



Council Offices, Kiln Road,  
Thundersley, Benfleet,  
Essex SS7 1TF.  
Tel. No: 01268 882200  
Fax No: 01268 882455



**David Marchant** LLB (Hons) BSc (Hons) CEng FICE FCMI  
**Chief Executive**

## AGENDA

<b>Committee:</b>	<b>AUDIT</b>
<b>Date and Time:</b>	<b>21st January 2021 at 5 p.m.</b>
<b>Venue:</b>	<b>Remote via MS Teams</b>
<b>Membership:</b>	<b>Councillors Skipp (Chairman), Blackwell, Cutler, May and Mumford</b> <b>Substitutes: Councillors Acott, Ms Drogman, Thomas and Walter</b>
<b>Officers attending:</b>	<b>Lance Wosko, Financial Services Manager</b> <b>Andrew Barnes, Head of Internal Audit</b> <b>Michael Dineen, Senior Manager, Counter Fraud &amp; Investigation Directorate</b> <b>Ben Brook, Strategy, Policy and Performance Manager</b>
<b>Also attending</b>	<b>Debbie Hanson, Associate Partner, EY</b>
<b>Enquiries:</b>	<b>Ann Horgan, Ext. 2413</b>

### PART I

(Business to be taken in public)

- 1. Apologies**
- 2. Members' Interests**
- 3. Minutes**  
A copy of the Minutes of the meeting held on 24th November 2020 is attached.
- 4. Quarterly Monitoring Report of the Council's Governance Arrangements**  
Report of the Strategy Policy and Performance Manager is attached.
- 5. Counter Fraud & Investigation Directorate: Quarterly Performance Report 2020/21:**  
Report of the Senior Manager, Counter Fraud Investigation Directorate is attached.
- 6. Internal Audit: Quarterly Performance Report 2020/21:**  
Report of the Head of Internal Audit is attached.

- 7. Treasury Management and Mid – Year Activity Report 2020/21**  
Report of the Financial Services Manager is attached.
- 8. Treasury Management and Investment Strategies 2021/22**  
Report of the Financial Services Manager is attached.

***Current Information Items (standing item)***

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## AUDIT COMMITTEE

### VIRTUAL MEETING VIA MS TEAMS

24th NOVEMBER 2020

**PRESENT:** Councillors Skipp (Chairman), Acott (substitute for Councillor Blackwell), Cutler, May and Mumford.

**ALSO PRESENT:** Councillor Riley

Head of Internal Audit, Andrew Barnes, Ben Brook, Strategy Policy and Performance Manager, Chris Mills, Strategic Director (Resources), Lance Wosko, Financial Services Manager, Michael Dineen and Debbie Hanson, Associate Partner (EY) were also present.

**APOLOGIES:** Councillors Blackwell.

#### 24. MEMBERS' INTERESTS

There were none.

#### 25. MINUTES

The Minutes of the meeting held on 16<sup>th</sup> January 2020, were taken as read and signed as a correct record subject to an amendment is required to show that Cllr Blackwell was absent from the meeting.

#### 26. EY EXTERNAL AUDIT PLANNING REPORT FOR THE YEAR ENDED 31 MARCH 2020:

The Chairman agreed to take this item of business in conjunction with the next item, number 8 of the Agenda.

The External Auditor's Audit Planning Report for the year ended 31 March 2020 was presented to the Audit Committee.

The report was before the Committee belatedly due to Covid-19. The report had been updated Plan in May to reflect the impact of Covid-19 on both the Council's Financial Statements and Audit Procedures to be undertaken.

Members attention was drawn to area on which the audit would focus including items identified as risks; value for money and audit materiality.

Following the presentation of the report the Audit Committee asked several questions, which were responded to by the Council's External Auditors and Officers.

**Resolved** – To note EY's Audit Planning Report for the year ended 31st March 2020.

**27. EY EXTERNAL AUDIT RESULTS REPORT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2020**

The Committee considered a report which summarised the results of the work completed to date for the 2019/20 financial year, regarding the opinion on the Statement of Accounts and the conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion).

The External Auditors reported that subject to satisfactory completion of one outstanding item they would issue an unqualified opinion on the authority's financial statements. There were no issues, no matters to report on the arrangements to secure economy, efficiency and effectiveness in the use of resources.

The External Auditor thanked the Council's staff during for their assistance and acknowledged the quality of the accounts during this the period of engagement was acknowledged.

The Committee considered the report and sought clarification regarding the Pension Fund. Members acknowledged this was an excellent outcome given these challenging times.

**Resolved** - That the External auditors' Audit Results Report 2019/20 be noted and that the Letter of Representation contained within the report be approved.

**28. COUNTER FRAUD & INVESTIGATION DIRECTORATE: ANNUAL REPORT 2019/20 COUNTER FRAUD PLAN AND STRATEGY 2020/21**

The Committee considered a report outlining the performance of the team over the last year as well as a proposed new Counter Fraud strategy and Proactive Work Plan to tackle fraud for the Council in 2020/21.

The Committee's attention was directed to headline figures for 2019/20:

- 26 reports of suspected fraud had been received
- 8 of those cases had been closed as 'No Fraud or No Further Action'
- 6 sanctions had been delivered in cases of proven fraud
- £149,900 had been detected in proven cases of fraud

The new Counter Fraud Hub had been up and running since January 2020 and there had been an increased presence and referrals. It had also led to links opening up between the Counter Fraud Team and the on-site police teams.

The Counter Fraud team was also moving to deliver training to staff in particular areas. This included housing, procurement as well as elected members.

Towards the end of the year CFI was unable to conduct its 'business as usual' approach to counter fraud as many work activities were halted by the Covid 19. This would have a continued effect on work being carried out in 2020/21, however the scale of this was currently unknown.

**Resolved**

1. To note the performance of the Counter Fraud & Investigation Directorate for the year 2019/20
2. To approve the Proposed Counter Fraud Proactive Work Plan for 2020/21

**29. HEAD OF INTERNAL AUDIT ANNUAL REPORT AND OPINION 2019/20**

The Head of Internal Audit presented a report on the rationale for and an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control for 2019/2020. A statement on conformance with the UK Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme was submitted to the Committee.

The Council continued to maintain satisfactory and effective risk management, control and governance arrangements, despite the continuing financial pressure that it was dealing with. During 2019/20 an external provider reported on a high-level assessment of the Council's risk management arrangements which concluded that risk management was happening as expected across the Council, however further work was to be done to fully embed this to drive value from the process and help inform decision making at all levels of the Council. As a result, reliance continued to be placed on the Council's risk management arrangements, but steps would be taken to further enhance the consistent utilisation of arrangements and to refresh the Risk Management Policy and Strategy.

As a result of the assurance provided by audit and other work undertaken, the design and operation of the Council's risk management, control and governance framework in place for the year remained satisfactory overall.

The Head of Internal Audit drew attention to the impact of the covid-19 pandemic which began to manifest itself in the latter part of the year as the Council went into emergency response mode in line with the rest of the country and most of the world.

The Council's response appeared to have held up well, co-operating with and co-ordinating a range of resources from a range of different sources to provide the support, response and management of the community to meet the requirements of the Borough as it went through the period of lockdown.

There remained much to do as the situation continues to evolved and there would be further challenges as the Borough and the Council worked on recovery from the pandemic.

As a result there were changes being made to way the Council was operating, including most staff currently operating remotely for most of the time. These new ways of working in the current situation continue to develop and evolve, and there was a need for these to have the opportunity to be properly embedded and assurance obtained that they are working effectively as intended. However the opportunity for a period of time in which things can settle into a 'new normal' does not appear to be forthcoming very soon.

There were no issues other than those already disclosed to be including in the Council's Annual Governance Statement.

The overall conclusion was that the Council was maintaining satisfactory and effective risk management, control and governance arrangements.

The Committee considered the remainder of the report.

Appendix A to the report summarised the audit opinions issued in 2019/20.

Appendix B contained the Internal Audit Plan for 2019/20 as at 2nd October 2020

Appendix C included the results of stakeholder surveys and compliance with professional standards.

Appendix D contained the summary assessment of compliance with the UK Public Sector Internal Audit Standards 2019/20.

Appendix E set out compliance with the UK Public Sector Internal Audit Standards 2019/20 Action Plan as at 2nd October 2020.

Members were pleased to note that arrangements were working well and were mindful of the impact of Covid 19 on the operation and business of the Council.

**Resolved** – That the Head of Internal Audit's Annual Report for 2019/20 is noted.

### **30. TREASURY MANAGEMENT ANNUAL REPORT AND ACTUAL PRUDENTIAL INDICATORS 2019/20:**

The Committee was informed that the annual treasury report was a requirement of the Council's reporting procedures. It covered both the treasury activity and the actual Prudential Indicators for 2019/20. The report met the requirements of both the CIPFA Code of Practice for Treasury Management in Local Authorities and the CIPFA Prudential Code for Capital Finance in Local Authorities.

As required by the Code, the activity report for 2019/20 was submitted at Annexe A for scrutiny by Audit Committee, prior to submission to Cabinet. It was important to ensure that the Council's treasury management activities were subject to a robust process of scrutiny. This report provided Members with information on treasury management activity and variances in order to fulfil this process.

Members asked questions of the Financial Services Manager regarding borrowing.

**Resolved** – to approve the Treasury Management Activity Report for 2019/20, including the prudential indicators reported in Annexe D for onward submission to Cabinet.

**31. ANNUAL GOVERNANCE STATEMENT 2019/20**

The Strategy Policy and Performance Manager presented the Annual Governance Statement for 2019/20 for examination by the Committee prior to consideration by Council.

The Council had delegated responsibility for monitoring and reporting on the adequacy and effectiveness of its governance, risk management and controls to the Audit Committee. Therefore the Committee was required to satisfy itself that the Annual Governance Statement was consistent with its view on the Council's systems based upon the assurance presented to the Committee throughout the year.

