

Audit Committee

Date: Wednesday 11th February 2026

Time: 4.00 pm

Venue: Kaposvar Room - Guildhall, Bath

Councillors: David Biddleston, Sam Ross, Malcolm Treby, Toby Simon and George Tomlin

Independent Member: John Barker



NOTES:

1. Inspection of Papers: Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

Paper copies are available for inspection at the Guildhall - Bath.

2. Details of decisions taken at this meeting can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. Recording at Meetings:-

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

The Council will broadcast the images and sounds live via the internet www.bathnes.gov.uk/webcast. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. Public Speaking at Meetings

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.

Further details of the scheme can be found at:

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

5. Emergency Evacuation Procedure

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

Audit Committee - Wednesday 11th February 2026

at 4.00 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 7.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

- (a) The agenda item number in which they have an interest to declare.
- (b) The nature of their interest.
- (c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**,
(as defined in Part 4.4 Appendix B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

5. ITEMS FROM THE PUBLIC - TO RECEIVE STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

7. MINUTES - 26TH NOVEMBER 2025 (Pages 7 - 12)

8. EXTERNAL AUDIT - UPDATE (Pages 13 - 42)

9. TREASURY MANAGEMENT STRATEGY STATEMENT 2026/27 (Pages 43 - 72)

10. RISK MANAGEMENT - UPDATE REPORT - FINANCIAL MANAGEMENT SYSTEM (Pages 73 - 78)

11. CONSULTATION ON THE DEVELOPMENT OF THE INTERNAL AUDIT PLAN 2026/27 (Pages 79 - 84)

12. ANNUAL GOVERNANCE STATEMENT UPDATE (Pages 85 - 90)

13. AUDIT COMMITTEE - DRAFT WORKPLAN (Pages 91 - 96)

The Democratic Services Officer for this meeting is Enfys Hughes who can be contacted on 01225 394410.

AUDIT COMMITTEE

Minutes of the Meeting held

Wednesday 26th November 2025, 4.00 pm

Councillors: Sam Ross (Vice-Chair), Malcolm Treby, Toby Simon and George Tomlin

Independent Member: John Barker

14 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer drew attention to the emergency evacuation procedure as set out on the agenda.

15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were apologies from Councillor David Biddleston.

16 DECLARATIONS OF INTEREST

There were none.

17 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

18 ITEMS FROM THE PUBLIC - TO RECEIVE STATEMENTS, PETITIONS OR QUESTIONS

There were none.

19 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

20 MINUTES - 24TH SEPTEMBER 2025

RESOLVED that the minutes of the meeting held on Wednesday 24th September 2025 be confirmed as a correct record and signed by the Chair.

21 COUNCIL COMPANY AEQUUS (ADL, ACL & AGHL) ANNUAL ACCOUNTS 2024/25

Karen Flint (Aequus Group) presented the report which sought consideration of the final approved and signed accounts for Aequus Developments Ltd (ADL), Aequus Construction Ltd (ACL) & Aequus Group Holding Limited (AGHL) for 2024/25.

In response to Members' questions the following points were confirmed:

- The number of apartments on Argyle Street? (Karen Flint to respond directly to Councillor Sam Ross)
- In respect of pensions it was confirmed that the Aequus group were members of the LGPS and the report was provided by an actuary and checked against other LGPS. (Karen Flint would respond directly to Councillor Toby Simon on why some were 'recognised')
- The properties were mainly within the BANES area (60%), South Glos (10%) and North Somerset (30%).
- What was the number of affordable properties at Bath Quays and was there enough work to fulfil requirements and provide a dividend? Councillor Matt McCabe explained that an LLP had been set up to provide tax efficiencies to ensure policy compliancy. (Karen Flint to respond directly to Councillor Sam Ross)
- The process was embedded with the housing team who were working well with Aequus and gaining a better understanding of the issues. A number of staff members had transferred over to Aequus.
- There were some obstacles that were government related in relation to opportunities for redevelopment. Amelioration was sought on any delay for Aequus.
- It would be useful for there to be a conversation between the Chair and Vice-Chair of Audit Committee and Councillor Matt McCabe. (Councillors would liaise with each other)
- There was a steady supply of housing in the pipeline with Stall Street and Dartmouth Avenue.

On a motion from Councillor Sam Ross, seconded by Councillor Malcolm Treby, it was

RESOLVED to note the audited accounts of Aequus Developments Ltd (ADL), Aequus Construction Ltd (ACL) & Aequus Group Holding Limited (AGHL) for 2024/25.

22 SECTION 106 - UPDATE REPORT ON AUDIT FINDINGS

The Head of Planning and Building Control introduced the report which provided an update on progress including delivery of the project (the internal audit in 2022 had reviewed S106 funding and the use of secured funds, resulting in a 'Limited Assurance' rating), the changes implemented, and the outstanding actions required. She highlighted that the Council had put an incredible effort and resource into this project. The Deputy Head of Planning Development Management presented the report with a powerpoint presentation which would be circulated to Members of the Committee.

Councillor Matt McCabe was present for this item.

In response to Members questions it was confirmed:

- With any planning application if Section 106 money is requested then it must meet policy requirements and be spent only on what it was taken for.

- An example of a case where a refund was made was given in respect of a new footpath where the landowner withdrew permission for a path which could not be delivered and the money was returned.
- In respect of corporate governance – overseeing fund requests, project delivery and spend updates (via service department steering groups) and monitoring, assurance, reporting (via planning and finance) was already happening; it was the intention that strategic and tactical oversight (via Place Shaping Group and Capital Strategy Group) would be in place in the next quarter and was currently being arranged.
- The project would be tested for 6 months for officers before a further decision was taken by politicians and Senior managers around it being made public
- The temporary resource currently in place would need to be made permanent and options would be reviewed in March 2026.
- In some of the tables in the powerpoint presentation the font was too small to be readable and a broad overview would be better.
- The definition of 'funds at risk' was, if the deadline for funds to be returned to the developer was approaching. Within 6 months of the deadline, it was RED and there were AMBER flags, within 2 years of the deadline.
- The CIL (Community Infrastructure Levy) was a separate issue.
- After reconciliation of the projects, the Council was £993K in the red box deadline as funds move in the timeline the figures change making them a snapshot in time.
- Corporate PDS was better suited to monitor the project where they looked at KPIs and monitored trends, with an annual review to Audit Committee.
- Historic funds were the biggest risks.
- Section 106 was a finite amount not flexible as it was funding for a specific purpose.
- It was hoped that that new process would eliminate unnecessarily returning funds but was unlikely to eliminate all returns for a range of reasons
- The planning service would be looking at how Section 106 agreements can be made more flexible where possible.
- Each service head would be accountable, expertise would be shared and cabinet would be kept informed as governance was paramount.
- Training for parish councils would be given for them to monitor developments.
- What figure had been lost in the last year? (This would be reported directly to Councillor Sam Ross).

On a motion from Councillor Sam Ross, seconded by Councillor Toby Simon, it was

RESOLVED to note the report and review in 12 months as part of the internal audit review, specifically:

- 1) the work undertaken to address the issues identified in the 2022 audit report;
- 2) the implementation of the project and proposed governance arrangements;
- 3) the outstanding matters requiring action and the timescale for delivery.

The Group Accountant presented the report and explained that the CIPFA Code required the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year and approve an annual report within six months after the end of each financial year. This report gave details of performance against the Council's Treasury Management Strategy for the first six months of 2025/26.

In response to Member's questions it was confirmed:

- With regard to an updated interest rate forecast from Arlingclose, it was explained that it was a little early following the very recent budget. However, an update is expected in the next couple of weeks and it would be reported with the strategy in February 2026;
- In respect of the liability benchmark – the red line, shows a more prudent level of borrowing taking into account cash backed reserves, compared to the blue line which is the capital financing requirement. The Council operates to the liability benchmark level when considering further borrowing. Regarding capital financing the Council borrows on the basis of what is needed for cash flow purposes.

On a motion from Councillor Sam Ross, seconded by Councillor Malcolm Treby, it was

RESOLVED to note

- 1) the Treasury Management Report to 30th September 2025, prepared in accordance with the CIPFA Treasury Code of Practice; and
- 2) the Treasury Management Indicators to 30th September 2025.

24 INTERNAL AUDIT - UPDATE REPORT (PLANNED WORK 2025/26)

The Head of Audit and Assurance (One West) presented the report which gave an update on the work of the Internal Audit team and progress made in delivering the Annual Audit Assurance Plan 2025/26.

During questions it was confirmed that:

- The work of the Audit team that went into the Council being in a good position should be recognised.
- Direct payments are made into a specially set up bank account managed by the child's parent/carer and are for the employment of personal assistants. This is a separate issue to Financial Assistance under Section 17 Children Act 1989, which would be in next year's plan.
- Career polygamy – there had been an investigation into staff with parallel appointments and the take up of references. A risk identified at other authorities is with agency workers, where there had been less oversight.
- There was also a potential issue with workers in the care sector being employed for the local authority and the voluntary sector and the health and safety implications if they were working in excess of appropriate hours.

On a motion from Councillor Sam Ross, seconded by Councillor George Tomlin, it was

RESOLVED

- 3) Note progress in delivery of the 2025/26 Annual Internal Audit Assurance Plan; and
- 4) Note the associated fraud prevention and unplanned work that is underway.

25 AUDIT COMMITTEE - DRAFT WORKPLAN

The Director of Financial Services, Assurance and Pensions presented the workplan.

Following discussion it was agreed to add the following items to it:

- Section 106 – 12 month review via internal audit
- Fraud protection
- Capital programme assurance

RESOLVED to note the Audit Committee workplan.

The meeting ended at 5.58 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

This page is intentionally left blank

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	11th February 2026	AGENDA ITEM NUMBER
TITLE:	External Audit - Update	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – External Update Report		

1 THE ISSUE

1.1 The External Auditor will update the Committee on their work in relation to their Audit Plan.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to –

Note the Audit Update Report.

3 FINANCIAL IMPLICATIONS

3.1 There are no new financial implications from this report directly.

4 THE REPORT

4.1 The External Auditor will provide a verbal update on progress in relation to their Audit Plan at the Committee meeting.

4.2 Appendix 1 outlines the work carried out so far.

5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are not any significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

Contact person	Jeff Wring, Director – Financial Services, Assurance & Pensions (01225 477323)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Page 13

Bath and North East Somerset Council & Avon Pension Fund

Audit progress report and sector updates

February 2026



Agenda

1	Audit progress report	03
2	Introduction	04
3	Progress as at December 2025	05
4	Audit deliverables	07
5	Sector updates	09
6	Audit Committee Resources	26

Audit Progress Report

Introduction



Beth Bowers

Key Audit Partner – BaNES Council
and Avon Pension Fund
T: 0117 305 7726
E: Beth.AC.Bowers@uk.gt.com



David Johnson

Manager – BaNES Council
T: 0117 305 7727
E: David.A.Johnson@uk.gt.com



Carmen Ng

Assistant Manager – BaNES Council
T: 0117 305 7832
E: Carmen.M.Ng@uk.gt.com



George Amos

Manager – Avon Pension Fund
T: 0117 305 7780
E: George.WM.Amos@uk.gt.com



Ananya Mehta

Assistant Manager – Avon Pension Fund
T: 0117 305 7689
E: Ananya.Mehta@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a series of sector updates in respect of emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

[Local government | Grant Thornton](#)

If you would like further information on any items in this briefing or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress as at February 2026

Financial Statements Audit

We will undertake our initial planning for the 2025/26 audit in February 2026 and discuss with management a suitable timetable for the interim audit. We begin our work on your draft financial statements in June.

Our interim fieldwork includes:

- Updated review of the Council and Pension Fund's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues

Page
Early substantive testing

ASince we last reported we have:

- continued to have regular discussions with management discussing issues identified in previous audits, and emerging themes which are expected to impact on the current audit;
- reviewed board papers and the latest financial and operational performance reports ensuring we understand your current challenges;
- met with the Chief Executive and the interim Director of Finance to provide informal feedback on progress of the audit cycle and get a deeper understanding of potential issues and challenges facing the Authority. This has included meetings with management to discuss proposed actions to address audit recommendations;
- Considered any further sector wide reporting requirements or issues that would directly impact the Authority; and
- Remained informed of the Fund's progress in selecting a preferred pooling partner.

We will issue detailed audit plans, setting out our proposed approach to the Council and Pension Fund audits at the May Audit Committee

Value for Money

Under the 2020 Audit Code of Practice, we are required to undertake sufficient work to satisfy ourselves that the Authority "has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources."

Our initial risk assessment will build on our understanding of your arrangements, taking into account any findings from previous work on value for money. We will report our risk assessment to you at your May 2026 Audit Committee against the following reporting criteria:

- Financial sustainability;
- Governance; and
- Improving economy, efficiency and effectiveness.

We will keep our risk assessment under continuous review. Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to you. Our final commentary in the Auditors' Annual Report will include:

- a summary of our findings on any risks identified during our work;
- our judgements on the adequacy of the Authority's arrangements for each of the three reporting criteria, as set out above;
- any recommendations made to management as a result of our work; and
- a follow up of progress against any recommendations raised in previous audits.

Progress at February 2026(continued)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Works and Pensions (DWP). The certification work for 2024-25 is in progress and we will report any significant findings to the Audit and Governance Committee.

We also certify the Authority's Teacher's Pension return. The certification work for 2024-25 is in progress and we will report any significant findings to the Committee

Meetings

We have continued to meet with management including the Chief Executive, the interim Director of Finance and other members of the finance team. In 2026 we have met with your new Chief Executive and are looking to meet with your new S151 officer in the near future.

Audit Fees

PSAA publish their scale fees: [Auditor appointments and scale fees 2023/24 - 2027/28 - PSAA](#)

For Bath and North East Somerset Council these fees are £401,118 for the Council audit for the year ending 2026 and £106,807 for the Pension Fund for the year ending 2026. These fees are derived from the procurement exercise carried out by PSAA in 2022. They reflect both the increased work auditors must now undertake as well as the scarcity of audit firms willing to do this work.

Events

We plan to hold a webinar for members of [Audit Committees on 10th February 2026](#). We will be discussing best steps to take "After the Backstop", including:

- ❖ Adding value to the financial reporting function; and
- ❖ How to navigate the external audit process with success.

