or allow them to be victimised on the basis that they have made an appropriate lawful disclosure in accordance with the Act.

Rarely, a case might arise where it is the employee that has participated in the action causing concern. In such a case it is in the employee's interest to come into the open as soon as possible. The Council cannot promise not to act against such an employee, but the fact that they came forward may be taken into account.

Harassment or Victimisation

4.2 The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for the malpractice. The Council will not tolerate harassment or victimisation and will take action to protect you when you raise a concern in good faith. The Council's disciplinary procedures will be used against any employee who is found to be harassing or victimising the person raising the concern or who has disclosed the name of the whistleblower to any person other than those named in this document. Disclosure or harassment of the whistleblower by a Councillor will be reported under the Members' Code of Conduct.

Confidentiality

4.3 The Council will do its best to protect your identity when a concern is raised. During the course of an investigation attempts will be made to find independent corroborating evidence to allow your identity to remain confidential. However, it must be recognised that in some circumstances identities will have to be revealed to the person the allegation is made against and you may be asked to provide written or verbal evidence in support of the allegation. If the matter is reported to the Police or another external body they may be unable to guarantee to withhold your identity.

4.4 Your identity will not be released until the reason for the disclosure has been discussed with you. The Council will offer advice and guidance on the procedures and arrangements in the event of a person having to give evidence to an external body or in court.

Anonymous Allegations

4.5 This policy encourages you to put your name to your allegation. Concerns expressed anonymously are much less powerful, but they will be considered at the discretion of the Monitoring Officer in consultation with the Chief Executive Officer.

4.6 In exercising the discretion, the factors to be taken into account would include:

- the seriousness of the issues raised
- the credibility of the concern
- the likelihood of confirming the allegation from attributable sources

If you choose to use this method of reporting, the allegation should contain as much information as possible to ensure the allegation is considered as a credible concern that requires further investigation.

Untrue Allegations

4.7 If you make an allegation in good faith, but it is not confirmed by the investigation, no action will be taken against you. If, however, you make malicious or vexatious allegations appropriate action that could include disciplinary action may be taken against you. It will be a matter for the Monitoring Officer to form a view of whether an allegation has been made maliciously or vexatiously and to refer her view to the relevant Director if disciplinary action needs to be considered. If you are a Councillor a complaint may be made under the Members' Code of Conduct.

5. How to raise a concern

Who do you Report your Concern to?

5.1 This will depend on the seriousness and sensitivity of the issues involved or who is thought to be involved in the malpractice. You should normally raise concerns initially with your line manager or Director. If this is not appropriate you should contact:

Position	Contact	E-mail
Chief Executive	(01623) 457250	theresa.hodgkinson@ashfield.gov.uk
Monitoring Officer	(01623) 457009	ruth.dennis@ashfield.gov.uk

If you suspect fraud or corruption you may also approach the officer detailed below. This is consistent with the Council's Financial Regulations and the Anti-Fraud and Corruption Strategy.

Position	Contact	E-mail
Corporate Resources Director ~~Chief Finance Officer~~	(01623) 457362	pete.hudson@ashfield.gov.uk

How do you Report your Concerns?

5.2 Concerns may be raised verbally or in writing. You can raise your concerns in writing by post or e-mail, by telephone or in person. All correspondence sent by post should be addressed to the Monitoring Officer and marked 'Strictly Private and Confidential' and sent to:

The Monitoring Officer
Ashfield District Council
Council Offices
Urban Road
Kirkby-in-Ashfield
Nottingham
NG17 8DA

5.3 If your concerns are raised in writing, you should try to note all relevant details. Set out the background and history of the concern, giving names, dates and places where possible, and the reason why you are particularly concerned about the situation.

5.4 The earlier you express the concern, the easier it is to take action.

5.5 Although you are not expected to prove the truth of an allegation, you will need to demonstrate to the person contacted that there are sufficient grounds for your concern.

5.6 You may wish to consider raising your concern with a colleague first and you may find it easier to do so if there are two (or more) of you who have shared the same experience or concerns.

5.7 You may invite your trade union or professional association to raise a matter on your behalf. It is expected that in the first instance the procedure detailed at 5.1 will be followed.

6. What the Council will do

6.1 The action taken by the Council will depend on the nature of the concern. The matters raised may:

- be investigated internally
- be investigated by Internal Audit (Central Midlands Audit Partnership)
- be referred to the Police
- be referred to the Council's external auditor
- form the subject of an independent inquiry

6.2 In order to protect individuals and the Council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations which fall within the scope of specific procedures (for example, discrimination issues) will normally be referred for consideration under those procedures. The overriding principle which the Council will have in mind is the public interest.

6.3 Some concerns may be resolved by agreed action without the need for investigation.

6.4 Where the concern has been raised includes a contact name and address, then within ten working days of a concern being received, the Council will write to you:

- acknowledging that the concern has been received
- indicating how it proposes to deal with the matter
- giving an estimate of how long it will take to provide a final response
- telling you whether any initial enquiries have been made
- telling you if further investigations will take place, and if not, why not

6.5 The amount of contact between the officers considering the issues and you will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, further information will be sought from you.

6.6 When any meeting is arranged, you have the right, if you so wish, to be accompanied by a Trade Union or professional association representative or a workplace colleague who is not involved in the area of work to which the concern relates. If you wish, the meeting may take place away from the Council Offices.

6.7 The Council will take steps to minimise any difficulties which you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings, the Council will advise you about the procedure.

6.8 The person investigating the concerns will produce a written report that:

- outlines the concerns/allegations
- details the investigation procedure
- gives the outcomes of the investigation
- details recommendations where appropriate

6.9 The Council accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, you will receive information about the outcomes of any investigations.

7. How the matter can be taken further

7.1 This policy is intended to provide you with an avenue to raise concerns within the Council. The Council hopes you will be satisfied. If you are not, and if you feel it is right to take the matter outside the Council, the following are possible contact points:

- A prescribed person - See Gov.uk Guidance – Whistleblowing: List of prescribed people and bodies
  Website: https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2
- The Comptroller and Auditor General
  The Comptroller and Auditor General
  National Audit Office
  157-197 Buckingham Palace Road
  London
  SW1W 9SP
  Tel: 020 7798 7999
  Website: www.nao.org.uk/contact-us/whistleblowing-disclosures/
- The independent charity Protect on
  Work Helpline: (020) 3117 2520
  E-mail: protect-advice.org.uk/contact-protect-advice-line/
  Website: www.protect-advice.org.uk
- ACAS
  Helpline number: 0300 123 1100 Monday-Friday: 8am-8pm and Saturday 9am-1pm
  Website: https://www.acas.org.uk/archive/whistleblowing

If you raise concerns outside the Council you should ensure that it is to one of these contacts. A public disclosure to anyone else could take you outside the protection of the Public Disclosure Act and of this Policy. **When raising a concern externally remember to make it clear that you are raising the issue as a whistleblower; this gives you additional statutory rights.**

You should not disclose information that is confidential to the Council or to anyone else, except to those included in the list of contacts.

8. The Responsible Officer

8.1 The Monitoring Officer has overall responsibility for the maintenance and operation of this policy. This officer maintains a record of concerns raised and the outcomes (but in a form which does not endanger your confidentiality) and will report these to the Standards and Personnel Appeals Committee and the Audit Committee once a year. The Whistleblowing Policy will also be reviewed annually.