The Committee considered and reviewed the report noting in particular the role of the Audit Committee, Risk Management, Business Continuity, Project Management and the Action Plan a new monitoring feature introduced in this year at the suggestion of the Committee.

**Resolved** – to approve the Annual Governance Statement 2019/20 and, subject to any further amendments from external audit, to recommend its adoption to Council.

**32. INTERNAL AUDIT CHARTER, STRATEGY AND AUDIT PLAN FOR 2020/21:**

The report presented to the Committee set out the Internal Audit Charter with the supporting Strategy and Audit Plan for 2020/21 and provided an update on progress made on the delivery of the Audit Plan.

A few very minor amendments have been made to the Strategy this year. These were cosmetic and did not change the way the audit service was provided under the Collaborative Working Agreement.

The Audit Plan was initially developed in March 2020 and had been kept under review to assess whether there are any changes to the risk profile and, therefore, update required to the work planned for the year. As is usual practice, any proposed future amendments to the Audit Plan would be reported to the Audit Committee for approval.

**Resolved:**

1. The Audit Committee approves the Charter, Strategy and Audit Plan for 2020/21.
2. The Audit Committee notes the progress made to date in delivering the 2020/21 Internal Audit Plan.

Chairman

**Committee:                   AUDIT COMMITTEE**

**Date:                           21st January 2020**

**Subject:                       Monitoring Report of the Council's Governance Arrangements**

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**1.     Purpose of Report**

- 1.1    To present the findings from the ongoing monitoring of the Council's governance arrangements.
- 1.2    To report on progress against the action plan to address significant governance issues as identified in the Annual Governance Statement.

**2.     Background**

- 2.1    Part of the requirement of the Council's governance arrangements is a monitoring report on the operation of the assurance framework for the Council. The assurance process includes the work of external auditors and is supplemented by the work of the internal audit service, as well as other assurance processes, including officer and member policies and processes.
- 2.2    The Committee will be aware that governance arrangements include individual staff leads who have taken responsibility for the governance processes set out below and are members of the Governance Group. This report was developed in consultation with officers from this group.

**3.     Monitoring Results for Key Governance Processes**

**3.1    Consultation and Engagement**

- 3.1.1   Assurance arrangements are satisfactory although the degree of engagement varies across services. Services undertake specific consultation as required to inform the development of new policies and shape future service delivery; service plans for 2021/22 (currently in draft) include the results of consultations and customer feedback which are used to develop new service plan actions. The Council also continues to carry out customer satisfaction surveys. For example, the Housing Service undertake a range of specific surveys on issues such as repairs & maintenance and voids & lettings. The Leisure Service seek regular feedback from service users which is used to improve the leisure offer.

**3.2    Business Planning and Strategy, including Partnerships**

- 3.2.1   The arrangements for business planning and strategy are adequate. Directorate plans and service plans are in place for the current financial year and new service plans for 2021/22 are being drafted for implementation from April 2021. Progress on delivery of these plans is considered at Directorate Management Team



meetings each month. The objectives in the corporate plan have again been refreshed for 2020/21 and were approved by Cabinet in March 2020. A new corporate plan for 2021 onwards is in development.

- 3.2.2 The Council's policy framework operates satisfactorily; policies and strategies largely continue to be refreshed by services. A register of policies and strategies is in place, updated annually and reported to Cabinet in October. The policy framework is set out in the Policy Framework and Budget Setting which will be reported to Cabinet and Council in February 2021.
- 3.2.3 Partnership assurance processes are subject to further development work in this financial year. A partnership strategy and framework is now in place; this gives guidance to those considering setting up new partnerships and advice on how to ensure that existing partnerships continue to be effective. Further work is planned to set out the performance reporting arrangements for key partnerships.
- 3.2.4 An audit of partnership arrangements is planned for the final quarter of 2020/21.

### **3.3 Financial Planning, Reporting and Budgetary Control**

- 3.3.1 Robust processes are in place and provide assurance that the arrangements for financial planning, reporting and budgetary control are effective. For example, a budget report is considered by the Executive Management Team (EMT) monthly and by Cabinet Members bi-monthly. Variances at year end are reported on all service areas, with commentary on those more than +/- £10k, and analysis of changes in income and expenditure from the previous financial year. External assurance will be provided by the annual audit of the Council's Statement of Accounts and the work of external audit. The processes in place give adequate officer and member assurance.
- 3.3.2 The Council maintains a ten-year rolling financial forecast which is reviewed and reported through to Cabinet and Council annually. The forecast is supported by three years detailed budget workings with the remaining years of the forecast being adjusted for future anticipated cost pressures. Assumptions adopted in the forecast are contained in a detailed report made to Special Council in February annually.
- 3.3.3 The Council maintains a level of reserves more than the minimum level recommended by the Council's Chief Finance Officer and has set a balanced budget for 2020/21. Full Council agreed the Policy Framework and Budget Setting report in February 2020 which included the financial planning strategy, the medium-term financial forecast and a summary of completed efficiency work.
- 3.3.4 Since the 2020/21 budget was set, the COVID-19 pandemic has had a significant impact on the Council's budget. The financial implications are reviewed regularly, with updates included within the monthly and bi-monthly reports to EMT and Cabinet. The lasting impact of the pandemic and how this will be addressed is being considered as part of the 2021/22 budget setting process.
- 3.3.5 Arrangements are in place to ensure value for money (VfM) and the assurance processes are operating appropriately. A new Commercial Strategy which will both be in place for the early part of the new financial year which will have a positive impact on the Council's arrangements for securing VfM.

### **3.4 Asset Management**

- 3.4.1 There are adequate routine assurance processes in place, which include programmed asset management sessions at Operational Management Team

(OMT). Significant asset management issues are referred to the Strategic Asset Group.

- 3.4.2 The Housing Strategy and Corporate Asset Management Plan both contain progress in asset management activities and plans which contribute towards the short, medium and long term aims and objectives of the Council in relation to asset management.
- 3.4.3 A biennial programme of planned repairs and maintenance is in place for corporate buildings. Funding provision has been earmarked and completion of all works is planned within the lifetime of the current medium-term financial forecast.
- 3.4.4 All ITC-related assets - including infrastructure such as servers, network equipment etc - are managed as part of the Council's contract with an external provider.
- 3.4.5 The Council owns a small fleet of vehicles and runs a vehicle maintenance workshop to carry out ongoing checks, servicing and repairs. We look to replace these vehicles with new vehicles every seven to eight years.

### **3.5 Risk Management**

- 3.5.1 The Risk Management Policy and Strategy was refreshed and approved by Audit Committee in January 2018 and a further refresh is now being developed. Two workshops have been delivered to all senior staff on the approach, but have particularly focused on:
  - Designing and implementing efficient controls that have the right effect on Impact and Likelihood
  - Ensuring robust assurances are available when monitoring risk
  - Having a consistent understanding of the approved risk appetite of the Council
  - Everyone contributing to an effective risk management framework that ensures the Council's overall tolerance for risk is not breached.
- 3.5.2 A Risk Management Health Check has been performed by an external consultant and officers are delivering an approach to address the areas for improvement identified by that review.
- 3.5.3 A corporate risk register continues to be in place and is ordinarily subject to monitoring by the Audit Committee and Corporate Management Team (CMT) in full twice a year. However, as a result of the attention on the response to the Covid-19 pandemic this has not happened this frequently, although work has begun refreshing the risks on the corporate risk register, starting with a review at CMT in December 2020. Risks are being identified as part of the development of service plans and risks get escalated to the corporate risk register should the identified issue be considered significant.

### **3.6 Health and Safety**

- 3.6.1 As an employer the Council continues in its aim to meet its statutory Health and Safety duties and employs a competent person to assist with this. The competent person, who as the corporate health and safety lead, maintains an overview of Council arrangements and provides analysis on current management performance. Any significant health and safety issues are escalated to EMT.
- 3.6.2 The key functions of the corporate health and safety lead is to monitor and review departmental health and safety arrangements and advise the Council's OMT in embedding a positive health and safety culture, where risk is managed sensibly and balanced with specific aims to improve overall safety performance. A section

on Health and Safety was been added to the 'How it Works' guidance for managers in 2019 and was updated in December 2020.

### **3.7 Business Continuity**

- 3.7.1 An internal audit on business continuity arrangements within the Council was completed in September 2020. This provided partial assurance over the arrangements in place and identified area of best practice for the Council to develop which have now been incorporated into the Council's business continuity activities.
- 3.7.2 Business continuity arrangements were significantly tested at the beginning of the 2020/21 financial year as large parts of the Council were required to work from home at very short notice following the lockdown announcement at the end of March 2020. However, arrangements for home working, where possible, were quickly put in place and have proved effective over the first and subsequent lockdowns.
- 3.7.3 Revised service level business impact analysis and response plan templates have been produced to further improve usability, clarity and outcomes involving a BC incident.
- 3.7.4 A corporate generic business continuity response plan exists, which has recently been subject to full review and revision, as part of a three-year cycle.
- 3.7.5 The subject of business continuity is incorporated into the quarterly risk management sections of OMT meetings.
- 3.7.6 The Council's emergency planning and business continuity framework document produced in 2018, describes how the Council will go about meeting its duty to be suitably prepared for dealing with emergencies and disruptions to the organisation's ability to deliver its critical services to the public.

### **3.8 Performance Management**

- 3.8.1 Core processes continue to operate satisfactorily, including the production of the corporate performance scorecard, refreshed for the 2020/21 financial year, which is considered quarterly by CMT and Cabinet. The indicators in the corporate scorecard help to show progress in the delivery of the objectives in the corporate plan. The service and directorate plans include performance indicators for both council-run services as well as for services provided on our behalf by contractors or partners. These indicators are updated as part of the service planning process.
- 3.8.2 Control arrangements also include the production of performance reports by all services from the performance database.
- 3.8.3 At an individual level, all employees are set objectives at the beginning of each appraisal year and performance is discussed in one-to-one meetings and at annual appraisals.