We also plan to hold the Annual Local Government Accounts webinar for [preparers of accounts on 5th and 11th February 2026](#). Topics we will be discussing include:

- ❖ Aspects of financial reporting that are complex or challenging this year;
- ❖ Lessons from the implementation of IFRS 16, with good practice tips for Year Two;
- ❖ Avoiding pitfalls in financial instruments;
- ❖ Other common accounting and disclosure issues;
- ❖ Indexation for property, plant and equipment in 2025/26; and
- ❖ Revised statutory guidance affecting Minimum Revenue Provision

Invitations have been sent to relevant officers and we look forward to welcoming you to the events.

Audit Deliverables

Below are some of the audit deliverables planned for 2025/26

2025/26 Deliverables	Planned Date	Status
Audit Plans We are required to issue detailed audit plans to the Audit Committee setting out our proposed approaches to give an opinion on the Council and Pension Fund's 2025/26 financial statements.	May 2026	Not yet due
Audit Findings Reports The Audit Findings Reports will be reported to the Audit Committee.	September 2026	Not yet due
Auditor's Reports This includes the opinions on your financial statements.	September 2026	Not yet due
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.	September 2026	Not yet due

Audit Deliverables

Below are some of the audit deliverables planned for 2024/25

2024/25 Audit related deliverables	Planned Date	Status
Teachers' Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	March 2026	Not yet due
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	March 2026	Not yet due

Sector Updates

After the Backstop: Reset, recovery and reform in the audit of local authority accounts

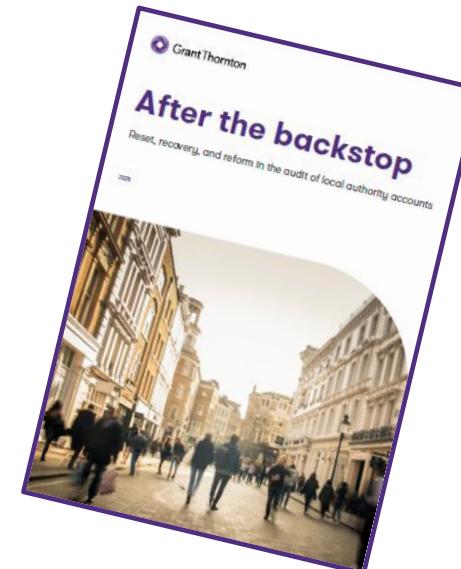
- ❖ Our latest thought leadership report 'After the Backstop: Reset, recovery and reform in the audit of local authority accounts' is now available to read.
- ❖ Following the significant milestone of backstop legislation in September 2024, the backlog of unissued accounts has fallen dramatically. The challenge now is to rebuild assurance and secure a sustainable future for the system of local accounts production and audit. The reforms set out in the English Devolution and Community Empowerment Bill are essential to restoring trust and accountability to the local audit system.
- ❖ In our March 2023 publication 'About time?' we explored the reasons for delayed publication of audited local authority accounts and set out our recommendations for key stakeholders in the local audit system.
- ❖ The backlog of unissued audit opinions peaked some months after our report at 918, on 30 September 2023. The Department for Levelling Up, Housing and Communities (DLUHC) and subsequently the Ministry of Housing, Communities and Local Government (MHCLG) conducted consultations on reset and reform in the local audit system, leading to secondary 'backstop' legislation to clear the backlog. This was a necessary step, allowing auditors and authorities to focus on current periods of account, but it brought with it new challenges, as over 200 authorities received one or more audit disclaimers.
- ❖ In this report we explore the development and implementation of a 'reset' of the local audit system, the immediate and longer-term consequences of the 'backstop' before turning attention to the reform of the system, the challenges involved in returning to widespread and sustainable compliance with audit reporting timeframes and what, in our view, is needed next.
- ❖ The English Devolution and Community Empowerment Bill paves the way for the creation of a long-awaited and much-needed systems leader for local audit, the Local Audit Office (LAO).

Page 22

- ❖ Key stakeholders including local audited bodies, the audit firms, the Ministry of Housing, Communities and Local Government (MHCLG), Public Sector Audit Appointments (PSAA), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Chartered Accountants in England and Wales (ICAEW) will need to support the successful establishment of the LAO to address the crisis in local public audit.
- ❖ All key stakeholders in the local audit system will need to continue their efforts to secure a return to high levels of compliance with timely publication of accounts with unmodified audit opinions. We explore the challenges to establishing and maintaining a sustainable future for local audit in this report. In our full report, we make several recommendations to secure that sustainable future.

The full report is available here:

[Local audit reset: What comes after the backstop? | Grant Thornton](#)



Changes at the top, but no sudden twists and turns

Key information for Audit Committees to be aware of:



Steve Reed replaced Angela Raynor as Secretary of State for Housing, Communities and Local Government on 5th September 2025.

Page 5

Angela McGovern replaced Jim McMahon as Minister of State at the Ministry of Housing, Communities and Local Government on 6th September 2025.

With Mr Reed moving from the Department for Environment, Food and Rural Affairs, and Ms McGovern moving from the Department for Work and Pensions, it was hard not to wonder what the impact would be on the government's manifesto commitment to build 1.5 million homes by the end of this parliament.

Steve Reed assured Councillors at the September 2025 Labour party conference in Liverpool that there are going to be no "sudden policy twists and turns".

So far, for building homes, this seems to be holding true.



Key homebuilding developments since 5th September are:

On 12th September, Mr Reed met with key developers and housebuilders and issued a 'call to arms' to "build, baby, build".

On 28th September, the Ministry of Housing, Communities and Local Government confirmed it will progress work on 12 new towns.

On 18th November, the Government announced that Housebuilding around train stations will be given a default "yes" if the applications meet certain criteria.

Under the same 18th November measures, Councils are going to be required to inform government when they are inclined to block applications of 150 homes or more so that ministers can decide whether to step in and make the decision themselves instead.

Autumn Budget 2025

Key information for Audit Committees to be aware of:

Chancellor **Rachel Reeves** delivered her second Budget on 26th November 2025. Key elements that those in the local government sector need to be aware of are:

- ❖ A High Value Council Tax Surcharge (a “Mansion Tax”) will be charged on owners of homes valued higher than £2 million. Whilst collection will be the responsibility of councils, the revenues will flow directly to central government.
- ❖ Strategic Authority Mayors in England will be empowered to impose a tourist tax on overnight stays. New systems may be needed for compliance and enforcement.
- ❖ The two-child benefit cap will cease to apply from April 2026, which may mitigate some demand pressures for housing and social care.
- ❖ A new electric vehicle (EV) mileage tax will be introduced, with the promise of doubling future road maintenance funding, but new risks for net zero goals if the public turn away from using EVs.
- ❖ The Government commits to devolve at least £13 billion of funding to seven major combined authorities and to create £902 million over four years for local growth funds in 11 Northern and Midlands city regions.
- ❖ Future Special Educational Needs and Disabilities (SEND) costs are to be managed by government once the statutory override ends on 31st March 2028. Cumulative deficits at this point will remain with the relevant councils.

For the full Budget, with supporting documents, see: [Budget 2025 - GOV.UK](#)

For the Chancellor’s speech, see [Budget 2025 speech - GOV.UK](#)



Local Government support and value

Key information for Audit Committees to be aware of:

The Local Government Association (LGA) wrote to the Chancellor of the Exchequer on 10th November, highlighting the key national policy issues currently being addressed by Councils; and the key financial challenges those Councils face.



GA stated that key national policy issues addressed by Councils are:

- ❖ Building new homes;
- ❖ Unlocking economic growth;
- ❖ Improving the health and life chances of the most vulnerable in society;
- ❖ Supporting children with SEND;
- ❖ Sourcing temporary accommodation; and
- ❖ Working to develop sustainable asylum accommodation and support systems.



LGA stated that key financial challenges faced by Councils are:

- ❖ Rising levels of debt due to relaxing the financial framework:
 - 42 Councils have had to access £5 billion in exceptional financial support since 2020/21; and
 - At the start of 2025/26, 1 in 6 Social Care Councils (17 per cent) were dependent on exceptional financial support.
- ❖ Real cash deficits:
 - The national dedicated schools grant cash deficit is on track to reach £5 billion by 2025/26; and
 - As a result, substantial cash flow costs are being incurred. The forecast deficit of £5 billion in 2025/26 means Councils will lose £200 million in unearned income alone.

The LGA's letter commented that “**while councils have huge potential to support Government in delivering its objectives, we cannot shy away from the scale of the financial challenges the sector currently faces**”.

Fair Funding Review

Key questions for Audit Committees to ask officers:

- ❖ What impact will the Fair Funding Review have on our medium-term financial plan?
- ❖ Have we calculated what level of support we will need from transitional arrangements?
- ❖ What mitigations are we planning if we are net “losers” from the new arrangements?

Page 26

Background:

The first multi-year Local Government Finance Settlement in a decade, together with the [Fair Funding Review response](#), was announced by the Government on 20th November 2025. Significant changes to be aware of are that:

- ❖ There will be a single settlement for [2026/27 to 2028/29](#);
- ❖ The government plans to use up to date English Indices of Multiple Deprivation, together with up-to-date services cost and demand data to calculate individual council allocations for 2026/27 to 2028/29; and
- ❖ The Children and Young People’s Services formula will use the latest index of deprivation affecting children.

Using new indices will inevitably lead to some Councils seeing increases in their allocations, whilst others see decreases. However, there are [transitional arrangements](#) to help with managing change:

- ❖ A Recovery Grant funding guarantee to upper tier authorities in receipt of Recovery Grant;
- ❖ Funding floors and phasing in of new allocations across the multi-year settlement; and
- ❖ Additional money in the national settlement for children’s social care and a new ring-fenced combined Homelessness, Rough Sleeping and Domestic Abuse grant over three years.

The benefits of using the new indices are expected to be greater transparency; and a reduced reliance on competitive bidding for funds. Reduced paperwork is also expected, as the Government announced it will simplify 33 funding streams, worth almost £47 billion over three years.

Ultimately though, the proof of the pudding will be in the eating. The overall national settlement will need to be fair to the sector as a whole if individual allocations within it are going to be fair as well.

For a full copy of the Ministerial Statement see: [Written statements - Written questions, answers and statements - UK Parliament](#)

Local government reorganisation – latest developments

Opportunity for Audit Committee members to contribute to consultations:

The Government is currently consulting on the proposals it received for local government reorganisation in six areas:

- ❖ East Sussex and Brighton and Hove;
- ❖ Essex, Southend-on-Sea and Thurrock;
- ❖ Hampshire, Isle of Wight, Portsmouth and Southampton;
- ❖ Norfolk;
- ❖ Suffolk; and
- ❖ West Sussex.

The consultations will run for seven weeks until Sunday 11th January 2026. The consultation documents are available on the Department's online platform "Citizen Space" and those responding to the consultations can use the online platform, email or post to submit their views.

[Written statements - Written questions, answers and statements - UK Parliament](#)

Other information for Audit Committees to be aware of:

On 28th October, the Government announced the outcome of its consultation on local government reorganisation in Surrey: Two new unitary councils will be created for the county from 1st April 2027. To help prepare for this, the Government committed to repay in-principle £500 million of Woking Borough Council's debt in 2026/27.

Other Councils facing reorganisation are bound to look at Surrey for signs of what may be decided for their areas. It is significant to note that two proposals had been submitted for Surrey (one for two unitaries; and one for three unitaries). The Government confirmed that both proposals met all its criteria, but the two-unitary model was assessed as performing better against the financial sustainability criterion – and was selected for that reason.

When looking ahead at what may follow in other areas, although Surrey is not necessarily a precedent for other areas, it is possible that similar prioritisation may apply again. We note that twenty more areas were required to submit business cases by 28th November 2025 and Government decisions are expected in Spring 2026.

For a full copy of the Ministerial Statement on reorganisation in Surrey, see:
[Written statements - Written questions, answers and statements - UK Parliament](#)

Preventative spending

Key questions for Audit Committees to ask officers:

- ❖ What do we spend on prevention?
- ❖ How do we identify and record that spend?
- ❖ How do we measure outcomes from the spend?
- ❖ How do our practices compare with other similar authorities?



Background:

CIPFA and the Health Foundation have developed new methodology for mapping and measuring public sector investment in prevention.

The methodology sets out a four-step approach that enables Councils and other public sector organisations to quantify their prevention spending, making it visible so that it can be protected and prioritised.

The framework has already been tested with four Councils in England and Wales:

- ❖ The London Borough of Merton;
- ❖ Three Rivers District Council;
- ❖ Wigan Metropolitan Borough Council; and
- ❖ Rhondda Cynon Taf County Borough Council.

The report from CIPFA and the Health Foundation sets out three recommendations for Councils and other public sector bodies looking to protect their preventative spending:

- ❖ Apply a consistent approach to map and measure preventative investment;
- ❖ Analyse demand drivers alongside financial data to inform priorities; and
- ❖ Embed prevention into strategies, budgets and governance structures.

For a full copy of the report, see [Understanding preventative investment](#)

Next step for Audit Committee members:

CIPFA is now seeking to build on the momentum of this work by establishing a community of practice on preventative investment, to be launched in early 2026. Anyone able to share their experiences and learning should contact: zachary.scott@cipfa.org.



Performance Trackers 2025

Audit Committees can help their Councils by asking officers what performance data they hold for demand led services; how they set realistic targets; how their Council's performance compares to peers and national trends; and what actions are planned when performance falls below a realistic target.

The Institute for Government (IFG) published its latest performance trackers for public services in October 2025. For demand led services run by Councils, the findings are consistent with other research in the sector.

Children's Social Care:

The IFG reports that costs are rising without outcomes improving in step. Shortages of foster carers and secure children's homes are exacerbating issues in the market.

[Performance Tracker 2025: Children's social care | Institute for Government](#)

The IFG's findings are consistent with findings from a separate report by the National Audit Office in October 2025, which also points to supply pressure in the market:

[Managing children's residential care.](#)

Homelessness:

The IFG report states that homelessness is costing more but delivering less. There has been an unprecedented "tsunami" increase in demand, fuelled partly by landlords leaving the housing sector. The government needs to shift from crisis response to prevention.