### **3.9 Data Quality**

- 3.9.1 Arrangements are satisfactory. The service planning process includes a requirement for team managers and heads of service to sign a declaration which includes consideration of data quality and the commitment to spot checking of data. Internal audit review the arrangements to ensure data quality where this is relevant to the audit work being undertaken. Data quality features on the governance action plan for 2020/21.

### **3.10 Information Governance**

- 3.10.1 The Council has implemented an information governance strategy, which is underpinned by associated guidance. The Solicitor to the Council acts as the Senior Information Risk Owner. The 'How it Works' guidance also contains a section on information governance which was updated in December 2020.
- 3.10.2 The General Data Protection Regulation (GDPR) became a statutory requirement from 25 May 2018, and together with the new Data Protection Act 2018 which has superseded the Data Protection Act 1998 it expands the rights of individuals to control how their personal information is collected and processed and places a range of new obligations on organisations to be more accountable and transparent when processing personal data. The Council has made good progress in meeting the requirements of GDPR and this work is led by the Solicitor to the Council.
- 3.10.3 The Data Retention Policy was updated in Spring 2019 and a session was held with OMT in June 2019.
- 3.10.4 A further session on information governance was held with OMT in September 2019 following which Information Asset Registers have been updated. In October, a check of how the Council's clear-desk policy was working was undertaken, giving further assurance that the Council complies with Data Protection Legislation.
- 3.10.5 Good progress has been made on the recommendations from a GDPR Audit carried out early in 2019. A follow-up audit was conducted in December 2019; the report concluded that we have satisfactory assurance in place in this area, although there remains action to be taken to fully address the recommendations arising from the original audit work.
- 3.10.6 The Council is currently undertaking an externally provided survey of staff's understanding of GDPR requirements and the arrangements that the Council has in place to address these. The results of this work will be available in early 2021.

### **3.11 Procurement**

- 3.11.1 There are satisfactory arrangements in place and the assurance processes are operating appropriately. Procurement is integrated into the meetings of OMT.
- 3.11.2 The Council's commissioning and Procurement Strategy was updated in 2018 and the Procurement Toolkit also refreshed in 2018, to reflect changes in legislative requirements and internal procedures.
- 3.11.3 Service plans will be used to create a register of planned procurement showing timescales and expected resource requirements and training on effective procurement practices will be delivered over the remainder of the financial year.

### **3.12 Project Management**

- 3.12.1 Assurance processes are subject to further development work. The service plans include an indication of expected projects in the upcoming financial year to help with resource planning. Over 2019/20, project management arrangements were reviewed and the Council's Project Initiation Document (PID) - a key part of the framework - was revised and rolled out.
- 3.12.2 However, an advisory audit of the Council's project management arrangements indicated a number of recommendations for improvement, including a further and more comprehensive revision of project documentation. The audit also identified

varying levels of knowledge about the project framework, recommending a programme of training to those in the Council who work on projects to ensure consistency of approach and effective project management. This is picked up in the governance action plan in Appendix 1 to this report.

### **3.13 Complaints**

- 3.13.1 There is a complaints policy in place and complaints are managed in accordance with this policy. Work has been undertaken on the website which has improved signposting to the organisation best placed to respond to the complaint. Recording of complaints in a consistent manner and sharing of learning from complaints is something which requires some development. Work is underway to ensure the complaints process complies with the Housing Ombudsman Complaint Handling Code which is now subject to annual self-assessment. Two recent Ombudsman investigations found in the Council's favour.

### **3.14 Ethical Governance including Fraud & Corruption and Whistleblowing**

- 3.14.1 Satisfactory arrangements are in place. A common code of conduct is also in place along with appropriate mechanisms including a Review Committee. New Members of the Council have received induction training on the code of conduct and have completed the necessary register of interests.
- 3.14.2 There are appropriate assurance arrangements in place to ensure high standards of officer conduct. This includes a range of human resource policies and procedures. The processes in place continue to give adequate assurance.

## **4. Progress on the action plan in the Annual Governance Statement**

- 4.1 This report includes, as Appendix 1, the action plan from the Annual Governance Statement with an update on progress against the actions.

## **5. Proposal to reduce frequency of the governance monitoring report**

- 5.1 Audit Committee will be aware that this report is currently presented at all meetings, supplemented with a more detailed report on the governance arrangements in the Annual Governance Statement presented each July (although in 2020, as permitted by a temporary change to regulations, this was presented at the November meeting).
- 5.2 Due to the proximity of Audit Committee meetings in January and April, together with the relatively stable nature of our governance arrangements, much of the content of this report is unchanged over this time period. Therefore, it is proposed that the governance monitoring report will no longer be brought to Audit Committee in January, but that reporting will continue in April and September/October, with the Annual Governance Statement in July of each year.

## **6. Corporate Implications**

### **a. Legal implications**

There are no direct legal implications arising from this report.

### **b. Financial implications**

There are no direct financial implications arising from this report.

### **c. Human Resource & Equality**

The monitoring and development of the assurance framework is delivered within existing resources.

The Council's equality policy is applied as an inherent element of the assurance processes. Equality is also an area that is subject to audit scrutiny. All key decisions require an Equality Impact Assessment.

**d. IT and Asset Management implications**

There are no direct IT or Asset Management implications arising from this report, beyond those reported in 3.4.

**6. Links to Council's priorities and objectives**

Assurance processes and improvement work support the delivery of all the Council's priorities and objectives.

**7. Timescale for implementation and risk factors**

The monitoring of the effectiveness of the assurance framework is ongoing and will be reported – subject to agreement by Audit Committee – in April and September/October each year with the Annual Governance Statement in July. The Council will not be able to fully achieve its objectives and priorities without a robust assurance framework.

**Recommendation:**

**The Audit Committee notes the assurance provided by this report about the operation of the Council's governance framework.**

**The Audit Committee approves the new reporting schedule proposal set out in section 5.**

**Background Papers:** Local Code of Governance

**Report Author:** Ben Brook, Strategy, Policy and Performance Manager  
[bbrook@castlepoint.gov.uk](mailto:bbrook@castlepoint.gov.uk) 01268 882220

## Appendix 1 – Action plan to address significant governance issues identified in the Annual Governance Statement

Number	Issue	Action 2020/21	Date of implementation	Responsible officer	Update on progress
1.	Improve the organisation's understanding of the effectiveness of partnership working	Develop and introduce reporting mechanisms on key partnerships to members and senior managers.	March 2021	Strategy, Policy and Performance Manager	<p>Work has not yet begun on this action but will be informed by an audit of partnerships planned for early in 2021.</p> <p>Nevertheless, Cabinet has received updates during 2020/21 on the Community Safety partnership and on the Castle Point and Rochford Health and Wellbeing Board, two key partnerships for the Council.</p>
2.	Address awareness and training needs for project management	<p>Participate in a follow-up audit of project management and use the learning to develop and deliver a training programme for Operational Management Team and others in the Council who manage projects.</p> <p>Develop and implement project governance structures for approval of business cases and ongoing monitoring of key project delivery.</p>	March 2021	Strategy, Policy and Performance Manager	<p>An advisory audit of the Council's project management arrangements was issued in January 2021.</p> <p>This audit indicated a number of recommendations for improvement, including a further and more comprehensive revision of project documentation, followed by training.</p> <p>The project documentation will be revised over the remainder of 2020/21 with training early in 2021/22.</p>

3.	Improve the organisation's understanding and application of good risk management	Update the Risk Management Policy and Strategy and implement the remaining areas of focus identified in the health check of risk management.	Dec 2020	Head of Internal Audit	This action has been delayed and will be progressed by the end of March 2021.
4.	Better corporate coordination of data quality	Raise awareness of the importance of data quality and work with internal audit to develop a system of spot-checks in areas of risk.	Dec 2020	Strategy, Policy and Performance Manager	This action has been delayed by ongoing Covid-19 response work and will be completed by the end of March 2021.
5.	Coordination of procurement activity to plan required resources to undertake this procurement	Use service plans to create a register of planned procurement showing timescales and expected resource requirements.  Training on procurement to be delivered.	Dec 2020  Mar 2021	Principal Admin Officer and Procurement Specialist	Service plans are currently in draft – the register of planned procurements will be produced by the end of March 2021, alongside the planned training.  There is a risk that the training element of this action will be delayed by ongoing Covid-19 response work.
6.	Overdue implementation of the recommendations in the Planning Improvement Peer Review	Implement the outstanding recommendations made in the Planning Improvement Peer Review report.	Oct 2020	Head of Place and Policy	Nearly all of the actions following the Peer Review have either been completed or are ongoing. These include member training, reconstituting the committee, member training and the local plan.  The only red is to confirm the date for the follow up visit by the Local Government Association's (LGA) Planning Advisory Service (PAS).
7.	Business continuity training and exercising is overdue (audit finding)	Undertake business continuity training and exercising with manager and other relevant staff.	Feb 2021	Principal Admin Officer and Procurement Specialist	Business Continuity training was initiated in November 2020, with annual refresher being planned for relevant managers and staff.  Desktop exercises (November 2020) sent to service managers and department heads. These are planned as a continuous six-monthly activity.



**AUDIT COMMITTEE**

**21st January 2021**

**Subject: Counter Fraud & Investigation: Quarterly Performance Report  
(Including Q1 and Q2)**

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**1. Purpose of Report**

To update the Audit Committee on the progress made in delivering the Corporate Counter Fraud & Investigation strategy for the Council in 2020/21.

The report includes the performance of the service which is now aligned to financial year reporting from its previous reporting period set at municipal year.

**2. Counter Fraud Proactive Work Plan**

**Appendix A** outlines the progress made in delivering the agreed Counter Fraud Proactive Work Plan for this year (2020/21).