[Performance Tracker 2025: Homelessness | Institute for Government](#)

The IFG's findings are consistent with findings from Crisis in November 2025, which notes that demand is rising but it is becoming harder for Councils to access both social housing and private tenancies:

[Homelessness Monitor: England 2025 | Crisis UK](#)

Adult Social Care:

The IFG report states that the sector has been neglected by successive governments. Spending has increased but performance has declined.

[Performance Tracker 2025: Adult social care | Institute for Government](#)

The IFG's findings are consistent with a recent report by LGiU which points to demand increasing in scale and complexity, costs escalating, market instability, and workforce challenges:

[A national care service in England, Scotland and Wales: Briefing 1: the story so far - LGiU](#)

The Covid-19 Inquiry

Key information for Audit Committees to be aware of:

An enhanced role for Councils in national decision making for emergencies looks likely following the publication of [Modules 2, 2A, 2B, 2C - Core decision-making and political governance - Volume II - UK Covid-19 Inquiry](#) in November 2025.

The Inquiry found that the “importance of working together” was overlooked by the UK Government. Although the UK does have local resilience forums and partnerships for emergencies, the lack of formalised structure for central government to consult with Councils meant that opportunities for benefitting from local knowledge were lost during the pandemic.

Examples of inadequate engagement with Councils highlighted in the report for England included:

- ❖ The government’s decision to base a large test centre at Manchester Airport without consulting local leaders as to options that might have been more suitable and centrally located;
- ❖ not enough information being given to local leaders in enough time around the implementation of local lockdowns; and
- ❖ local leaders being left to find out information relevant to their communities via the media rather than from the UK Government, impacting on the design of schemes for shielding and contact tracing.

Two other Modules that will have a bearing on the work of Councils have yet to conclude:

- ❖ **Module 6:** This module investigates the impact of the pandemic on the publicly and privately funded adult social care sector in England, Scotland, Wales and Northern Ireland. It considers the consequences of government decision-making, including restrictions imposed, on those living and working within the care sector; and
- ❖ **Module 8:** This module investigates arrangements during the pandemic for Children and Young People; Education and Early Years Provision; Physical and Mental Health; and Social Care and Support Services;

With the [LGA having pointed out](#) just how many key national policy issues are being addressed by Councils, there has perhaps never been a better time to focus on the “importance of working together”.



Special educational needs and disabilities (SEND)

Key information for Audit Committees to be aware of:

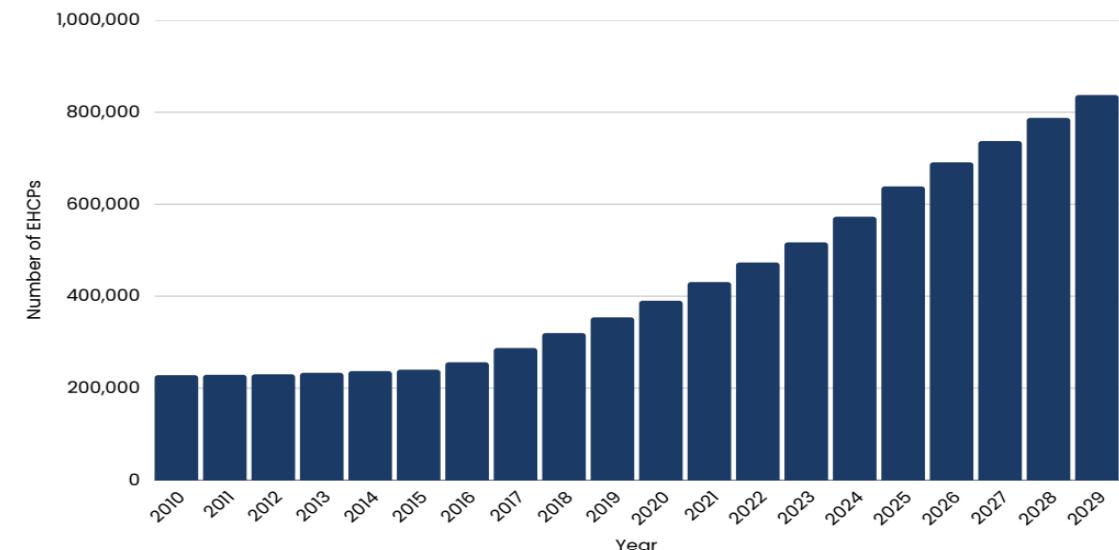
Concern at the mounting costs of SEND continued to escalate across the local and central government sector in months leading up to the Budget:

- ❖ On 21st October, the National Audit Office's review of the [Department for Education 2024/25](#) highlighted that 43% of Councils are on track to have SEND deficits that are close to or exceed their total reserves by 31st March 2026;
- ❖ On 31st October, the National Audit Office reported that the increase in the number of children and young people assessed as having special educational needs has had spiralling implications for [Home to school transport](#), especially considering that travel costs per pupil are higher for children and young people with SEND
- ❖ On [6th November 2025](#), Grant Thornton issued the first ever statutory recommendation in respect of significant weaknesses in management planning for a dedicated schools grant deficit; and
- ❖ On 14th November, a new report from [the County Councils Network](#) highlighted that the number of children in the SEND system rises every year.

Page 31

The 26th November 2025 Budget announcement that SEND will be financed centrally from 1st April 2028 will bring relief to Councils. However, clarity on the government's planned reforms will not be clear until the publication of the delayed white paper and confirmation of the next local government finance settlement.

Figure 1 – Number of children and young people with EHCPs (actual to 2025 and projected to 2029). Education, health and care plans, 2025, DfE and survey responses.



Source: [the County Councils Network](#)

The Renter's Rights Act

Key questions for Audit Committees to ask officers:

- ❖ How well do we understand the new rules we will be enforcing?
- ❖ How many private rented sector properties do we have in our area?
- ❖ Do we have existing staff capacity to take on the new enforcement powers, and if not, how are we going to recruit?
- ❖ Do we have a strategy for working with partners under the new regime, including landlords, agents, tenants, advisory bodies, and the justice system?

Page 32

Background:

The Renter's Rights Act became law on 27th October 2025. Under the Act, Councils are going to gain new powers to investigate landlords; act against rogue landlords; and ensure landlord compliance with new standards expected of them. Councils will be required to report on their enforcement activities.

Local housing authorities will receive £18.2 million in 2025/26 to support preparations for the implementation of the Renters' Rights Act 2025 and to build enforcement capacity. Funding will be allocated based on the number of private rented sector properties in each local area. The Government's "[Roadmap for reforming the Private Rented Sector](#)" indicates that there will be a further new burdens funding allocation for 2026/27.

Key points from the [Roadmap](#) that Audit Committees need to be aware of now are:

- ❖ Enforcement guidance for local Councils has been published on GOV.UK. The guidance provides the critical information that enforcement officers will need to know to carry out their work in line with the new legislation;
- ❖ There will be a bespoke programme of training, webinars and resources through 'Operation Jigsaw', a cross-local Councils initiative;
- ❖ Shelter will deliver training to local Council officers, covering different aspects of the Act, funded by government; and
- ❖ Changes will start coming into effect from 1st May 2026.



Proposed new duty of candour and standards regime

Audit Committees can prepare for change by asking themselves:

- ❖ When was our Code of Ethics last updated?
- ❖ Are our policies and procedures consistent with expected changes to guidance, and consistent with one another?
- ❖ Are we sufficiently candid and transparent?
- ❖ When was the effectiveness of our Standards Committee last assessed?
- ❖ Are our disciplinary arrangements working well?

Page 33

Background:

A new Public Office (Accountability) Bill was introduced to Parliament on 16th September 2025 and is now at House of Commons Committee stage.

The Bill aims to impose a duty on “public authorities and public officials” to “at all times act with candour, transparency and frankness in their dealings with inquiries and investigations.” Breach of the duty would be a criminal liability.

The Bill is expected to apply not only to both core public bodies delivering public services (Councils) but also private bodies delivering public functions such as those on a government contract.

Separately, the Bill also proposes:

- ❖ A new statutory duty on public authorities to promote and take steps to maintain high standards of ethical conduct, as defined by the Seven Principles of Public Life, or “Nolan Principles”, by adopting a code which sets out what is expected of their workforce. Many Councils already do this, but it would become mandatory;
- ❖ Reforms that will make it easier to prosecute misconduct in public office; and
- ❖ Another new offence of misleading the public.

For a full copy of the Bill, see [Public Office \(Accountability\) Bill - Parliamentary Bills - UK Parliament](#)

In addition, a separate statement by the Government on 11th November 2025 announced that there are going to be “sweeping reforms” to strengthen local government standards. These will include a new mandatory code of conduct and new powers to suspend councillors for serious misconduct.

For a full copy of the announcement, see [Tough new powers to clean up local politics.](#)



Business cases for net zero

Key questions for Audit Committees to ask officers:

- ❖ Do we have decarbonisation or net zero reporting? What format does it take, and is that format standardised?
- ❖ Can we map the link between decarbonisation and net zero spending and tangible outcomes such as job creation, economic resilience, and community wellbeing?
- ❖ Do we horizon scan for new funding mechanisms and new partnerships?
- ❖ Do we share good practice with other similar Councils?

Background:

Councils make significant contributions to the UK's journey towards net zero, generally working towards strategic aims that they (the Councils) voluntarily set for themselves. This could be seen as contradictory to work to promote economic growth and enable new housing.

However, the County Council's Network (CCN) commissioned research showing that business cases for net zero are strongest when they are connected to outcomes around the new jobs and community wellbeing that economic growth and new housing can bring.

CCN published a series of recommendations on how to root the journey to net zero in the broader context of economic growth and job creation.

34

The recommendations are aimed at rural County Councils, but with local government reorganisation on the horizon, and housebuilding targets affecting all areas of the country, they will be of wider interest as well:

- ❖ Optimise green transition strategies and plans;
- ❖ Ground climate policies in strong business cases;
- ❖ Leverage innovation, partnerships, and funding models; and
- ❖ Promote collaboration and community engagement.

For a full copy of the report, see [Resources - County Councils Network](#)



Healthy environments for resilient towns



Key information for Audit Committees to be aware of:

The Environmental Audit Committee (EAC) concluded in November 2025 that it is “lazy” to write-off nature as a blocker to housing delivery. Instead, the EAC argued that a healthy environment is not only not a luxury, but is in fact a necessity for resilient towns and neighbourhoods:

Environmental sustainability and housing growth.

The EAC made a series of recommendations that were mostly aimed at the UK Government. This included a recommendation to introduce mandatory training in ecology and the decarbonisation of buildings for people working now towards Chartered Town Planner status.

While we wait to see whether any of the EAC recommendations will be implemented, there are things that Councils can be doing now to help the environment in their towns :

- ❖ Ensure that the local plan and environmental policies are up to date and consistent with national environmental targets; and
- ❖ Encourage awareness of ecology and decarbonisation in the existing planning team whilst waiting for any mandatory training benefits in the next generation of town planners.

As Councils are coming under increasing pressure from the UK Government to approve new housing plans, mindfulness of the environment in the towns that Councillors represent is going to be more important than ever.

Future Webinar for Audit Committee members



Page 36

We plan to hold a webinar for members of Audit Committees on 10th February 2026. Invitations will be available shortly on our website or can be obtained from your Engagement Lead or Audit Manager.

We will be hearing from two external speakers on best steps to take “After the Backstop”. With them, we will be discussing:

- ❖ Adding value to the financial reporting function; and
- ❖ How to navigate the external audit process with success.

We will also be covering latest developments in proposed reforms to the audit framework; updates on the new Local Audit Office; and what best to focus on while waiting for new audit arrangements to be finalised.

Join us to welcome-in 2026 and to plan good habits for the financial years ahead.

We look forward to seeing you.

Annual Local Government Accounts Webinar

We hold annual local government accounts webinars to help preparers meet their statutory deadlines and work effectively with auditors. We plan to host the next webinars on Thursday 5th February and Wednesday 11th February 2026 from 10.00am until 3.00pm.

Invitations will be available shortly on our website or can be obtained from your Engagement Lead or Audit Manager.

Specific aspects of the webinars will include:

- ❖ Practical considerations for working effectively with your auditors in shortening timescales, and reminders of what good supporting analysis and evidence looks like;
- ❖ Lessons from the implementation of IFRS 16, with good practice tips for Year Two;
- ❖ Avoiding pitfalls in financial instruments;
- ❖ Other common accounting and disclosure issues;
- ❖ The use of indexation for property, plant and equipment for 2025/26; and
- ❖ Revised statutory guidance affecting Minimum Revenue Provision.

It is critical to plan for the audit process as early as possible; and helpful to think ahead about how you can prepare. Your audit team can provide tools to ensure that key areas are considered before your audit is underway:

- ❖ Accounts consistency checker – to help local government bodies check consistency of key accounting entries and disclosures within the financial statements, and identify any anomalies to address before publishing draft statements of accounts; and
- ❖ Financial reporting issues checklist – covering the most frequent issues arising from our reviews of local authority financial statements and setting out questions to help local government bodies with their own quality checks as they prepare financial statements.



Audit Committee resources

The Audit Committee and organisational effectiveness in local authorities (CIPFA):

<https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees>

LGA Regional Audit Forums for Audit Committee Chairs

These are convened at least three times a year and are supported by the LGA. The forums provide an opportunity to share good practice, discuss common issues and offer training on key topics. Forums are organised by a lead authority in each region. Please email ami.beeton@local.gov.uk LGA Senior Adviser, for more information.

CIPFA Application Note: Global Internal Audit Standards in the UK Public Sector

[Global Internal Audit Standards in the UK Public Sector | CIPFA](#)

CIPFA Good Governance

[Delivering Good Governance in Local Government Addendum](#)

Code of Audit Practice for local auditors (NAO):

<https://www.nao.org.uk/code-audit-practice/>

The Three Lines of Defence Model (IAA)

<https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>

Risk Management Guidance / The Orange Book (UK Government):

<https://www.gov.uk/government/publications/orange-book>

Other CIPFA Guidance and Codes

The following are available from CIPFA but have a charge. We encourage you to make enquiries to determine if copies are available within your organisation:

- Audit Committees: Assessing effectiveness
- Financial Management Code
- Prudential Code
- Treasury Management Code



© 2024 Grant Thornton. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

Bath & North East Somerset Council	
MEETING:	Audit Committee
MEETING DATE:	11th February 2026
TITLE:	Treasury Management Strategy Statement 2026/27
WARD:	All
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 - Treasury Management Strategy 2026/27 Appendix 2 – Authorised Lending List	

1 THE ISSUE

- 1.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.2 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 1.3 Investments held for service or commercial purposes are considered in the Capital and Investment Strategy within the Budget Report which is also included on the agenda for Cabinet & Council for February.