The team is making good progress in delivering the planned work. If during the year any changes or additions to the plan are proposed between Counter Fraud Investigation (CFI) and the Section 151 Officer, these will be brought back to the Committee and included in an amended work plan. The work that CFI has been completing has been delayed and the Plan was officially recommended by the committee in November last year due to impact of Covid 19.

**3. Investigations**

CFI continues to deliver investigations into incidents of suspected fraud or other economic crime for the council. However just prior to Q1 of 2020 the early stages of the Covid-19 Pandemic took hold of the UK and England was placed into Lockdown. This caused CFI to cease home visits and greatly affected the work normally carried out by the CFI team. However, this was not to suggest we would not continue the work required where possible.

The CFI team continued to receive referrals and progress all investigations that were viable. Below are the figures recorded by the CFI crime management system during Q1 and Q2.

The figures represent activity undertaken during Q1 of 2020.

Number of suspected fraud reports received within Q1:	9
Number of Closed investigations during Q1:	7
Value of suspected fraud under investigation:	£136,200

The figures represent activity undertaken during Q1 of 2020

Number of suspected fraud reports received within Q2:	12
Number of Closed investigations during Q2:	5
Number of ongoing investigations:	7
Value of suspected fraud under investigation:	£398,000

As can be seen the CFI has maintained investigations throughout this time and those that could not be progressed due to movement restrictions have been placed within the CFI intelligence system and will result in post Covid-19 checks by CFI officers.

#### **4. Contribution to Council's Aims and Priorities**

Work undertaken to reduce fraud and enhance the Council's anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

CFI have also been working with the revenues department to assist in the 'pre and post assurance' checks on grants that were administered by the Council on behalf of HMG which related to Covid-19 stimulus packages.

These checks ensured only eligible individuals or businesses received the grants that they were entitled to. The CFI continue to perform this function and will do so again if required.

#### **Financial Implications**

Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.

Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.

Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

#### **Legal Implications**

The Accounts and Audit Regulations 2015 Section 3 requires that:

*The relevant authority must ensure that it has a sound system of internal control which:*

- *facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *ensures that the financial and operational management of the authority is effective*
- *includes effective arrangements for the management of risk.*

The work of the Directorate contributes to the delivery of this.

#### **People Implications:**

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

### **Property Implications**

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity. This action will benefit the authority by means of returning housing stock to those in need or gaining the assets of those who seek to profit from their criminal behaviour. It is unfortunate that during this Pandemic and number of 'Abandonment' referrals could not be progressed, however the CFI will maintain records of this and ensure that these matters are looked into post Covid-19.

### **Consultation / Equalities Impact Assessment:**

None

### **Risk Assessment**

Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

### **Value for Money**

An effective counter fraud and investigation service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

### **Community Safety Implications and Environmental Impact:**

None

### **Recommendations**

#### **The Audit Committee:**

- **The Audit Committee notes the performance of the Counter Fraud & Investigation team to date.**

### **Background Papers**

- Fighting & Corruption Fraud locally, the Local Government Fraud Strategy
- Crowe Whitehall & Clarke Annual Fraud Indicator 2017

### **Appendices**

- Appendix A: Counter Fraud Proactive Work Plan

**Report Author:** Michael Dineen, Strategic Lead for Counter Fraud & Investigation.

## Counter Fraud & Investigation



# Counter Fraud Pro-Active Work Plan

2020/21



## Proactive Work Plan

Risk Area	Activity	When	Current Status	Responsible Officer	Date Complete
<b>Council-wide</b>	Counter Fraud Training	December 2020	This has started and staff of CFI have presented training to the Housing Department and are due to continue to the other areas of the council when restrictions are reduced or when departments are available for group 'MS Teams Meetings'. The Strategic Lead for CFI also gave a small presentation to the managers of CPBC regarding Fraud Awareness recently.	Phil Butt	
<b>Council-wide</b>	Review & Update Counter Fraud, Bribery and Corruption Guidance	January 2021 expected delivery February 2021	Currently being reviewed by Assistant Director - CFI	Michael Dineen	

Risk Area	Activity	When	Current Status	Responsible Officer	Date Complete
<b>Council-wide</b>	Review & Update Counter Money Laundering Policy	January 2021 expected delivery February 2021	Currently being reviewed by Assistant Director - CFI	Michael Dineen	
<b>Council-wide</b>	Review & Update Whistleblowing Policy	January 2021 expected delivery February 2021	Currently being reviewed by Assistant Director - CFI	Michael Dineen	
<b>Council-wide</b>	Create an NFI working group to maintain the council's proactive response to data matches.	From April 2020	Ongoing with the key contacts being contacted to arrange suitable meetings. However C-19 has hindered this process. This is a yearlong programme and will continue every year.	Nick Coker	
<b>Council-wide</b>	Cyber-crime risk assessment across the council.	March 2021	The project now includes CFID, ICT and Capita to cover all aspects. This has been completed on the CFI side but now requires input	David Nash	



Risk Area	Activity	When	Current Status	Responsible Officer	Date Complete
			from CPBC employees within ICT.		
<b>Council-wide</b>	Provide a Cyber Incident Response Policy	March 2021	Currently linked to the Cyber-crime risk assessment. This new policy will move the council forward in its threat response.	David Nash	
<b>Council-wide</b>	Review the last 5 years of Right to Buy purchases against the restrictions in place.	March 2021	This will seek to establish if property has been sold without the required authority or within time-bared periods.	Nick Coker	
<b>Council-wide</b>	Review the last 5 years of successions against intelligence data.	March 2021	To establish if any data held within our intelligence systems show anomalies with the historic successions.	Nick Coker	

**AUDIT COMMITTEE**

**21st January 2021**

**Subject: Internal Audit Service, Quarterly Performance Report**

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**1. Purpose of Report**

To update the Audit Committee on progress made in delivering the Internal Audit Strategy for 2020/21.

**2. Internal Audit Plan Status**

**Appendix A** sets out the current status of the audit work planned for the year as at 18<sup>th</sup> December. There have been no changes to audits contained in the original plan considered by the Audit Committee in November 2020.

**3. Audit Opinions and Themes**

**Appendices B to F** summarise the results of the audit work completed this year and for audits completed as part of the 2019/20 audit plan which have not yet been provided, but were reported as part of the Head of Internal Audit report presented to the meeting in November.

**4. Performance Targets**

As outlined in the Strategy presented to the March 2019 Audit Committee, the team will be reporting on a more limited set of indicators this year given the amount of work that is still being contracted out.

As at 18<sup>th</sup> December 2020:

- For the period since 1<sup>st</sup> April 2020 the team had sickness absence which equates to 6.91 days per FTE. This is primarily as a result of two members of the team requiring long periods of sickness absence.
- of the 19 jobs in the plan:
  - three are completed
  - one has a report being produced
  - one has an interim report with the business and further work planned for Q4
  - eight are in progress
  - four are being scoped and planned or have terms of reference produced
  - two are resourced and booked, but yet to be started.

A programme of stakeholder surveys is usually produced each quarter, but this is on hold due to the Audit Business Support Officer being re-deployed to the Test and Trace service within Southend Borough Council. It is anticipated that these will be recommenced for the 2021/22 audit year.



Despite this, positive feedback has been received from Officers in relation to the Project and Programme Management audit that has been completed, commenting that it provided a transparent and fair assessment with a supportive approach.

## **5. Resourcing**

Since the last report to the Audit Committee in November 2020 there have been no changes to the in house team, although at the time of writing a recruitment exercise is being undertaken for a Senior Auditor position that is currently being advertised with a closing date for applications of 8<sup>th</sup> January.

If we are successful to recruiting to this post, we will be left with four vacancies. The salaries of the vacant posts are currently being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan.

The expected requirements of the internal audit service into the future continue to evolve and the impact of Covid-19 is causing further deliberations to take place both at an industry level, as partially reflected in the CIPFA Audit Committee Update included as an information item with the papers for this meeting, and at a local level.

An in-house team supported by suitably experienced contractors is currently assessed as being the most appropriate team model, utilising the financial resources available. The ongoing development of the team to implement this approach will result in an appropriate mix of experienced staff, trainees who will be put through a relevant training programme and externally sourced skills. This will enable the team to deliver the internal audit service required by the organisations that it serves.

## **6. Corporate Implications**

### **Financial Implications**

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

### **Legal Implications**

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

## **7. Human Resources and Equality Implications**

### **Human Resources**

People issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

Regular updates will be provided to the Audit Committee on how the service is being resourced (as required by the Standards).

## **Equality Implications**

The relevance of equality and diversity will be considered during the initial planning stage of each audit before the Terms of Reference are agreed.

## **IT and Asset Management Implications**

People or asset management issues that are relevant to an audit will be considered as part of the review.

### **8. Links to Council's Aims, Targets and Objectives**

Audit work contributes to the delivery of all of the Council's Aims, Targets and Objectives.

### **9. Timescale for Implementation**

The Audit Plan relates to the 2020/21 financial year.

This is a key piece of evidence available to the Audit Committee when reviewing the Annual Governance Statement, which will be presented to the Audit Committee as part of the annual reporting arrangements after the end of the financial year.

### **10. Risk Factors**

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact on the Council's ability to deliver its Corporate Aims, Targets and Objectives. A key mitigating factor is the work of the Good Governance Group (the Group). Assurance provided by this Group is summarised in the regular Monitoring Report on the Council's Governance Arrangements.

The main risks the team continues to manage are the:

- loss of in-house staff and the ability of the service to replace this resource at all or in a timely manner
- lack of management capacity to support and process work in a timely manner and provide strategic leadership to the team
- possibility that the external suppliers won't deliver contracted out work within the required deadlines to the expected quality standards
- need to maintain relationships with clients / partners.