2 RECOMMENDATIONS

The Audit Committee agrees to;

- 2.1 Recommend the actions proposed within the Treasury Management Strategy Statement 2026/27 (**Appendix 1**) to Council;
- 2.2 Note the Treasury Management Indicators detailed in **Appendix 1**;

3 THE REPORT

Background

- 3.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 3.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare a Treasury Management Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 3.3 The suggested strategy for 2026/27 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Arlingclose.

The strategy covers:

- Treasury limits in force which will limit the treasury risk and activities of the Council;
- Treasury Management Indicators;
- The current treasury position;
- The borrowing requirement;
- Prospects for interest rates;
- The borrowing strategy;
- The investment strategy.

- 3.4 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code). This requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Audit Committee have been nominated by Council to carry out this function.

Treasury Management Strategy Statement

- 3.5 The Treasury Management Strategy Statement 2025/26 set the Treasury Indicators for 2025/26 – 2027/28, which included a forecast for the total borrowing requirement at the end of 2025/26 of £441.814 million. At the end of December 2025, actual external borrowing was at £285.250 million, with further borrowing potentially required prior to year-end to maintain cashflow. The level of borrowing is in line with the policy of utilising internal cash to reduce net borrowing costs and investment counterparty risk.
- 3.6 The proposed Treasury Management Strategy Statement 2026/27 is attached as **Appendix 1** and includes the Treasury Management Indicators required by the Treasury Management Code.

- 3.7 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing, as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.
- 3.8 The Revenue & Capital Budget Report 2026/27, which is also on February's Cabinet and Council agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.
- 3.9 **Appendix 1** also details the Council's current portfolio position as at 31st December 2025, which shows, after netting off the £48.200 million investments, the Council's net debt position was £237.050 million.
- 3.10 The Treasury Investment Strategy section of **Appendix 1** sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy, Officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press. This has been the case in previous years, which has protected the Council against losses of investment, for example in Icelandic banks.
- 3.11 The Counterparty listing in **Appendix 2** includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in **Appendix 1** (as at 31st December 2025) are included in the listing in **Appendix 2**.
- 3.12 The Council has met the conditions to opt up to MiFID II professional status and intends for this to continue in 2026/27 in order to continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors.

4 STATUTORY CONSIDERATIONS

- 4.1 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 The resource implications are included in the report and appendices.

6 RISK MANAGEMENT

- 6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.
- 6.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending and borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Arlingclose.

6.3 The 2021 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Audit Committee carries out this scrutiny.

6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

7 CLIMATE CHANGE

7.1 The Treasury Management Strategy Statement 2026/27 includes options for ESG (Environmental, Social and Corporate Governance) focussed investments.

8 OTHER OPTIONS CONSIDERED

8.1 The Director of Finance (S151 Officer), having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are the table below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times.	Interest income will be lower.	Lower chance of losses from credit related defaults, but any such losses may be greater.
Invest in a wider range of counterparties and/or for longer times.	Interest income will be higher.	Increased risk of losses from credit related defaults, but any such losses may be smaller.
Borrow additional sums at long-term fixed interest rates.	Debt interest costs will rise; this is unlikely to be offset by higher investment income.	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain.
Borrow short-term or variable loans instead of long-term fixed rates.	Debt interest costs will initially be lower.	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain.
Reduce level of borrowing.	Saving on debt interest is likely to exceed lost investment income.	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain.

9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Resources, Director of Finance (S151 Officer) and Monitoring Officer.

Contact person	<i>Jamie Whittard - 01225 477213; Claire Read – 01225 477019</i> <u>Jamie Whittard@bathnes.gov.uk</u> ; <u>Claire Read@bathnes.gov.uk</u>
Background papers	<i>Treasury Management & Investment Strategy 2025/26</i>
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

Appendix 1

Treasury Management Strategy Statement 2026/27

1. Introduction

1.1 Treasury Management Overview

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service or commercial purposes are considered in the Capital & Investment Strategy document which is included as an appendix to the Council's Budget and Council Tax 2026/27 and Financial Outlook

1.2 External Context

1.2.1 Economic Background (per Arlingclose January 2026):

The most significant impacts on the Council's Treasury Management Strategy for 2026/27 are expected to include: the influence of the Government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.

The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as had been widely expected. The vote to cut was 5-4, with the minority instead favouring holding rates at 4.00%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.

Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November) projected modest economic growth, with Gross Domestic Product (GDP) expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later,

reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

Consumer Price Index (CPI) inflation was 3.2% in November 2025, down from 3.6% in the previous month and below the 3.5% expected. Core CPI eased to 3.2% from 3.4%, contrary to forecasts of remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall, to around 3% in calendar Q1 2026, before steadily returning to the 2% target by late 2026 or early 2027.

The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the Bank of England (BoE), while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.

The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December 2025 meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive meeting, maintaining the deposit rate at 2.00% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2.00% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

1.2.2 Credit Outlook (December 2025):

Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly in October, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.

While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on (the Council's treasury management advisor) Arlingclose's counterparty list. Arlingclose's advice on approved counterparties and

recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

1.2.3 Interest Rate Forecast (December 2025):

Arlingclose, the Council's treasury management adviser, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate through 2025 and 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18th December 2025.

Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

A more detailed economic and interest rate forecast provided by Arlingclose is in Annex A.

For the purpose of setting the Council's Budget, it has been assumed that short term treasury investments will be made at an average rate of 3.29% and long-term strategic investments will yield an average rate of 4.04%. It is forecast that new loans will be borrowed at an average rate of 4.91% during 2026/27.

1.3 Local Context

1.3.1 Council's position as at 31st December 2025: The Council held £285.250m of borrowing and £48.200m of treasury investments. This is set out in further detail in Table 1 below.

Table 1: Balance Sheet Summary

	31/12/2025	31/12/2025
	Actual portfolio	Average rate
	£m	%
External borrowing:		
Public Works Loan Board	225.250	3.41%
Local authorities	50.000	4.46%
LOBO loans from banks	10.000	4.50%
Total external borrowing	285.250	3.63%
Treasury investments:		
Local authorities	5.000	4.10%

	31/12/2025	31/12/2025
	Actual portfolio	Average rate
	£m	%
<i>Banks (unsecured)</i>	5.200	4.18%
<i>Money market funds</i>	28.000	3.91%
<i>Strategic pooled funds</i>	10.000	0.00%
Total treasury investments	48.200	3.15%
Net debt	237.050	

1.3.2 Capital Financing Requirement:

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council's Capital Financing Requirement (CFR, or underlying need to borrow) excluding lease financing as at 31st March 2026 is expected to be £392.816m and is forecast to rise to £464.627m by March 2027 as capital expenditure is incurred.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The Council expects to comply with this recommendation during 2026/27.

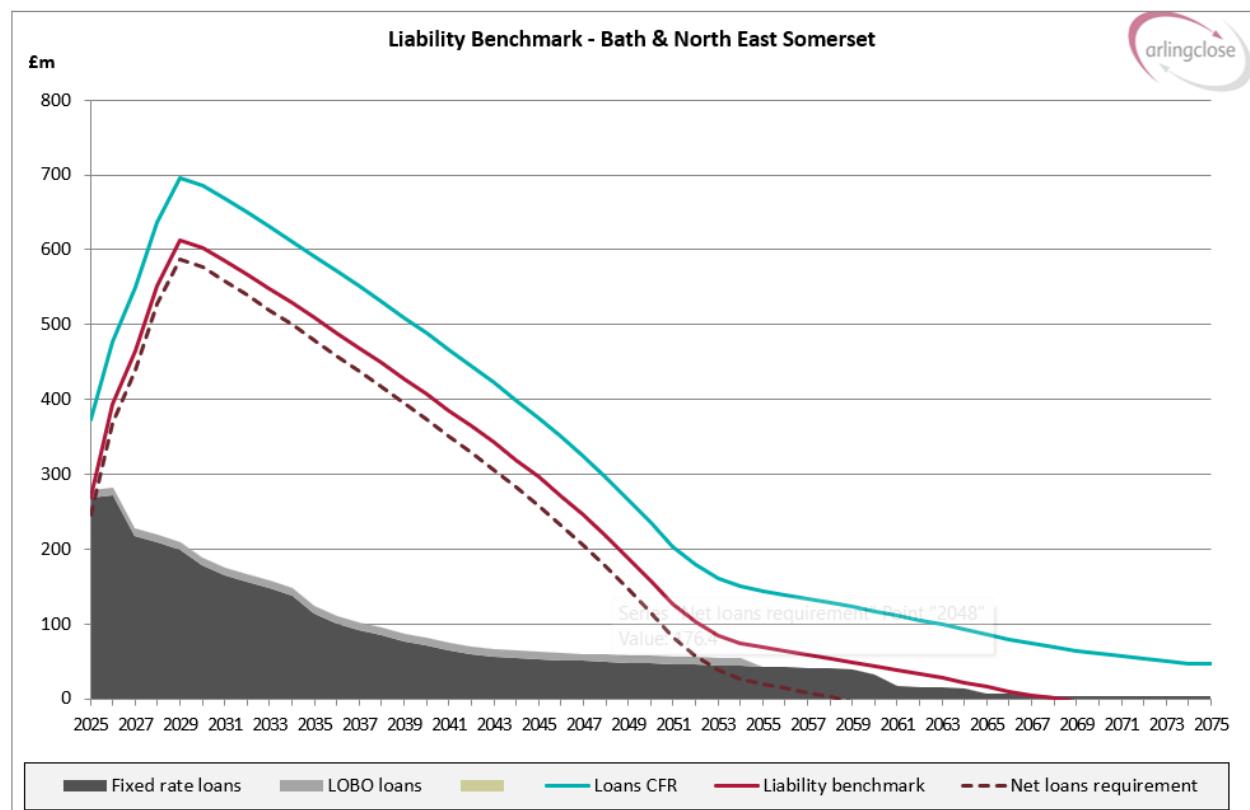
Liability Benchmark

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability Benchmark

	31.3.25 Actual £m	31.3.26 Estimate £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
Loans CFR	373.000	392.820	464.627	552.118	611.968
Less: Balance sheet resources	(118.100)	(99.710)	(99.710)	(99.710)	(99.710)
Net loans requirement	254.900	293.106	364.917	452.408	512.258
Plus: Liquidity allowance	15.000	15.000	15.000	15.000	15.000
Liability benchmark	269.900	308.106	379.917	467.408	527.258

Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of around £71.811m for 2026/27, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, and expenditure increasing by inflation of 2% a year. This is shown in the chart below together with the maturity profile of the Council's existing borrowing:



When we compare actual borrowing (the grey slopes) to the Liability Benchmark (solid red line) the model anticipates that the Council will be in a under borrowed position between 2026 and 2066. When the Council is considering new long-term borrowing, this funding gap can be used, as a useful guide to the optimal amount and length of borrowing required in order to minimise interest rate and credit risk.

2. Borrowing Strategy

2.1 Current Borrowing

The Council currently holds £285.250m of loans, an increase £18.300m on the previous year. The Council has taken out £90.000m in new borrowing between January 2025 & December 2025, of which £65.000m was to replace maturing borrowing, £15.000m was in in order to keep cash balances in line with the Liability Indicator and £10.000m was to cover a pension prepayment. This was netted off by £6.700m in PWLB annuity loan repayments and £65.000m in repayment of maturing loans.

2.2 Objectives

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

2.3 Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

Short-term interest rates have fallen over the past year, and are expected to fall a little further, so it is therefore likely to be more cost effective over the medium term to borrow short term loans. The risks of this approach will be managed by keeping the Council's interest rate exposure within the limit set in the treasury management prudential indicators. By doing so, the Council is able to reduce net borrowing costs over time and overall treasury risk.

The benefits will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years. Arlingclose may assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and it may consider investigating the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

2.4 Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments (see below)
- any other bank or building society or insurance company authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Avon Pension Fund)
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
- special purpose companies created to enable local authority bond issues.

Other Sources of Debt Finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

2.4.1 LOBO's: The Council has £10.000m of Lender Option Borrower Option (LOBO) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. These LOBO's have options due up in 2026/27 and it is possible that lenders will exercise their options. If they do, the Council will consider the option to repay LOBO loans after reviewing the refinancing risk in later years. Total borrowing via LOBO loans will be limited to the current £10.000m.

2.4.2 Short-term and Variable Rate Loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

2.4.3 Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature

redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

3. Treasury Investment Strategy

3.1 Current Investments

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £28.800m and £80.100m and similar levels are expected to be maintained in the forthcoming year.

3.2 Objectives

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

3.3 Strategy

As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments in line with advice from Arlingclose.

The Council's existing portfolio of investments in strategic pooled funds, £5.000m in CCLA Local Authority Property Fund, £3.000m in FP Foresight UK Infrastructure Income Fund, and £2.000m in the VT Gravis Clean Energy Income Fund, will be maintained to diversify risk into different sectors and boost investment income, further details of this are provided in section 3.8.

Under the Markets in Financial Instruments Directive (MiFID) II, the Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Director of Finance (S151 Officer) believes this to be the most appropriate status.

To be categorised as Professional the Council must hold at least a £10.000m investment balance, the Council's three pooled investments mentioned above, which are medium – long term investments, guarantee that this balance will always be held. By placing this required £10.000m balance in these three pooled funds, the Council aims to achieve a total return that is equal or higher than the long-term average rate of inflation thus preserving the spending power of this £10.000m balance.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

The total amount borrowed will not exceed the 2026/27 authorised borrowing limit of £473.000m. The maximum period between borrowing and expenditure is expected to be three years, although loans are linked with its budgeted programme, individual items within that programme are not linked to the loans at a granular level.

Under the International Financial Reporting Standard (IFRS) 9, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

3.4 Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the limits shown.

Table 3: Treasury Investment Counterparties and Limits

Sector	Minimum Credit Rating*	Time Limit	Counterparty Limit	Sector Limit
The UK Government	N/A	5 years	Unlimited	Unlimited
Local authorities & other government entities	N/A	5 years	£10.000m	Unlimited
Secured investments	A-	5 years	£10.000m	Unlimited
Banks (secured)	A-	5 years	£10.000m	Unlimited
Banks (unsecured)	A-	13 months	£10.000m	£40.000m
Building societies (unsecured)	A-	13 months	£10.000m	£15.000m

Sector	Minimum Credit Rating*	Time Limit	Counterparty Limit	Sector Limit
Registered providers (unsecured)	A-	5 years	£5.000m	£5.000m
Money market funds	AAAmmf	n/a	£10.000m	£60.000m
Strategic pooled funds	N/A	n/a	£5.000m	£10.000m
Foreign countries per country	AA+	13 months	£10.000m	£10.000m
ESG focussed short term deposits	A-	13 months	£5.000m	£5.000m
Other investments	A-	5 years	£5.000m	£5.000m

This table must be read in conjunction with the notes below.

*** Minimum Credit Rating:** Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

3.4.1 Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 5 years.

3.4.2 Local Authorities and Other Government Entities: Although most UK local authorities have not opted to obtain a formal credit rating from either Fitch, Moody's or Standard & Poors, they are considered quasi-governmental by advisors and therefore are assigned the same rating as the UK Government for the purpose of establishing credit criteria. No local authority has ever defaulted in its loan arrangements. The above notwithstanding the Council will consider other factors including; if a S114 Notice has been issued, if exceptional financial support is requested/granted and the status of the authorities' statement of accounts.

3.4.3 Secured Investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty

credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

3.4.4 Banks and Building Societies (Unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

3.4.5 Registered Providers (Unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

3.4.6 Money Market Funds (MMFs): Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. The Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

3.4.7 Strategic Pooled Funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly. Note that this classification covers the Council's two ESG investments and the investment in the CCLA property fund.

3.4.8 Foreign Countries: This category covers investment with both the governments of foreign countries and banks based in foreign countries. Where a bank is domiciled in a foreign country, the bank must meet the minimum credit criteria set out in Table 3 of A-for 'Banks (unsecured)' and be domiciled in a country which meets the minimum credit rating criteria set of AA+.

3.4.9 Other Investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk. Any investment under this category will only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

Note: Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

3.4.10 Operational Bank Accounts: The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

3.5 Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

3.5.1 Other Information on the Security of Investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

The Council is aware that investing with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

3.6 Investment Limits

The Council's revenue reserves (including earmarked reserves) available to cover investment losses was £89.376m as at 31st March 2025. To limit risk from any single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10.000m which represents 11.19% of reserves. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

3.7 Liquidity Management

The Council uses forward looking forecasting based on prior year cashflows combined with knowledge of upcoming income/spending to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

3.8 Environment Social and Governance Investment Approach

3.8.1 The Climate Emergency: In 2019 Bath and North East Somerset Council declared a Climate Emergency reflecting the concern that the Council has over climate change, and the commitment of the Council to address the issue with regards to evaluating the climate change impact of all our decisions.

3.8.2 Background: The CIPFA Treasury Management Code and Investment Guidance issued by the Government state that the main principles in investing are Security, Liquidity and Yield in that order. However, as part of the 2021 Code, CIPFA now requires local authorities to have some consideration of ESG factors when investing.

3.8.3 Long Term ESG Investments:

In the Treasury Management Strategy 2021/22 the Council adopted an ESG investment approach as part of its 2021/22 Investment Strategy. Resulting in a long-term investment of £5.000m investment split across the following two ESG focused funds;

- £3.000m into FP Foresight UK Infrastructure fund; &
- £2.000m into VT Gravis Clean energy income fund.

3.8.4 Short Term ESG Investments:

When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

The Council may also consider options for investment in short-term funds with institutions who ring fence the use of such funds for ESG related matters. The criteria for credit rating of security of such deposits will need to remain in line with the wider Council policy, however where appropriate and at the Council's discretion, some flexibility will be provided to allow for slightly longer durations of investment and potentially lower returns in order to support the ESG focus. Where such flexibility is used, the investment will be subject to agreement of the S151 Officer taking these factors into consideration.

Direct involvement and financing of Green energy projects is treated as capital expenditure, and as such is not covered within the remit of treasury management.

3.9 Other Matters

Avon Pension Fund Investments: The Council's Treasury Management team also manage the Avon Pension Fund's internally held cash on behalf of the Fund. The cash balance held internally is a working balance to cover pension payments at any point in time and it is estimated will be an average of £40.000m, being around 0.70% of the overall assets of the Fund. The regulations require that this cash is accounted for separately and invested separately from the Council's cash.

Investments held will operate within the framework of this Investment Strategy, but the maximum counterparty limit and investment term with any counterparty are set annually by the Avon Pension Fund Committee. These limits are in addition to the Council's limits for counterparties as set out in Appendix 2.

The Pension Fund's investment managers are responsible for the investment of cash held within their portfolios, and this policy does not relate to their cash investments.

4. Treasury Management Prudential Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

4.1 Treasury Borrowing Limits for 2026/27 to 2028/29

It is a statutory duty under s.3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'.

The Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit. The Code requires a Council to ensure that its total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council tax levels is 'acceptable'.

The Affordable Borrowing Limit must include all planned capital investment to be financed by external borrowing and any other forms of liability, such as credit arrangements. The Affordable Borrowing Limit is to be set on a rolling basis for the forthcoming year and two successive financial years.

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational Boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

Table 4: Operational Boundary and Authorised Limit

	2026/27 £m	2027/28 £m	2028/29 £m
Operational Boundary – Borrowing	438	526	587
Operational Boundary – Other Long-Term Liabilities	8	8	7
Operational Boundary – TOTAL	446	534	594
Authorised Limit- Borrowing	465	552	612
Authorised Limit – Other Long- Term Liabilities	8	8	7
Authorised Limit – TOTAL	473	560	619

4.2 Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 5: Portfolio Average Credit Rating Criteria

Credit Risk Indicator	Target
Portfolio average credit rating	A-

4.3 Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Table 6: Minimum 3 Month Liquidity Limit

Liquidity Risk Indicator	Target
Total cash available within 3 months	£15.000m

4.4 Interest Rate Exposure

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Table 7. Interest Rate Risk Indicator

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £0.800m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £0.800m

The impact of this limit is that the Council should never be holding a maturity adjusted net debt/investment position of more than £0.800m subject to variable interest rates.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates, this includes amounts which are maturing each year in PWLB annuity loans.

4.5 Maturity Structure of Borrowing

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

Table 8: Borrowing Maturity Limits

Refinancing Rate Risk Indicator	Upper Limit	Lower Limit
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. For LOBO's this will now be shown as the date of their maturity.

4.6 Long-Term Treasury Management Investments

This indicator looks at investments that at inception are for over 364 days or with no fixed maturity date. The purpose of which is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 9: Investment Maturity Limits

Price risk indicator	2026/27	2027/28	2028/29	No Fixed Date
Limit on principal invested beyond year end	£20.000m	£20.000m	£10.000m	£10.000m

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

5. Related Matters

The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

5.1 Treasury Management Advisers

The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is monitored by officers on a regular basis, focusing on supply of relevant, accurate and timely information across the headings above.

5.2 Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures.

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

5.3 External Funds

Where schools have not opted to have their own bank account, the Council manages their investment balances as part of its own. The Council treats the schools' balances in its accounts as part of the Council's investment portfolio but assigns a return at a rate of base rate less 0.25% (capped to a minimum of zero where base rate drops below 0.25%) to schools for their respective balances.

5.4 Staff and Councillor Training

The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff performance development review process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Training in treasury management is also provided to Members of the Audit Committee by the Council's treasury advisors, Arlingclose.

5.5 Financial Implications

The budget for treasury management investment income in 2026/27 is £1.077m, based on an average investment portfolio of £30m at an average interest rate of 3.54%. The budget for debt interest paid in 2026/27 is £12.819m, based on an average debt portfolio of £330.977m at an average interest rate of 3.87%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

Where investment income from strategic pooled funds exceeds budget, then 50% of the revenue savings may be transferred to the Capital Financing Reserve to mitigate the risk of capital losses in future years should valuation losses on fair value treasury assets require recognition, or where capital losses were crystallised on the sale of treasury assets.

5.6 Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance (S151 Officer), having consulted the Cabinet Member for Resources, believes that the above strategy represents an

appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Table 10: Alternative Treasury Strategy Options Considered

Alternative	Impact on Income and Expenditure	Impact on Risk Management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Annex A – Arlingclose Economic & Interest Rate Forecast – 22nd December 2025

Underlying assumptions:

- The Bank of England duly delivered on expectations for a December rate cut, but, despite softer economic data over the past two weeks, the minutes highlighted increased caution surrounding both the inflation outlook and the speed of future easing. With a close vote of 5-4 in favour of a rate reduction, this suggests that the bar for further monetary easing may be higher than previously thought despite the possibility of the CPI rate falling to target in 2026.
- Budget policies and base effects will mechanically reduce the CPI rate in 2026, on top of the downward pressure arising from soft economic growth and the looser labour market. However, many policymakers appear concerned that household and business inflation and pricing expectations are proving sticky following recent bouts of high price and wage growth, which may allow underlying inflationary pressure to remain elevated. While, the Bank's measure of household expectations ticked lower in December, it remains above levels consistent with the 2% target at 3.5%.
- While policymakers hold valid concerns, these appear somewhat out of line with current conditions; CPI inflation fell to 3.2% in November, private sector wage growth continued to ease amid the highest unemployment rate since the pandemic, and the economy contracted in October after barely growing in Q3. Business surveys pointed to marginally stronger activity and pricing intentions in December but also suggested that the pre-Budget malaise was not temporary. These data are the latest in a trend suggesting challenging economic conditions are feeding into price and wage setting.
- Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than our central case. However, the minutes suggest that the bar to further rate cuts beyond 3.25% is higher and the near-term upside risks to our Bank Rate forecast have increased. Having said that, we believe inflation expectations will naturally decline alongside headline inflation rates.
- Investors appear to have given the UK government some breathing space following the Budget, with long-term yields continuing to trade at slightly lower levels than in late summer/early autumn. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

Forecast:

- In line with our long-held forecast, Bank Rate was cut to 3.75% in December 2025.
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.
- Arlingclose expects Bank Rate to be cut to 3.25% by middle of 2026. However, near-term upside risks to the forecast have increased.
- Medium and long-term gilt yields continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly, and we expect yields to remain higher.