#### **Recommendations:**

**The Audit Committee notes the progress made in delivering the 2020/21 Internal Audit Strategy.**

## **Background Papers**

- The Accounts and Audit Regulations 2015
- UK Public Service Internal Audit Standards

- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

## **Appendices**

- Appendix A Internal Audit Plan 2020/21
- Appendix B Opinions and Themes – Audits Revisited
- Appendix C Opinions and Themes - High
- Appendix D Opinions and Themes - Satisfactory
- Appendix E Opinions and Themes – Partial
- Appendix F Opinions and Themes – Other Audits and Grants

**Report Author: Andrew Barnes, Head of Internal Audit**

## Appendix 2A: Internal Audit Plan 2020/21

<b>Managing the Business</b>			
<b>All Aims</b>			
C&D	<b>Letting of the ICT Contract</b> To provide timely independent assurance that the re-procurement of the ICT contract is being effectively managed to ensure the procurement process complies with, where relevant, regulations / policies / procedures and is administered fairly, in order to identify the most economically advantageous and effective solution.	Yes	<b>Feedback provided during the letting process. Draft report being produced.</b>
C&D	<b>Implementation of the ICT Contract</b> To assess the adequacy of arrangements in place to ensure the handover to and implementation of a new ICT contractor ensures continuity of service and minimal disruption to the Council.	No	<b>Planned for Q3-Q4.</b>
Res	<b>Financial Sustainability Following Covid-19</b> To assess the adequacy of arrangements around budget monitoring for 2020/21, financial assumptions and forecasts used to inform the budget setting for 2021/22 and ensure the Council is prepared for any potential financial impact as a result of Covid-19.	Yes	<b>Planned for Q3-Q4.</b>
<b>Managing Service Delivery Risks</b>			
<b>Aim: Environment</b>			
Env	<b>Health and Safety</b> To assess the robustness of the arrangements in place to ensure health and safety risks within the workplace are effectively and efficiently identified, assessed, responded to, and reported against, in line with legislation.	No	<b>Work in progress.</b>

## Appendix 2A: Internal Audit Plan 2020/21

Aim: Housing and Regeneration			
H	<b>Housing Management System Project Management</b> To assess whether appropriately robust project processes have been established to ensure the new Housing Management System is fully operational within the intended timeframes as well as achieving the expected benefits.	No	<b>Interim feedback provided to the Project Board.</b> <b>Work planned to re-commence in March 2021.</b>
H	<b>Preparedness for Replacement Responsive Repairs Contractor</b> To assess the adequacy of arrangements in place to manage a change in contractor, in order to ensure a seamless service to tenants.	Yes	<b>Planning underway.</b>
Env	<b>Private Sector Housing (2019/20)</b> To assess the effectiveness of the Environmental Health service's arrangements for the safeguarding and wellbeing of private sector housing and residential caravan tenants, and that these arrangements fulfil the Council's legal obligations.	Yes	<b>Work in progress. Put on hold due to Covid-19 and the Environmental Health Team's work in response to the pandemic.</b>
Aim: Health and Community Safety			
All	<b>Partnerships</b> To assess the effectiveness of arrangements to ensure strategic partnerships the Council is party to are effective in enabling more joint working and support the delivery of the Council's corporate aims and objectives.	Yes	<b>Terms of reference being drafted.</b>
SD, MO	<b>Safeguarding (2019/20)</b> To assess whether the Council has robust arrangements in place to discharge its statutory responsibilities with regard to safeguarding and promoting the welfare of adults and children in accordance with the statutory requirements.	No	<b>Planned for Q4, terms of reference being discussed with the service.</b>

## Appendix 2A: Internal Audit Plan 2020/21

<b>Aim: All Aims</b>			
C&D	<b>Development of the CRM Specification</b> To assess the adequacy of arrangements to determine and develop the specification for the new CRM system, ensuring its ability to deliver efficiencies through technology while maintaining excellent customer services.	Yes	Work in progress.
<b>Key Financial Systems: All Aims</b>			
Res	<b>Income Receipting and Banking</b> To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that this information can be relied upon when producing the Council's Statement of Accounts.	Yes	Work in progress.
Res	<b>General Ledger</b> To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that this information can be relied upon when producing the Council's Statement of Accounts.	Yes	Work in progress.
<i>Implementing Action Plans</i>			
All	<b>Accounts receivable</b> To confirm that actions agreed have been effectively implemented and embedded into the day to day operation of the service.	Yes	Work in progress.
All	<b>Accounts payable</b> To confirm that actions agreed have been effectively implemented and embedded into the day to day operation of the service.		

## Appendix 2A: Internal Audit Plan 2020/21

<b>Grant Claims</b>			
Env	<b>Disabled facilities capital grant determination</b> To confirm the monies have been spent in accordance with the terms of the grant.	Yes	Completed October 2020.
P&P	<b>Interreg Go Trade grant</b> To confirm the monies have been spent in accordance with the terms of the grant.	Yes	<b>Claim 6 completed in September 2020.</b> <b>Claim 7 planned for Q4.</b>
<b>Advice and Support Work</b>			
<b>Aim: A Commercial and Democratically Accountable Council</b>			
Res	<b>Knightswick Centre</b> To provide advice, support and challenge over the contract management arrangements being developed to ensure the Knightswick Centre is well managed and remains financially viable.	Yes	Work in progress.
P&P	<b>Development Control Peer Review</b> To provide advice, support and challenge over the arrangements in place to address the recommendations of the April 2019 Peer Review.	Yes	Planning underway.
All	<b>Project and Programme Management</b> To assess the design and application of the Council's Project and Programme Management Framework and provide advice and support on the development and implementation of a revised framework that can be used to manage and deliver plans, strategies and projects within the Council and borough.	Yes	Completed December 2020.



## Appendix 2A: Internal Audit Plan 2020/21

Managing Delivery of the Audit Plan			
	Audit Planning and Resourcing		
	Managing Audit Plan Delivery		
	Reporting to Executive Management Team and Audit Committee		

Audit Activities	Resource allocation
Managing the Business	16%
Managing Service Delivery Risks	37%
Key Financial Systems	13%
Grant Claims	6%
Advice and Support	17%
Managing Delivery of the Audit Plan	10%
<b>Total</b>	<b>100%</b>
<b>Total Council Audit Plan Days</b>	<b>223</b>

The days required to revisit and retest action plans from previous reports are included under each heading.

Analysis Over Departments		
Env	Environment	10%
H	Housing	15%
P&P	Place and Policy	7%
C&D	Customer and Digital	20%
Res	Resources	21%
SD, MO	Strategic Director, Monitoring Officer	0%
All	Cross cutting	17%
All	Managing Delivery of the Audit Plan	10%
	<b>Total</b>	<b>100%</b>

## Appendix 2A: Internal Audit Plan 2020/21

Risk Watch List	
H	Housing Strategy
SD, MO	Estate Management
Env	The Paddocks
C&D	ICT Steering Group
All	Performance Management
H	Compliance with Construction, Design and Management Regulations
H	Sheltered Housing
Env	Food Premises Inspections
All	Council Commercialisation
H	Housing Allocations
H	Sustainability of the Housing Revenue Account
P&P	Regeneration Partnership
H	Management of Void Properties
H	Implementation of Health and Safety Legislation Post Grenfell
C&D	Universal Credit
Res	Procurement Hub
P&P	Building a Safer Future
All	Data Strategy
All	Governance Arrangement for Grant and State Aid Funding
Res	Workforce Management
P&P	Building Control

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit or the risk profile change.

## Appendix B: Audits Revisited

### Purpose of these audits

To assess whether the actions agreed in the original audit have been implemented and are now effectively embedded into the day-to-day operation of the service.

### GDPR (2019/20: Report finalised December 2019)

#### Original Objective

To assess whether Castle Point Borough council (the Council) has an appropriate programme of work to ensure compliance with General Data Protection Regulation (GDPR).

#### Summary findings

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
5		5		

The Council has made good progress in implementing the recommendations raised as part of the previous audit dated February 2019. The Council has prioritised those recommendations and as a result of this revisit, it has been confirmed that five of the original ten recommendations have been fully implemented and are now part of day-to-day operations.

Five recommendations remain in progress at the point of reporting. These recommendations relate to the following:

- Ensuring that the follow-up health check is completed by Zurich Risk Engineering in May 2019 (*In Progress*).
- Ensuring all eleven Information Assets registers are updated to reflect the comments made from the Internal Review. (*In progress*).
- Compiling a central record of outstanding issues with IT systems (*In progress*).
- Continuing to investigate, identify and progress a solution to enable the Council's use of email to comply with GDPR (*In progress*).
- Updating the remaining contracts which involve processing personal information (*In progress*).

Good progress has been made in respect of the following areas of activity designed to enhance the Council's compliance with the requirements of GDPR.

The Retention Policy was updated in May 2019 and was approved by the Operational Management Team in June 2019. The Policy was publicised on the staff intranet and made available to all staff. Internal Audit reviewed the policy to ensure compliance with the core components and contents of GDPR with no exceptions.

## Appendix B: Audits Revisited

Whilst the decision remained not to make additional resources available centrally, to support the implementation and ongoing embedding of compliance with GDPR, the reliance on service areas complying with expectations, with limited checking or oversight, has been recognised as a risk on the Strategic Risk Register, with the risk that the Council is '*Unable to fully implement the requirements of the General Data Protection Act Regulations*' having been added to the register which is being monitored and managed, as evidenced by review of the strategic risk register in September by the Council's Executive Management team and the Audit Committee.

Management have reviewed the information on the Record of Processing Activities (ROPA) against the underlying Information Asset registers, both to ensure that there are no gaps and that the information in the ROPA is consistent with the underlying Information Asset registers. The ROPA identifies retention periods and the legislative justification for processing. The ROPA addresses gaps in the Information Asset Registers. They have both now been updated. The ROPA and Information Asset Registers have been cross referenced to ensure that they are consistent with each other with no exceptions noted.

Management have reminded service managers of the importance of ensuring that their staff complete mandatory training, with completion rates being reported to and monitored by the OMT. Internal Audit obtained a spreadsheet showing the staff members that have not completed the mandatory GDPR training. The five permanent staff members that have not yet completed the eLearning have been chased in December 2019.