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.75	3.50	3.25										
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.82	3.55	3.30	3.35	3.35	3.35							
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.96	3.85	3.80	3.75	3.80	3.80	3.80						
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
10yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.52	4.40	4.35	4.30	4.35	4.35	4.35						
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
20yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.16	5.00	4.95	4.90	4.95	4.95	4.95						
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
50yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.74	4.65	4.60	4.65	4.65	4.65							
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Complete Credit List		as at:	31/12/2025	ARLINGCLOSE RECOMMENDS				FITCH RATINGS				MOODY'S RATINGS				STANDARD & POOR'S RATINGS				Banking Group	Accepts Deposits	Notes
Counterparty	Country of Domicile	Maximum Deposit/CD Duration	Covered Bonds	Short-term	Long-term	Viability	Outlook	Short-term	Long-term	Baseline Credit Assess	Outlook	Short-term	Long-term	Outlook	Banking Group	Accepts Deposits	Notes					
UNITED KINGDOM: BANKS																						
BANK OF SCOTLAND PLC	GB	6 months	Yes	F1+	AA-	a+	STABLE	P-1	A1	a3	STABLE	A-1	A+	STABLE	Lloyds Banking Group	Yes	Ringfenced bank					
LLOYDS BANK PLC	GB	6 months	Yes	F1+	AA-	a+	STABLE	P-1	A1	a3	STABLE	A-1	A+	STABLE		Yes	Ringfenced bank					
LLOYDS BANK CORPORATE MARKET	GB	100 days	Yes	F1+	AA-		STABLE	P-1	A1	baa3	STABLE	A-1	A	STABLE			Non-ringfenced bank					
BARCLAYS BANK PLC	GB	6 months	Yes	F1	A+	a	STABLE	P-1	A1	baa2	STABLE	A-1	A+	STABLE	Barclays Group	Yes	Non-ringfenced bank					
BARCLAYS BANK UK PLC	GB	6 months	Yes	F1	A+	a	STABLE	P-1	A1	a3	STABLE	A-1	A+	STABLE		Yes	Ringfenced bank					
CLYDESDALE BANK	GB	100 days	Yes	F1	A+	a	STABLE	P-1	A1	a3	STABLE	A-1	A+	STABLE		Nationwide	Yes Also trades as Virgin Money					
HANDELSBANKEN PLC	GB	6 months	-	F1+	AA		STABLE					A-1+	AA-	STABLE	Svenska HB	Yes						
HSBC BANK PLC	GB	6 months	Yes	F1+	AA-	a	STABLE	P-1	A1	baa3	STABLE	A-1	A+	STABLE		Yes	Non-ringfenced bank					
HSBC UK BANK PLC	GB	6 months	Yes	F1+	AA-	a+	STABLE	P-1	Aa3	a3	STABLE	A-1	A+	STABLE		Yes	Ringfenced bank					
NATIONAL WESTMINSTER BANK	GB	6 months	Yes	F1+	AA-	a+	STABLE	P-1	A1	a3	STABLE	A-1	A+	STABLE	NatWest Group	Yes	Ringfenced bank					
NATWEST MARKETS PLC	GB	6 months	Yes	F1+	AA-		STABLE	P-1	A1	baa3	STABLE	A-1	A	STABLE		Yes	Non-ringfenced bank					
ROYAL BANK OF SCOTLAND PLC/T	GB	6 months	Yes	F1+	AA-	a+	STABLE	(P)P-1	A1	a3	STABLE	A-1	A+	STABLE		Yes	Ringfenced bank					
SANTANDER UK PLC	GB	6 months	Yes	F1	A+	a	STABLE	P-1	A1	baa1	STABLE	A-1	A	STABLE	Santander	Yes	Ringfenced bank					
STANDARD CHARTERED BANK	GB	6 months	Yes	F1	A+	a	STABLE	P-1	A1	baa2	STABLE	A-1	A+	STABLE		Yes						
UK: BUILDING SOCIETIES																						
NATIONWIDE BUILDING SOCIETY	GB	6 months	Yes	F1	A+	a	STABLE	P-1	A1	a3	STABLE	A-1	A+	STABLE	Nationwide	Yes						
UK: LOCAL AUTHORITIES																						
ABERDEEN CITY COUNCIL	GB	2 years +	-						A2	baa1	STABLE											
GREATER LONDON AUTHORITY	GB	2 years +	-									A-1+	AA	STABLE								
LANCASHIRE COUNTY COUNCIL	GB	2 years +	-	F1+	A+		NEG		A2	baa2	STABLE		NR									
SUTTON LONDON BOROUGH OF	EN	2 years +	-						A1	a3	STABLE											
TRANSPORT FOR LONDON	GB	2 years	-		AA-		STABLE	P-1	A1	a2	STABLE	A-1+	AA-	STABLE								
WESTMINSTER CITY COUNCIL	GB	2 years +	-	F1+					Aa3	a1	STABLE											
UK: OTHER INSTITUTIONS																						
LCR FINANCE PLC	EN	10 years	-		AA-		STABLE		Aa3		STABLE		AA									
NETWORK RAIL INFRASTRUCTURE	GB	10 years	-		AA-		STABLE	P-1	Aa3		STABLE											
UNITED KINGDOM	GB	50 years	-		AA-u		STABLE		Aa3		STABLE	A-1+u	AAu	STABLE		Yes						
OTHER LOCAL AUTHORITIES	GB	50 years	-		AA-u		STABLE		Aa3		STABLE	A-1+u	AAu	STABLE		Yes						
WELLCOME TRUST FINANCE PLC	GB	15 years	-	F1+u					Aaa		STABLE		AAA	STABLE								
AUSTRALIA	AU	-	-		AA <u>u</u>		STABLE		Aaa		STABLE	A-1+u	AA <u>u</u>	STABLE								
AUST AND NZ BANKING GROUP	AU	6 months	-	F1+u	AA-	a+	STABLE	P-1	Aa2	a2	STABLE	A-1+	AA-	STABLE		Yes						
COMMONWEALTH BANK OF AUSTRALIA	AU	6 months	Yes	F1+	AA-	a+	POS	P-1	Aa2	a1	STABLE	A-1+	AA-	STABLE		Yes						
NATIONAL AUSTRALIA BANK LTD	AU	6 months	Yes	F1+	AA-	a+	STABLE	P-1	Aa2	a2	STABLE	A-1+	AA-	STABLE		Yes						
WESTPAC BANKING CORP	AU	6 months	-	F1+	AA-	a+	STABLE	P-1	Aa2	a2	STABLE	A-1+	AA-	STABLE		Yes						
AUSTRIA	AS	-	-	F1+	AA <u>u</u>		STABLE	P-1	Aa1		NEG	A-1+	AA+	STABLE								
OESTERREICHISCHE KONTROLLBANK	AS	10 years	-	F1+u				P-1	Aa1		NEG	A-1+	AA+	STABLE		Yes	"OKB"					
CANADA	CA	-	-		AA+u		STABLE	P-1	Aaa		STABLE	A-1+	AAA	STABLE								
BANK OF MONTREAL	CA	6 months	Yes	F1+u	AA	aa-	STABLE	P-1	Aa2	a3	STABLE	A-1	A+	STABLE		Yes						
BANK OF NOVA SCOTIA	CA	6 months	Yes	F1+	AA	aa-	STABLE	P-1	Aa2	a3	STABLE	A-1	A+	STABLE		Yes						
CAN IMPERIAL BK OF COMMERCE	CA	6 months	Yes	F1+	AA	aa-	STABLE	P-1	Aa2	a3	STABLE	A-1	A+	STABLE		Yes						
EXPORT DEVELOPMENT CANADA	CA	10 years	-	F1+				P-1	Aaa		STABLE	A-1+	AAA	STABLE		Yes						
NATIONAL BANK OF CANADA	CA	100 days	-		AA-	a+	STABLE	P-1	Aa2	a3	STABLE	A-1	A+	STABLE		Yes						
ROYAL BANK OF CANADA	CA	6 months	Yes	F1+	AA	aa-	STABLE	P-1	Aa1	a2	STABLE	A-1+	AA-	STABLE		Yes						
TORONTO-DOMINION BANK	CA	6 months	Yes	F1+	AA	aa-	NEG	P-1	Aa1	a2	STABLE	A-1	A+	STABLE		Yes						
DENMARK	DE	-	-	F1+	AAA		STABLE	P-1	Aaa		STABLE	A-1+u	AA <u>u</u>	STABLE								
KOMMUNEKREDIT	DE	10 years	-	F1+				P-1	Aaa		STABLE	A-1+	AAA	STABLE								

Counterparty	Country of Domicile	ARLINGCLOSE RECOMMENDS		FITCH RATINGS				MOODY'S RATINGS			STANDARD & POOR'S RATINGS			Banking Group	Accepts Deposits	Notes	
		Maximum Deposit/CD Duration	Covered Bonds	Short-term	Long-term	Viability	Outlook	Short-term	Long-term	Baseline Credit Assess	Outlook	Short-term	Long-term	Outlook			
FINLAND	FI		-		AA		STABLE	P-1	Aa1	STABLE	A-1+u	AA+u	STABLE				
MUNICIPALITY FINANCE PLC	FI	10 years	-	F1+					Aa1	STABLE	A-1+	AA+	STABLE		Yes		
NORDEA BANK ABP	FI	6 months	-	F1+	AA	aa-	STABLE	P-1	Aa2	a2	STABLE	A-1+	AA-	STABLE		Yes	
OP CORPORATE BANK PLC	FI	100 days	-	F1+				P-1	Aa3	a3	STABLE	A-1+	AA-	STABLE		Yes	
FRANCE	FR		-		A+u		STABLE		Aa3	NEG	A-1u	A+u	STABLE				
GERMANY	GE		-		AAAu		STABLE		Aaaau	STABLE	A-1+u	AAAu	STABLE				
BAIERISCHE LANDES BANK	GE	6 months	-	F1+u	AA-	bbb+	STABLE	P-1	Aa2	baa1	STABLE	NR	NR		Yes	"BayernLB"	
DZ BANK AG DEUTSCHE ZENTRAL-	GE	6 months	-	F1+	AA		STABLE	P-1	Aa2	baa1	STABLE	A-1	A+	STABLE		Yes	
FMS WERTMANAGEMENT	GE	25 years	-	F1+				P-1	Aaa	STABLE	A-1+	AAA	STABLE		Yes		
KREDITANSTALT FUER WIEDERAUFBRAU (KFW)	GE	25 years	-		AAAu		STABLE	P-1		STABLE	A-1+	AAA	STABLE			"KfW"	
LANDES BANK BADEN-WUERTTEMBER	GE	6 months	-	F1+u	AA-	bbb+	STABLE	P-1	Aa2	baa2	STABLE	NR	NR			"LBBW"	
LANDES BANK HESSEN-THURINGEN	GE	6 months	-	F1+	AA-		STABLE	P-1	Aa2	baa2	STABLE	NR	NR		Yes	"Helaba"	
LANDES KRED BADEN-WUERTTEMBER	GE	25 years	-	F1+	AAA		STABLE	P-1	Aaa	STABLE	A-1+	AA+	STABLE		Yes	"L-Bank"	
LANDWIRTSCHAFTLICHE RENTENBA	GE	25 years	-	F1+	AAA		STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE		Yes	"Rentenbank"	
IRELAND	IR		-	F1+	AA		STABLE	P-1	Aa3	POS	A-1+	AA	POS				
NETHERLANDS	NE		-	F1	AAAu		STABLE	P-1u	Aaa	STABLE	A-1+u	AAAu	STABLE				
BNG BANK NV	NE	5 years	-	F1+u	AAA		STABLE	P-1	Aaa	a1	STABLE	A-1+	AAA	STABLE	Yes		
COOPERATIEVE RABOBANK UA	NE	6 months	-	F1+	AA-	a+	STABLE	P-1	Aa2	a3	STABLE	A-1	A+	STABLE	Yes	"Rabobank"	
NEDERLANDSE WATERSCHAPSBANK	NE	5 years	-	F1+				P-1	Aaa	a1	STABLE	A-1+	AAA	STABLE	Yes		
NORWAY	NO		-		AAAu		STABLE		Aaa	STABLE	A-1+u	AAAu	STABLE				
KOMMUNALBANKEN AS	NO	5 years	-	F1+u				P-1	Aaa	a1	STABLE	A-1+	AAA	STABLE		Yes	
SCOTLAND	SI	5 years	-						Aa3	a1	STABLE	AA	STABLE				
SINGAPORE	SI		-		AAAu		STABLE		Aaa	STABLE	A-1+u	AAAu	STABLE				
DBS BANK LTD	SI	6 months	Yes	F1+u	AA-	aa-	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE		Yes	
OVERSEA-CHINESE BANKING CORP	SI	6 months	Yes	F1+	AA-	aa-	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE		Yes	
UNITED OVERSEAS BANK LTD	SI	6 months	Yes	F1+	AA-	aa-	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE		Yes	
SWEDEN	SW		-	F1+	AAAu		STABLE	P-1	Aaa	STABLE	A-1+u	AAAu	STABLE				
SVENSKA HANDELSBANKEN-A SHS	SW	6 months	-	F1+u	AA+	aa	STABLE	P-1	Aa1	a2	STABLE	A-1+	AA-	STABLE	Svenska HB		
SVENSK EXPORTKREDIT AB	SW	5 years	-	F1+				P-1	Aa1	a2	STABLE	A-1+	AA+	STABLE			
UNITED STATES OF AMERICA	US		-		AA+u		STABLE		Aa1	STABLE	A-1+u	AA+u	STABLE				
NORTHERN TRUST CO	US	100 days	-	F1+u	AA	aa-	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE			
SUPRANATIONAL				F1+													
AFRICAN DEVELOPMENT BANK (AfDB)	IV	5 years	-		AAA		STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE				
ASIAN DEVELOPMENT BANK	PH	5 years	-	F1+	AAA		STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE				
COUNCIL OF EUROPE DEVELOPMENT BANK (CEDB)	FR	15 years	-	F1+	AAA		STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE				
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)	GB	25 years	-	F1+	AAA		STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE				
EUROPEAN INVESTMENT BANK (EIB)	LX	25 years	-	F1+	AAA		STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE				
INTER-AMERICAN DEVELOPMENT BANK (IADB)	US	25 years	-	F1+	AAAu		STABLE	(P)P-1	Aaa	STABLE	A-1+	AAA	STABLE				
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (THE WORLD BANK)	US	25 years	-	F1+u	AAAu		STABLE	P-1	Aaa	STABLE	A-1+	AAA	STABLE	World Bank Group	"World Bank"		
INTERNATIONAL FINANCE CORP	US	5 years	-	F1+u				(P)P-1	(P)Aaa	STABLE	A-1+	AAA	STABLE				
NORDIC INVESTMENT BANK (NIB)	FI	25 years	-					P-1	Aaa	STABLE	A-1+	AAA	STABLE				

Bath & North East Somerset Council				
MEETING:	Corporate Audit Committee			
MEETING DATE:	11 th February 2026	AGENDA ITEM NUMBER		
TITLE:	Risk Management – Update Report – Financial Management System			
WARD:	ALL			
AN OPEN PUBLIC ITEM				
List of attachments to this report:				
Presentation will be made at the meeting				

1 THE ISSUE

- 1.1 The Council's Corporate Audit Committee has responsibility within its terms of reference for overseeing the risk management framework of the Council.
- 1.2 At the meeting a presentation will be made on the proposed replacement of the Council's key financial management system giving background and context for the programme and current status.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to:

Note the report and receive a further update in six months on progress with regards to the implementation process of the Council's financial management system.

3 THE REPORT

- 3.1 The Corporate Audit Committee has responsibility for overseeing the risk management framework within the Council. This does not mean accountability or responsibility for the risks which clearly sit with the respective Service area but the Committee does have a role in providing assurance that a system is in place and working.
- 3.2 As part of its ongoing review of key risks throughout the Council it was agreed the Committee would include reviews of specific themes as well as corporate risks and this meeting details an update on the proposed replacement of the Council's Financial Management System which clearly has a significant impact on financial controls and the External Audit process.
- 3.3 A detailed presentation will be given at the meeting and the remainder of the report reminds the committee on our overall risk management framework.

Context – Risk Management Framework

3.4 Our strategy to manage risk recognises that both taking and accepting more risk is part of modern service delivery. However in accepting more risk we will do this in both a transparent and informed way to achieve the best results for citizens and customers.

3.5 Therefore we want to promote an approach that focusses on the effective identification and management of risks to ensure the council is focussed on minimising adverse impacts and maximising benefits within the delivery of its objectives throughout all of its services.