Training completion is monitored by the training provider who issue status reports to the Council when requested. The training must be completed every two years to keep staff knowledge up to date. Compliance is reported to OMT at their meetings and minutes of these have been reviewed to confirm this.

Management have introduced scheduled compliance checks of staff adherence to clear desk expectations. An exercise was performed in October 2019 to review the information on all desks within the Castle Point building for any and all files, with a focus on those containing personal data. Ratings were issued as follows:

- Green tick - Clear desk, no further action.
- Amber - Files/work left out on desks, no sensitive personal data.
- Red - Sensitive personal data accessible.

The same evening staff were informed of the results of the check via email. Out of one hundred and eighty-three desks inspected in the main council building, it was confirmed:

Fifteen resulted in an Amber note and one desk resulted in a red note as it had sensitive data left out due to a member of staff retiring and leaving files on another person's desk who was out of the office that day. This was an isolated incident.

Such a review will take place on an annual basis and there is a reminder set to perform this clear desk review again in October 2020.

## Appendix B: Audits Revisited

### Development Control Support Team (2019/20: Report finalised September 2020)

#### Original Objective

To assess whether the Development Control Support Team's redesigned operational processes are fit for purpose.

#### Summary findings

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
4	1			

#### Guidance Notes

The Support Team Procedure Notes and Planning and Validation Notes outline how to undertake all of the team's activities. They also specify the timescales for the team's key tasks, including:

- inputting applications onto Uniform within one day
- validating applications within three days
- completing appeal questionnaires within five days

Timescales for all other tasks are included in the Development Support Team Information document (see below section).

The procedures also make clear:

- that all paper documents must be date stamped on receipt
- the role of the Finance team when a cheque for payment has been declined
- how to cross validate the data from Uniform and Access for the PS1 and PS2 quarterly government returns.

The team reported that they have a pin board located next to their desks, which includes timeframes they need to follow, along with any other important notes, new procedures or information. Unfortunately it was not possible to confirm this due to Covid-19 restrictions.

#### Performance Information

The Development Support Team Information document is a log of all Admin Tasks and Planning Technician Tasks. It lists the endeavoured timescales for each, and ranks them by high, medium or low impact. This determines how often they are checked to:

- ensure tasks are being completed in line with the procedures
- identify whether any training is required
- identify if procedures need updating.

## Appendix B: Audits Revisited

The Planning Technician Supervisor is responsible for these checks, however due to their current absence these checks have not been completed. This may mean any issues with performance would not be identified. However, the process is now documented which means the Strategic Developments Officer will be able to pick it up more easily.

The team's Performance Indicators (PIs) are monitored quarterly and this is done by checking five applications at random and reviewing whether the identified indicators have been met for those five applications. The Head of Housing feels this number is sufficient as the team have seen a reduction in the number of applications they receive due to the current circumstances brought about by Covid-19, so are able to meet their timeframes. However, it could easily be increased if any issues arise.

There are currently no PIs or monitoring for the:

- inputting of amended plans onto Uniform. The Head of Housing does not plan to introduce this.
- closing down of cases. The Head of Housing has decided to tolerate this risk as they receive assurance that the team are working to closedown timeframes through completion of the PS1 and PS2 returns.

### **IDOX System Governance & Change Management (2019/20: Report finalised October 2020)**

#### **Original Objective**

To assess whether Castle Point Borough Council has a suitable governance framework in place for managing, planning and implementing changes to the IDOX system.

#### **Summary findings**

<b>Fully implemented</b>	<b>Substantially implemented</b>	<b>Partially implemented</b>	<b>Not implemented</b>	<b>Closed</b>
4	0	1	2	3

The Council has made progress in implementing the recommendations raised as part of the previous audit dated March 2018. It has been confirmed that four of the original seven recommendations that remain applicable have been fully implemented and are now part of day-to-day operations. In particular:

- terms of references for both the Governance Group and Working Group have been developed and meetings commenced in Spring 2019
- meeting minutes from Governance Group and Working Group meetings show discussions and resulting actions are outlined clearly and succinctly. Attendance at each meeting has been monitored and appropriate individuals have been elected to attend in the absence of group members
- a rolling action tracker to monitor the decisions made at the above meetings has also been developed. This outlines the action to be taken, the due date, responsible officer, the priority of the action and its progress or completion date.

## Appendix B: Audits Revisited

One recommendation remains in progress at the point of reporting. This recommendation relates to the following:

- Documentation of the change management process in more detail, building on the existing checklist, produced for the version 10.2.1 upgrade. Without further documentation, it is unclear who has requested changes to the system and why, both for standard and emergency requests.

Two recommendations have not been implemented and remain outstanding. They relate to the following:

- Documentation of the Council's current approach to user management, support and change management in flow charts, clearly identifying who is responsible for each process step, has not been completed. In addition, getting the Uniform Working Group / successor forums to agree this as a 'baseline' has also not been completed. Introducing these arrangements will, for example, help to ensure all system access rights are appropriate.
- When User Acceptance Testing (UAT) arrangements are provided by IDOX for future updates, these would now be collated on a central database with all other UAT scripts, however there is no documentation of what checks should be performed over the UAT scripts or by whom.

Three of the recommendations have been closed as they are no longer applicable. Since the Windows Upgrade, no UAT scripts exist for the IDOX suite and after validating with the account manager, it has been confirmed that these are no longer provided by IDOX. Furthermore, the production of an options paper that documents how gaps and inconsistencies regarding support will be addressed is no longer required. Relevant decisions have been made by senior management since the original audit was completed and will be addressed as part of implementing the remaining outstanding recommendations outlined above.

## Appendix C: Audit Opinion and Summaries

### Assurance



### Management and Monitoring of Street Cleansing and Ground Maintenance Contract (2019/20: Report finalised September 2020)

#### Objective

To assess whether the contract is being effectively managed to ensure the planned outcomes for street cleansing and grounds maintenance are being delivered in compliance with the specified performance and quality standards, at the correct price.

#### Summary

Arrangements for monitoring the contractor's performance and quality of service are well designed and embedded into day-to-day operations.

The Contract Manager also uses feedback from citizens to inform his assessment of the contractor's performance. Complaints statistics have been collected for each month examined evidencing effective maintenance of the complaints register. Complaints were discussed in all monthly meetings evidencing a consistent and effective application of the process over an extended period of time.

Default and Persistent Failure Notices are tabled at the relevant Monthly Contract Meetings where performance is discussed and agreed as correct by the Council's Contract Manager and the Contractor's Representative. Both sign the 'Default and Persistent Failure Notice Financial Deduction'. Credit notes are raised in respect of the total amount to be deducted and the contractor's invoice is then paid. All deductions were calculated correctly. This evidences a consistent and effective application of the process over an extended period of time.

The Council embarked on a zero-based budgeting exercise in respect of the whole Authority at the beginning of 2019/20 and providing budgetary control services to operational management had been deliberately curtailed, to free up resource for that task. It was confirmed that contract budgetary control for the purposes of monitoring contract costs had caught up by January 2020 evidencing sound financial management practice.

Budgetary control statements are adequately designed and make provision for calculating the outturn variance figure in accordance with recommended practice.

All contract variations were in writing in accordance with the contract clause and were correctly costed evidencing diligent management financial practice.

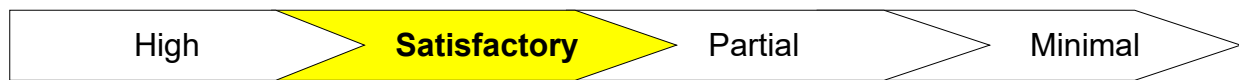
The contractor's performance is measured and recorded across a suite of monitoring reports. The records for the financial year to the point of audit were up to date, evidencing a consistent and effective application of sound contract performance management principles over an extended period of time.

Number of actions agreed: 0



## Appendix D: Audit Opinion and Themes

### Assurance



### Payroll (2019/20: Report finalised September 2020)

#### Objective

To review the arrangements from beginning to end, including third party assurance, to assess whether the key controls effectively prevent or detect material financial errors, on a timely basis.

#### Themes

##### Standing Data

Amendments to standing data (e.g. salary bands, tax codes, etc.) are made prior to the start of the financial year. The Council's third party provider Rochford District Council (RDC) amends standing data based on a spreadsheet provided by the Council and RDC then provide a system-produced report for checking against the spreadsheet. The Council's Financial Services Manager then checks this to confirm it is accurate against, original documentation such as the agreed pay scales, therefore reducing the risk that incorrect salaries may be paid.

##### Starters, Leavers and Amendments

New starters, leavers and changes in circumstances are all requested via a standard form. The forms are authorised in line with delegated limits and retained on each individual's payroll file. Scanned copies are then forwarded to RDC to be acted upon.

A spreadsheet is in place at the Council which details the checks and processes (along with a timetable) for the payroll function (including reconciliations, cut off dates, etc.) to be undertaken and who should complete them, along with an assigned deputy in case of absence.

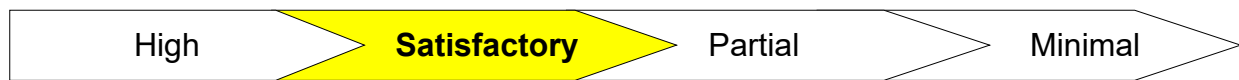
The Council receives a monthly report from RDC detailing all starters and leavers in the period. 100% of starters and leavers are then checked by either the Financial Services Manager or the Principal Accountant to source documentation, therefore reducing the risk that current employees may be inadvertently removed, or ghost employees created, within the system.

Reviewing a sample of 20 cases from each category (starters, leavers, and changes), since April 2019, confirmed that, in all cases, a corresponding form had been completed and authorised appropriately, reducing the risk that inappropriate amendments are made. This testing also confirmed that the checks undertaken by the Principal Accountant / Financial Services Management had been completed correctly and accurately.

Leavers are removed from the payroll system by RDC in a timely manner, with the leaving date entered from the leaver form that is supplied by the Council.

## Appendix D: Audit Opinion and Themes

### Assurance



### Overtime and Expenses

Overtime and Expense claims are required to be supported by a claim form, which has been authorised in line with delegated authority. Claim forms are retained within the payroll documentation, for the period they relate to, by the Principal Accountant, in hard copy at the Council's offices. A summary report detailing overtime and expense payments in the months payroll run is received from RDC for checking and approval ahead of the payroll being run, and random sample checking (10% of the population) is undertaken from the reports to the source documentation by the Principal Accountant or Financial Services Manager. This helps to reduce the risk of error and / or fraudulent claims being paid and adds an additional layer of control in addition to the original management authorisation.

### Deductions

Voluntary deductions, as well as statutory deductions (such as attachments of earnings), from employees' pay are supported by an authorisation form signed by the employee. Evidence is retained in the hard copy payroll file for the individual employee at the Council. Review of a sample of 20 deductions since April 2019, varying from childcare vouchers to union memberships, identified two cases where authorisation to make the deduction could not be located on file. In one case this related to a subscription dating back to 1992 and in the other case the employee has now left.

Therefore authorisation could have been given a number of years ago before current processes were implemented. All deductions are detailed on payslips and, therefore, the risk of unauthorised deductions being undetected should be adequately mitigated.

### Data Transfer

Payroll Data is transferred via a dedicated software named Filezilla. The software is used as the only method of transfer from the Council to RDC in respect of sensitive Payroll information. The Councils IT Support provider (Capita) provided assurance that the software is a secure method of transfer and is supported by them.

It was confirmed that access to Filezilla is restricted to relevant staff within the Financial Services Department. Otherwise, hard copy versions of data are held in locked cupboards with the Financial Services Manager holding the key, or electronically on a secure area of the shared drive, reducing the risk of unauthorised access.

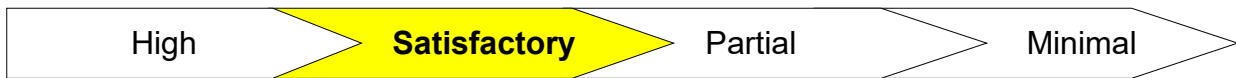
### Reconciliations

Periodic reconciliations of the payroll data to the establishment list are undertaken, helping to ensure that only legitimate employees have been set up on the system.

Monthly reconciliations of the payroll reports provided by RDC to the general ledger are also undertaken by the Principal Accountant and reviewed by the Financial Services Manager, enabling any errors or anomalies to be identified.

## Appendix D: Audit Opinion and Themes

### Assurance



### Payments

Payments to staff are made via BACS on behalf of the Council by RDC. A summary report of the payments due is produced and sent to the Council and the Financial Services Manager who will then review and approve the payments proposed before the payment run takes place. The supporting documentation is signed and retained by the Council on the relevant month's payroll file.

Payments to third parties such as HMRC and Essex County Council's Pension Authority are made by the Council. A cashbook voucher / journal is raised by an officer within the Financial Services Team and then approved by the Financial Services Manager. Review of a sample of payments to third parties (relating to payroll) verified the amounts back to source documentation and confirmed that they had been appropriately authorised. This helps to mitigate the risk that payments to third parties may be inaccurate.

Number of actions agreed: 2

## Appendix E: Audit Opinion and Summaries

### Assurance



### Business Continuity (2019/20: Report finalised September 2020)

#### Objective

To assess whether the Council has effective arrangements in place to enable services (particularly critical ones) to continue to be provided in the event of a disaster occurring.

#### Summary

The Business Continuity Management (BCM) programme should ensure Business Continuity Plans (BCPs) are in place to enable the continued delivery, or recovery of, critical services following a disruption to business as usual. The plans, which should be based on Business Impact Analysis and exercised to ensure they are fit-for-purpose, should be designed to appropriately minimise the risk to the organisation's obligations, including legal, contractual, and financial requirements, and provide continued service to its residents. This review is informed by ISO 22301, as well as other industry good practice such as the Business Continuity Institute's Good Practice Guidelines.

The Council has developed a Corporate BCP which sits above Service Level BCPs. It details the actions to be considered should the Council be affected by a business continuity incident. Its scope covers all services which are controlled by the Council excluding partners, contractors, and / or suppliers. It also includes criteria for determining its activation, identified risks, and the incident levels and responses to be followed. However, where critical resources are referenced these have not yet been identified to support the recovery of the service. In addition, whilst Service Level BCPs are in place, many use an older template that the Council had already determined as no longer being fit-for-purpose and so are in the process of revising. Introducing, for example, recovery time objectives, and dependencies required to support these functions within these BCPs would ensure the Council are adequately protected at a service level.

Good practice dictates that each BCP is based on a Business Impact Analysis (BIA) that identifies the critical services / activities that must be continued or recovered following disruption. Each service / activity is assessed for its criticality to the continuation of the organisation should a disruption occur; it determines, for example, recovery time objectives (RTO) and resources required to continue or restore the activity. BCPs are based on the outputs of BIAs. Consultation with key stakeholders should ensure that through appropriate liaison with both those depending on an output, and those contributing to it (e.g. IT, suppliers), that the RTOs are appropriate and aligned across planning.

## Appendix E: Audit Opinion and Summaries

### Assurance



The Council's BIA was last updated in October 2019 and scheduled to be reviewed in 2021. However, it was identified that the current template was not fit for purpose and is currently being refreshed. As the BIA may be out of date, it cannot be confirmed whether critical services have been correctly identified in current BCPs and can be recovered within the timeframes expected by management and will be prioritised according to its current objectives and risks. Alongside these, useful threat and risk assessments have been conducted to support the BIA, however improved clarity on how these have informed the planning to ensure that appropriate work arounds are in place for any significant threat scenarios would benefit the Council.

Exercising the BCP against a range of reasonable worst-case scenarios enables the organisation to identify strengths and weaknesses in the plan and assess whether the current plan will recover critical activities within the agreed timeframes and deliver in accordance with management expectation. The Council has not yet exercised its plans, so it has not yet assured itself that the plans will deliver the intended outcomes. We understand that this was going to take place upon the completion of the BC document refresh exercise, however the current COVID-19 pandemic has impacted the completion of this exercise. From discussions with management we understand that some plans have been exercised for real during the pandemic, including staff successfully working from home during this period. However, we have not reviewed or examined any evidence or documentation to validate this and determine whether critical services/activities were continued as expected. In addition, as the Council is currently refreshing its BIA and BCM plans, and in light of its COVID response, this is a good time to review how it will relaunch its BCM campaign to all staff, highlighting their personal responsibilities, the location of key documents including key templates, and communicating the roles and responsibilities for the divisional BC champion.

The Council has a Business Continuity governance structure in place that provides oversight of the BCM programme with a designated BCM sponsor. Management have already commenced work on the above actions to address identified issues and to realise the recognised benefits from those improvements, in line with good practice. This will be further informed by the learning from the Council's response to Covid-19 that will be incorporated into relevant BCM documentation.

Number of actions agreed: 13

## **Appendix F: Other Audits and Grant Claims**

### **HRA New Build Property Projects (2019/20)**

Overall the project was been managed within its time, cost and quality parameters.

Going forward, for future projects, Internal Audit identified and discussed with officers two areas where opportunities to improve arrangements would positively impact the management of:

- potential financial liabilities that the Council could be exposed to, and
- project budgets.

Improvements were framed taking into account the latest iteration the Royal Institute of British Architects (RIBA) Plan of Work 2013 that details the stages of a construction project from inception through to handover into business as usual.

In relation to potential financial liabilities it was agreed that the drawing up of a project checklist to be used alongside the questions to be asked at each Employer's Decision Point on completion of each RIBA work stage, would help prompt for instance:

- presenting decision makers with a recommended option regarding whether a Performance Bond is or isn't required and then recording that decision in Outline or Final Business cases. This helps ensure that the project is managed in accordance with the Council's risk appetite, whilst maximising the value to the Council of the trade-off between risk transfer and self-insurance
- obtaining evidence of contractors' insurances prior to granting possession of sites.

In relation to managing project budgets, producing regular estimates of final cost / anticipated final costs where projects exceed three months duration on site helps management of the capital programme and the delivery of its intended capital prioritisation.

### **Licensing Revisited (2019/20)**

Work began on this audit in March 2020 prior to the Covid-19 lockdown. Whilst some of the actions have been followed up, the audit testing could not be completed and there are a number of audit actions that need to be progressed to be able to properly conclude.

Interim feedback has been provided to the business and the outstanding actions will be revisited once we return to the office.

## **Appendix F: Other Audits and Grant Claims**

### **Interreg 'Go Trade' Grant (2019/20 & 2020/21)**

#### **Purpose of funding**

The 'Go Trade' project, led by Basildon Council, supports the development of high quality local markets in the South of England and North of France. The project will create a unique brand of high quality markets that is expected to increase the number of local and tourist visitors to the town.

The project will also offer support to traders by using modern methods of communication to help them market their products and by introducing digital technologies such as 'click and collect'.

Certified traders will also be given GoTrade passports that will enable them to travel and trade at any of the GoTrade markets in France and the UK.

**Opinion: Unqualified opinion on expenditure to the end of December 2019 submitted in March 2020 and expenditure to the end of June 2020 submitted in September 2020.**

### **Disabled Facilities Grant (2020/21)**

#### **Purpose of funding**

To support those in non-council properties with required adaptations to their homes, based on their medical needs. Types of works undertaken include installations of:

- level access showers
- ramped access to properties
- stair lifts or through-floor lifts.

It was confirmed that expenditure was in line with the grant conditions, specifically that:

- it was capital
- grant monies had been transferred into the local Better Care Fund pooled budget, under Section 75 of the NHS Act 2006.