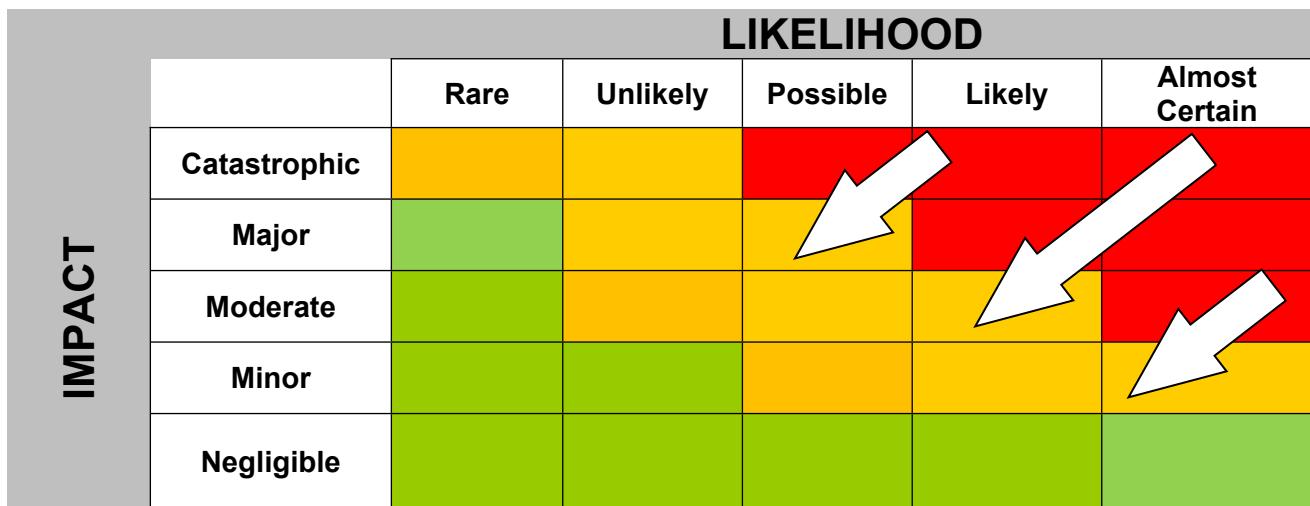
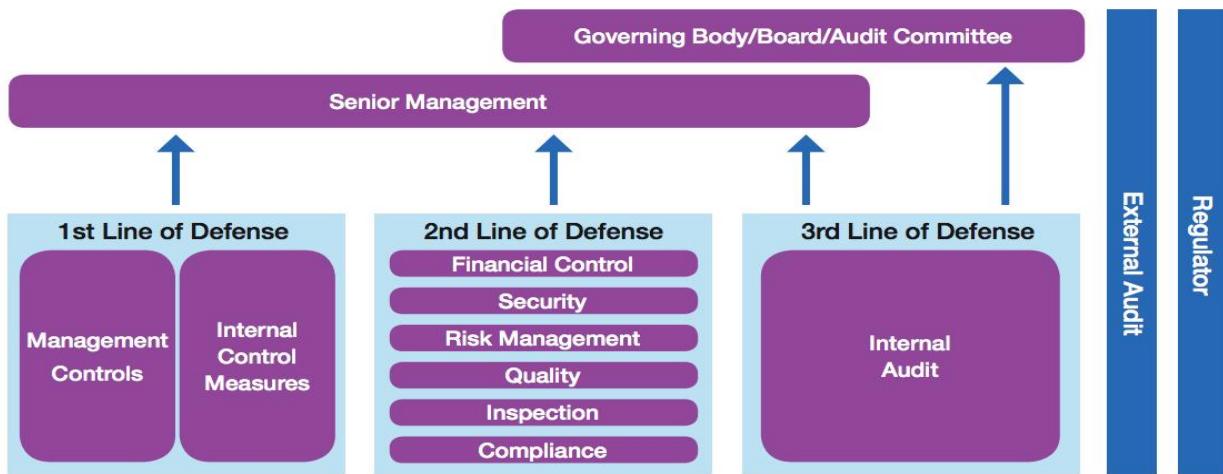
3.6 Active risk management is an integral component of our local code of corporate governance which is designed to help us achieve our aspirations, priorities and outcomes to deliver the Council's Vision. This strategy therefore expects that we focus on taking the right actions to address risks and opportunities both in a transparent way and based on evidence.



3.7 The framework is therefore designed to support Officers and Members in delivering on the Council's plans and operational objectives.

3.8 Risk Management forms the second line in the 'Three Lines of Defence Model' protecting our organisation.

3.9 We do this in a sensible and proportionate way to actively manage risks down the risk matrix in terms of their potential impact on the organisation.



Corporate Risk Register (CRR) (Appendix 1)

3.10 All risk registers are dynamic documents, currently the CRR contains 28 risks which are owned by the Corporate Management Team and 7 risks in watching brief mode. Corporate Management Team review the register formally on a quarterly basis. The CRR identifies themes, service area/ director/ officer leads and describes the risks and commentary around actions, status and mitigation. This allows regular review of the changing landscape in local government and ability to provide co-ordinated responses to major threats.

3.11 The inherent, residual and risk change are also captured along with an assessment of risk appetite and risk tolerance and structured around the following themes.

Regional Partnership Working	Resource & Budget Management
Climate Change	Transformation

Housing	Cyber Risk Management
Infrastructure	Financial Planning
Climate Emergency	Capital Programme
Transport	Safety Valve – DSG Management
Safeguarding	Health and Safety
Childrens Services Transformation	Health & Social Care Joint Working
Social Care – Various	Emergency Management
Public Health & Pandemic Planning	Social Care - Deprivation of Liberty
Corporate Governance	Avon Pension Fund

3.12 The watching brief element of the register includes outlines risks for –

- a) Commercial Income
- b) Homelessness
- c) Customer Standards & Customer Contact
- d) Capital Programme Financial Risks
- e) CRSTS Delivery
- f) Cost of Living/Inflationary Pressures
- g) Emergency Management

4 STATUTORY CONSIDERATIONS

4.1 The council has statutory duties to plan and prepare for emergencies under the provisions of the Civil Contingencies Act 2004.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 This is an information and update report so there are no direct implications arising from this report.

6 RISK MANAGEMENT

6.1 No decision or recommendation is being made and this report details the council's approach to risk management. As a result, there are therefore no new significant risks to consider in relation to this report.

7 EQUALITIES

7.1 An equalities impact assessment has been considered using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

8.1 There are no direct climate change implications related to this report. In terms of risk management, risks associated with the Council's roles in respect of climate change are captured at different levels, including in the CRR and other risk registers.

9 OTHER OPTIONS CONSIDERED

9.1 This is an update report to aid assurance, no decisions or recommendations are being proposed so no other options are being considered.

10 CONSULTATION

10.1 The report is an information and update report and has been consulted with the Council's S151 Officer.

Contact person	Jeff Wring – Director – Financial Services, Assurance & Pensions
Background papers	
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

Bath & North East Somerset Council				
MEETING:	Audit Committee			
MEETING DATE:	11 th February 2026	AGENDA ITEM NUMBER		
TITLE:	Consultation on the Development of the Internal Audit Plan 2026/27			
WARD:	ALL			
AN OPEN PUBLIC ITEM				
List of attachments to this report:				
None				

1. THE ISSUE

1.1. This report:

- 1) informs the Audit Committee on the methodology to be used to compile and maintain the Internal Audit Plan 2026/27.
- 2) asks for Committee Member input on Council activities, areas or themes they would like to be considered for inclusion in the Internal Audit Plan 2026/27.

2. RECOMMENDATION

2.1. The Audit Committee is asked to comment on any areas or themes that they would like to be considered for inclusion in the Internal Audit Plan for 2026/27.

2.2. Note the intention to keep the plan under regular review, including a six-month progress assessment, in order to prioritise resources as required.

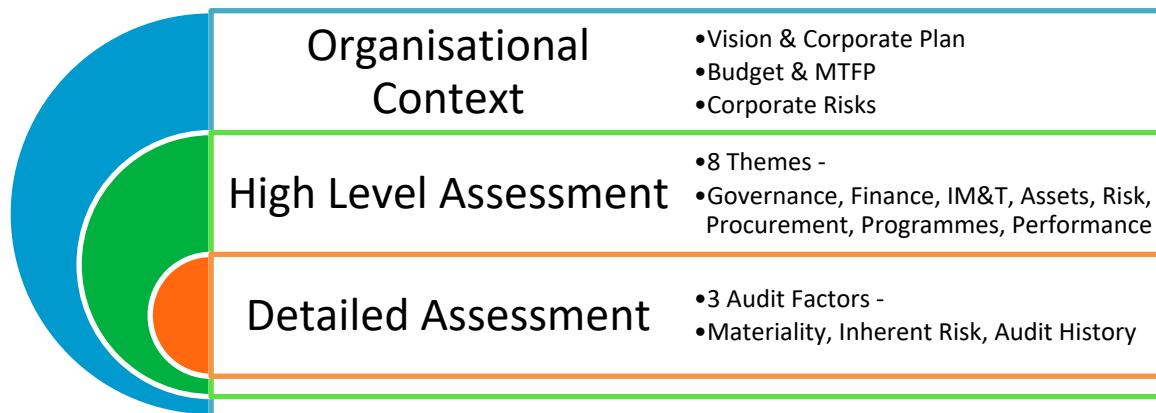
3. THE REPORT

3.1. Internal Audit Planning Methodology - Reasonable Assurance Model

3.1.1. The planning process is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Head of Internal Audit to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year.

3.1.2. The model used to develop the audit plan – the Reasonable Assurance Model – has regularly been described to the Committee in detail. It was created and adopted in conjunction with a number of other councils in the South West and its approach won a Public Finance award.

3.1.3. The outline of the model is as follows with the key elements in the middle section which introduce a high-level assessment of themes based on good governance.



3.1.4. A key part of the planning process is therefore extensive stakeholder consultation. Conversations in this regard usually take place between January to March and discussions will therefore take place with the following officers/groups up until the end of March:

- Section 151 Officer
- Senior Finance Managers
- Service Directors
- Statutory Officers inc. Chief Executive and Monitoring Officer
- Executive Leadership Team
- Audit Committee

3.2. **Rolling Plan Review**

3.2.1. Members will be aware that some changes to planned work has been required in previous years in order to redirect audit resources to unforeseen issues arising in-year, such as where investigations or urgent audit support is required.

3.2.2. Whilst only relatively minor adjustments have been required to audit plans in recent years, the Internal Audit Service have continued to ensure a fluid approach is maintained to planned audit work. Therefore, whilst the usual consultation process will follow and a full-year audit plan will initially be produced to cover the period 1st April 2026 – 31st March 2027, the plan will be kept under continual review and adjusted to cover any further unforeseen requirements. A formal review of the annual plan will then take place at the six-month stage, if necessary, in order to adequately prioritise and resource the second half of the financial year. Any proposed changes will be notified to the Audit Committee.

3.3. **Audit Committee Consultation and Input**

3.3.1. The Audit Committee is a key stakeholder and have responsibility for approving the Internal Audit Plan. Therefore, the purpose of this report is to obtain views and feedback on areas which the planning process can consider and take account of before it is finalised in early March.

3.3.2. Each year, the Chartered Institute of Internal Auditors surveys organisations and publishes a report which tracks the perceived risks as highlighted by those surveyed. This report is then considered when preparing the audit plan and the top five risk areas identified this year which are particularly relevant to the public sector are detailed below. This list may assist the committee as a point of reference to help understand where they feel audit coverage may be beneficial at Bath & North East Somerset Council.

i) Cybersecurity and data security

Cybersecurity and data security remain the top organisational risk. 82% of Chief Audit Executives (CAEs) rated it their most important threat. CAEs described it as a constantly “emerging risk” with increased sophistication in attacks.

ii) Human Capital, diversity, talent management and retention

Human Capital remained the second largest threat to organisations in 2026. This area includes diversity, talent management, and employee retention. Whilst risk ratings for Human Capital dropped in the survey this year, this is likely as a result of other risks being perceived as more urgent, as opposed to this being a decreasing risk.

iii) Digital Disruption, new technology and AI

58% of CAEs expect it to be a top-five focus area for internal audit within three years, second only to cybersecurity. In the public sector, digital disruption can also be used to describe the move from manual processes to digital processes. CAEs said that they were focusing on governance to ensure strategically sound and safe implementation of AI.

iv) Regulatory Change

Regulatory change, as well as geopolitical uncertainty risks, have risen and appear to be linked. It is noted that the timing of the survey (May/ June 2025) coincided with the United States announcing tariff and policy changes – the impacts of which remain ongoing

v) Business Resilience

Business Resilience includes areas such as Business Continuity, Disaster Response, and Crisis Management, and has risen to be one of the highest risks (likely linked to the Information Technology items in i) and iii)).

3.3.3. It should be noted that in addition to compiling a list of ‘core audit reviews’, Internal Audit will continue to:

- Provide support to the corporate governance framework within the Council including completing the Annual Governance review work required to publish the Council’s Annual Governance Statement.
- Carry out the Co-ordination and Investigation roles to complete the work required through the Cabinet Office Data Matching ‘National Fraud Initiative’.

- Provide advice on systems of internal control including Council policies and procedures. This is particularly important when systems and processes are being developed or changed.
- Provide 'independent' examination of financial records to provide assurance to external funding bodies, e.g. West of England Combined Authority, that grants are being used in compliance with Terms and Conditions.
- Provide support to Services on carrying out investigations in relation to financial irregularities. This may require Audit staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures.

4. STATUTORY CONSIDERATIONS

4.1. There are no specific statutory considerations related to this report. Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIFPA Codes of Practice and the global professional standards for delivery of an adequate Internal Audit Service.

5. RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1. There are no direct resource implications relevant to this report.

6. RISK MANAGEMENT

6.1. Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees, undetected fraud and inadequate coverage. Internal Audit assists the council in identifying risks, improvement areas and recommending good practice. Directorate and Strategic Risk Registers are also reviewed when developing the internal audit plan

7. EQUALITIES

7.1. Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

8. CLIMATE CHANGE

8.1. This plan process will consider key risks (& opportunities) which will directly or indirectly include focus on Climate Change and report back on whether assurances can be given on the delivery of the organisations plan to mitigate the risk in this area.

9. OTHER OPTIONS CONSIDERED

9.1. No other options to consider related to this report.

10. CONSULTATION

10.1. In developing and delivering the Annual Audit Assurance Plan, the Internal Audit Service is consulting widely with officers and members. Ongoing consultation will continue with the Audit Committee throughout the year after the plan has been approved..

Contact person	Peter Cann – <u>Peter.Cann@BATHNES.GOV.UK</u>
Background papers	<i>Internal Annual Audit Plan 2025/26 – Audit Committee April 2025</i>
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

Bath & North East Somerset Council				
MEETING:	Audit Committee			
MEETING DATE:	11 th February 2026	AGENDA ITEM NUMBER		
TITLE:	Annual Governance Statement Update			
WARD:	ALL			
AN OPEN PUBLIC ITEM				
List of attachments to this report:				
Appendix 1 - High Level Methodology for Preparing the Annual Governance Statement				

1. THE ISSUE

1.1. The aim of the report is to inform the Committee on the Annual Governance Review process and enable the Committee to fulfil its responsibilities associated with the publication of the Council's Annual Governance Statement 2025/26.

2. RECOMMENDATION

2.1. The Corporate Audit Committee notes the report and process for the Annual Governance Statement.

3. THE REPORT

3.1 In September 2025 the Audit Committee received a presentation on the Council's Statement of Accounts and this included slides on the Council's Annual Governance Statement 2024/25 and the 'significant' reportable issues of Financial Challenge (Service Demand & Cost Pressures) and Children Services (Dedicated Schools Grant Deficit & the Safety Valve Agreement).

3.2 The Committee had previously received a report in 2024/25 on the work related to the DSG Deficit and Safety Valve agreement and positive progress has been achieved during the year with the Department for Education and Treasury in unlocking further progress in this area. A further verbal update can be given at the meeting as we are still awaiting a white paper from government on the long-term position regarding this national risk area.

3.3 The Financial Challenge issue remains challenging, especially in the light of the Fair Funding reforms. However, our financial position whilst still difficult has improved since last year but we are still projecting an overspend as at the end of the year. The key pressure remains in Children's Services and significant attention and oversight at Officer and Member level continues. Full details will be reported to Cabinet in February.

3.4 In terms of the process for 2025/26 the Annual Governance Statement is based on the Councils 'Local Code of Corporate Governance'. As the Annual Governance Statement is a statutory requirement, we are required to take account of any guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE).

3.5 The guidance is also used by the External Auditor in their audit of the accounts and we are therefore required to take account of these in preparation of the statement.

3.6 The *Delivering Good Governance in Local Government Framework*, published by CIPFA in association with SOLACE, sets the standard for local authority governance in the UK. The concept underpinning the framework is to support local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way.

3.7 The purpose of the Framework is to assist authorities individually in reviewing and accounting for their own unique approach, with the overall aim to ensure that:

- 1) Resources are directed in accordance with agreed policy and according to priorities.
- 2) There is sound and inclusive decision making.
- 3) There is clear accountability for the use of those resources to achieve desired outcomes for service users and communities.

3.8 Governance is a term used to describe the arrangements (including political, economic, social, environmental, administrative, legal, and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

Good governance enables the Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times.

3.9 In order to demonstrate that the Council has the necessary corporate governance arrangements in place, it's important to adopt a Local Code of Corporate Governance and periodically review the Code based on any developments nationally or locally. The core requirement of a Code is that it is based on the following key principles of good governance:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable, economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.

- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting and audit, to deliver accountability.

3.10 The Code provides further detail for each of the key principles to describe expectations and is used as part of the Annual Governance Review each year. Last year's Annual Governance Statement can be seen in the link [here](#).

3.11 Process for 2025/26 Statement

3.12 An overview of the general process for the compilation and approval of the Annual Governance Statement for 2025/26 is attached at the end of this report in Appendix 1. This is similar to the process adopted in previous years and will be reviewed during each stage of completion alongside the Council's new Section 151 Officer to identify any opportunities for which the process could be further enhanced.

3.13 The process diagram indicates the major steps in the process for compiling the statement and the outcome will be a final Annual Governance Statement which will be ratified by the Audit Committee as part of the Annual Accounts approval process.

3.14 CIPFA/ SOLACE guidance as detailed above and its key principles will be taken account of as normal within this year's review and as reported last year, there were two significant issues identified in the 2024/25 statement; i) the Financial Challenge and ii) Rising Dedicated School's Grant (DSG) deficit.

3.15 The Annual Governance Statement will record any 'significant issues', and associated action plans. The definition of a significant issue can be summarised as follows:

- Significant failures in decision making at Council or Cabinet
- Significant unexpected use of Resources
- Significant performance failings or failures in service delivery
- Significant issues from inspections, audits, complaints etc
- Significant issues failures in respect of statutory duties
- Significant issues from operational issues and third parties

3.16 Whilst the statement forms part of the Annual Accounts, it is a separate document and is a management statement which is signed/ authorised by the Chief Executive and Leader of Council before being presented to the Audit Committee.

4. STATUTORY CONSIDERATIONS

4.1. The Accounts & Audit Regulations set out the expectations of provision of an Annual Governance Statement. This is supported by CIPFA/SOLACE standards and the Council's Local Code of Corporate Governance. Implications of not providing this statement would include potential qualification of the Accounts, increase in External Audit fees, potential significant reputational risks and ultimately additional costs to rectify.

5. RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1. There are no direct resource implications relevant to this report.

6. RISK MANAGEMENT

6.1. Failure to compile an Annual Governance Statement would result in non-compliance with statutory legislation and leave the Council open to criticism by External Audit and external stakeholders.

7. EQUALITIES

7.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8. CLIMATE CHANGE

8.1. There are no direct climate change implications related to this report.

9. OTHER OPTIONS CONSIDERED

9.1. No other options to consider related to this report.

10. CONSULTATION

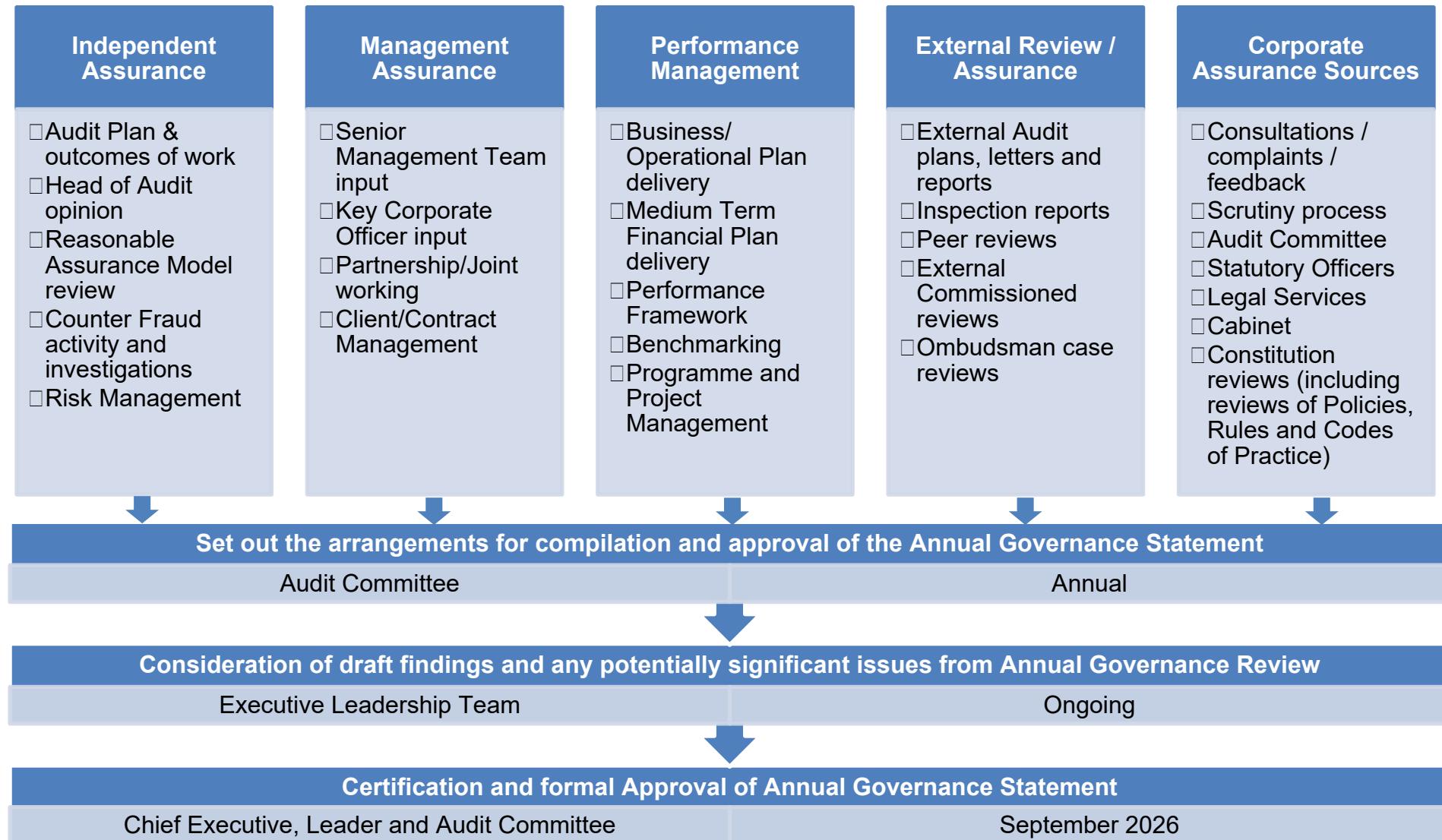
10.1. The Council's Section 151 Officer has had the opportunity to input to this report and has cleared it for publication.

Contact person	<i>Peter Cann - Peter_Cann@bathnes.gov.uk</i> <i>Jeff Wring - Jeff_Wring@bathnes.gov.uk</i>
Background papers	<i>Local Code of Corporate Governance</i>
Please contact the report author if you need to access this report in an alternative format	

Appendix 1.

Outline Methodology for Preparing the Annual Governance Statement 2025/26

Page 87



This page is intentionally left blank

Bath & North East Somerset Council				
MEETING:	Corporate Audit Committee			
MEETING DATE:	11 th February 2026	AGENDA ITEM NUMBER		
TITLE:	Audit Committee – Draft Workplan			
WARD:	ALL			
AN OPEN PUBLIC ITEM				
List of attachments to this report:				
Appendix 1 – Draft Workplan 2025/26				

1 THE ISSUE

1.1 The draft workplan for the Committee is attached at Appendix 1 for comment.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to –

Note the 2025/26 workplan for the Committee subject to any proposed amendments.

3 THE REPORT

3.1 The workplan for the Committee ensures that the terms of reference for the Committee are appropriately delivered. Appendix 1 details the current workplan which is kept under ongoing review and the Committee is asked to note this, subject to any comments or proposed amendments.

4 STATUTORY CONSIDERATIONS

4.1 There are no specific statutory considerations related to this report.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1 This is an information report so there are no direct implications arising from this report.

6 RISK MANAGEMENT

6.1 There are no new significant risks or issues to report to the Committee as a result of this report.

7. EQUALITIES

7.1 An equalities impact assessment has been considered using corporate guidelines and no significant issues have been identified.

8. CLIMATE CHANGE

8.1 There are no direct climate change implications related to this report.

9. OTHER OPTIONS CONSIDERED

9.1 This is an update report, no decisions or recommendations are being proposed so no other options are being considered.

10 CONSULTATION

10.1 Consultation has been carried out with the Section 151 Finance Officer.

Contact person	Jeff Wring, Director – Financial Services, Assurance & Pensions (S151 Officer) (01225 477323)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Appendix 1 - CORPORATE AUDIT COMMITTEE WORKPLAN – 2025/26

Date of meeting	Report title	Requirement & Purpose (TOR)
5 th February 2025	External Audit Progress Update Treasury Management Strategy - 2025/26 Consultation Internal Audit Plan - 2025/26 Consultation Risk Management Update - DSG/Safety Valve Annual Governance Statement Update	To Note – Oversight of work of External Audit To Recommend to Council/Cabinet – Oversight of Treasury Management (Financial Governance) To Note – Oversight of work of Internal Audit To Note – Update on Significant Issues & Risk Management Arrangements To Note – Update on Significant Issues

<p><i>30th April 2025</i></p>	<p>External Audit Plan for Council & Avon Pension Fund - Y/E 2024/25</p> <p>Accounting Policies Update – IFRS 16</p> <p>Internal Audit - Annual Report – Y/E 2024/25</p> <p>Internal Audit - Annual Plan – Y/E 2025/26</p> <p>Counter Fraud – Annual Report</p> <p>S106 Update - Risk Management Update Report</p> <p>Risk Management – Annual Update Report</p>	<p>To Approve – Oversight of work of External Audit</p> <p>To Review & Approve – Overview of Financial Management Governance</p> <p>To Note – Oversight of work of Internal Audit</p> <p>To Approve – Oversight of work of Internal Audit</p> <p>To Note – Oversight of Counter-Fraud & Corruption arrangements</p> <p>To Note – Oversight of Risk Management arrangements</p> <p>To Note – Oversight of Risk Management arrangements</p>
<p><i>24th September 2025</i></p>	<p>Annual Accounts 2024/25 – Briefing</p> <p>2024/25 Audit Findings Report - For Council & Pension Fund (Approval of Accounts)</p> <p>Y/E 2024/25 External Audit Annual Report (Including VFM Assessment Report)</p> <p>Treasury Management Outturn Report – Y/E/ 2024/25</p> <p>Audit Committee Annual Report & Review of Effectiveness 2024/25</p>	<p>To Note – Oversight of Financial Governance</p> <p>To Approve – Oversight of work of External Audit, Financial Management and Financial Governance</p> <p>To Note – Oversight of work of External Audit, Financial Management, Financial Governance & Risk Management</p> <p>To Note – Oversight of Treasury Management (Financial Governance)</p> <p>To Approve & Recommend to Council – Report back to Council on delegation of responsibility</p>

<p><i>26th November 2025</i></p>	<p>ADL Accounts Y/E 2024/25 - Accounts Update</p> <p>S106 Progress Update Report</p> <p>Treasury Management 6 month update - 2025/26</p> <p>Internal Audit Update Report - 2025/26</p>	<p>To Note – Oversight of Council Owned Companies</p> <p>To Note – Overview of Risk Management Arrangements</p> <p>To Note – Oversight of Treasury Management (Financial Governance)</p> <p>To Note – Oversight of work of Internal Audit</p>
<p><i>11th February 2026</i></p>	<p>External Audit Progress Update</p> <p>Treasury Management Strategy - 2026/27 Consultation</p> <p>Internal Audit Plan - 2026/27 Consultation</p> <p>Annual Governance Statement Update</p> <p>Risk Management Update -</p>	<p>To Note – Oversight of work of External Audit</p> <p>To Recommend to Council/Cabinet – Oversight of Treasury Management (Financial Governance)</p> <p>To Note – Oversight of work of Internal Audit</p> <p>To Note – Update on Significant Issues</p> <p>To Note – Update on Risk Management Arrangements – New Financial Management System Presentation</p>
<p><i>13th May 2026</i></p>	<p>External Audit Plan for Council & Avon Pension Fund - Y/E 2024/25</p>	<p>To Approve – Oversight of work of External Audit</p>

	<p>Internal Audit - Annual Report – Y/E 2024/25</p> <p>Internal Audit - Annual Plan – Y/E 2025/26</p> <p>Counter Fraud – Annual Report</p> <p>Risk Management – Annual Update Report</p>	<p>To Note – Oversight of work of Internal Audit</p> <p>To Approve – Oversight of work of Internal Audit</p> <p>To Note – Oversight of Counter-Fraud & Corruption arrangements</p> <p>To Note – Oversight of Risk Management arrangements – Procurement Risk</p>
--	--	--