In addition, work was undertaken to verify that all cases were supported by:

- an assessment of need and recommendation of adaptation works required, undertaken by an Occupational Therapist
- suitable means testing to ensure eligibility to the DFG scheme, where required
- a signed agreement from surveyors and clients that works had been completed as per the plans and to a suitable standard.

**Opinion: Unqualified opinion on expenditure to the end of March 2020 submitted in October 2020**



## **Appendix F: Other Audits and Grant Claims**

### **Project and Programme Management (2020/21)**

#### **Objective**

To assess the design and application of Castle Point's Project and Programme Management (PROMPT) Framework and provide advice and support on the development and implementation of a revised framework that can be used to manage and deliver plans, strategies and projects within the Council and borough.

#### **Summary Findings**

Management recognise that it is essential that the Council clearly defines the pathways for identifying projects, approving projects and change control. This provides clarity for Members (who agree policy and priorities), for decision makers and for project managers (PMs). The PMs will also be empowered to manage projects without constant recourse up the organisation for decisions and approvals.

An assessment was undertaken of the design and application of Castle Point's Project and Programme Management Framework which included assessing the Place and Policy service area as a benchmark to assess how effectively controls have been designed and were operating. This was undertaken through review of key documents and interviews with Castle Point staff.

During audit testing, a sample of ten projects were selected. These provided a diverse view of the projects undertaken at Castle Point due to the range of associated budgets, the type of projects and whether the projects were delivered from within Castle Point or through outsourced providers.

Castle Point has a documented PROMPT framework, centred around the PRINCE2 project management methodology which provides a method to break down projects into smaller and manageable stages. The framework covers many of the areas expected of a project management framework and provides information on: approaches to projects; classification of projects; how PROMPT should be applied; project management stages; project reporting; risk management; and project roles and responsibilities. PROMPT is supported by twelve PM template documents which project managers can use when delivering projects.

Work is being undertaken to strengthen and improve the PROMPT framework and associated processes in the following areas:

- Further details within PROMPT over some project management issues, such as the process for business readiness assessments and preparation for go-live
- Increasing guidance on how projects should be classified, and the level of documentation required for each
- Improving the level of compliance with PROMPT through awareness raising and training for those involved in projects
- Development of a tool / process to give a single view of on-going projects and their status and a clear escalation pathway for change controls
- Clarifying the processes for dependency management, project planning and the approach to contingency planning.



**AUDIT COMMITTEE**

**21st January 2021**

**Subject: Treasury Management mid-year activity report**

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**1. Purpose of report**

The Treasury Management mid-year activity report is a requirement of the Council's reporting procedures. It summarises the Council's Treasury Management activity for the first six months of the current financial year. Supporting information is provided within Annexes A and B.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through regulations issued under the Local Government Act 2003.

**2. Links to Council's priorities and objectives**

The scrutiny and approval of the Council's Treasury Management activity is linked to the Council's objective of a Commercial and Democratically Accountable Council through sound financial management.

**3. Recommendation**

That following scrutiny, the Treasury Management mid-year activity report for 2020/21 is approved and submitted to Cabinet.

**Resolution required.**

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## **4. Treasury Management activity mid-year report 2020/21**

### **4.1 Introduction**

- 4.1.1 Treasury management is: - *“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 4.1.2 The Code of Practice requires the Council to set annually a Treasury Management Strategy and Investment Strategy. The strategies for the 2020/21 financial year were approved by Council on 19<sup>th</sup> February 2020.
- 4.1.3 This report confirms that Treasury Management activity during the year to date has been undertaken in accordance with that strategy and in consultation, where appropriate, with the Council’s external adviser, Link Asset Services.

### **4.2 Borrowing**

- 4.2.1 A summary of external borrowing at 31<sup>st</sup> December 2020 is shown at Annexe A.
- 4.2.2 Annexe A shows that interest paid on General Fund borrowings and on HRA borrowings for the year to date is as budgeted.
- 4.2.3 The Council’s policy on capital expenditure and borrowing is set out in the Capital Strategy section of the annual Policy Framework and Budget Setting Report, and as part of this, the affordability of new capital proposals has to be demonstrated. Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. The financial impact on the longer-term budget positions for both the General Fund on the Medium-Term Financial Forecast and the Housing Revenue Account on the HRA Business Plan, would need to be taken in to account. Any new borrowing would result in additional interest charges to either the General Fund or HRA, as well as the need to set aside sums from those funds for future repayment of the principal.
- 4.2.4 Although borrowing rates are currently low any potential new borrowing would have to be fully justifiable in terms of the need to borrow. Additional borrowing would be considered for individual projects where for example the business case determines repayment of debt is affordable and can prudently be funded by new revenue generated.
- 4.2.5 Periodically officers explore the option to reschedule or repay current loans, however at the current time it is not viable for the Council to reschedule its debt as repayment of all current loans would incur significant premiums to do so.

### **4.3 Investments**

- 4.3.1 The investment activity during the year to date conforms to the approved strategy, and the Council has had no liquidity issues. Investments are managed internally using only those institutions which meet the Council’s strict investment criteria, within a permissible range of periods, depending on the Council’s cash flow and the interest rates on offer.

- 4.3.2 The majority of investments to date in 2020/21 continue to be in AAA-rated Money Market Funds. A Money Market Fund is a pooled source of funds invested in a wide range of short-term investments managed by an independent fund management company. Frequently these are well known banks or investment houses. AAA is the highest investment rating available and means that there is very low credit risk in an entity which is awarded that rating.
- 4.3.3 Funds may be deposited with the Debt Management Office (DMO), an executive agency of HM Treasury, but the facility has not been used this year due to the very low rate of interest.
- 4.3.4 With the exception of the DMO, total investments with any one institution do not exceed **£2.5m**. Internal guidance ensures that at least **50%** of investments at any time are placed with institutions rated AAA (or 40% for up to 5 working days a month).
- 4.3.5 The Council has not made any new investments in Government treasury bills due to very low and, more recently, negative rates of interest.
- 4.3.6 Annexe B summarises the Council's temporary investment activities for the year to date. The amount available for investment varies daily according to the Council's aggregate financial position on all activities. At the end of December 2020, the amount invested was **£39.1m** and the average amount invested for the year to date was **£36.3m**.
- 4.3.7 Annexe B also shows that the amount of interest received on investments to date is **£102k**. This is **£49k** less than the profiled budget for the same period. The budget for the full year is **£200k** and the current forecast is approximately **£120k**, an **£80k** shortfall. This shortfall is being funded by utilising some of the COVID-19 grants the Council has received.
- 4.3.8 Investment rates earned are currently below forecast but are exceeding the benchmark rate. The average rate earned is **0.37%**, higher than the benchmark 7-day LIBID rate of **-0.065%** (LIBID or the London Inter Bank Bid Rate is the rate at which major London banks borrow from each other).
- 4.3.9 As some of the Council's previous investments made at better interest rates mature, the Council will not be able to make new investments at or near the previous rate. Therefore it is expected that the average rate earned is going to fall further by year end.
- 4.3.10 Changes required to the interest budgets to reflect the challenges detailed above will be addressed in the forthcoming budget cycle.

#### **4.4 Benchmarking**

The current position on three benchmark indicators for 2020/21, as explained in the annual Investment Strategy, is reported as follows:

- Security - Weighted Credit Rating Score for the year to date of **6.3** exceeds the target of 4 (the scale goes from 0 to 7).
- Liquidity – Weighted Average Life is at a reasonably liquid level, currently averaging **77 days**.
- Yield – interest received on investments currently exceeds target as reported above.

#### **4.5 Economic uncertainty**

- 4.5.1 The Bank of England base rate in 2019-20 was **0.75%** and dropped to **0.25%** on 11<sup>th</sup> March 2020 and eight days later to **0.10%** where it is forecast to stay for at least three years. This is in response to the economic downturn resulting from COVID-19. The average base rate for 2020-21 of **0.10%** is well below the **0.75%** forecast about one year ago in January 2020 and consequently interest received is below budget for the first time in at least twenty years. The forecast for the current and future years will be reduced and included in the budget submitted to Council in February 2021.
- 4.5.2 The Council will continue to adhere to strict investment criteria. Security and liquidity remain the priority. The Council will then invest for yield. Officers will continue to monitor interest rates offered and seek to ensure the best return possible, without compromising security and liquidity, and within limits specified in the Investment Strategy and internal guidance.
- 4.5.3 New investments were added to the Treasury Management Strategy in 2019-20 that included deposits with other local authorities longer than one year, which we utilised in 2020-21 to benefit from interest rates considerably better than those now on offer. It is anticipated that in 2021-22 the Council may invest in other new approved investments such as corporate bond and multi-asset funds to further enhance returns. Some research into these funds has been undertaken in 2020-21.

#### **4.6 Conclusion**

- 4.6.1 The results for the nine months to 31<sup>st</sup> December 2020 continue to demonstrate prudent and efficient treasury management. Although it is disappointing that interest receivable, as with other income streams, will fall below budget this year. The Council will of course adjust estimates and take the necessary decisions to ensure a balanced budget is set and the Council's finances remain robust over the medium term.

## **5 Corporate Implications**

### **a Legal implications**

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance, including:

- The Local Government Act 2003, and associated Statutory Instruments;
- The CIPFA Prudential Code for Capital Finance in Local Authorities;
- The CIPFA Code of Practice for Treasury Management in the Public Services.

The Council continues to comply with all of the relevant statutory and regulatory requirements.

### **b Financial implications**

The financial implications are highlighted throughout the report.

### **c Human resource and equality implications**

There are no new implications.

### **d Timescale for implementation and risk factors**

A mid-year activity report is now presented to the Audit Committee, this year later than September or October when it normally takes place, and then subsequently reported to Cabinet.

**Report Author:** Robert Greenfield, Accountant

### **Background Papers:**

- Chartered Institute of Public Finance and Accountancy: *Code of Practice for Treasury Management in the Public Services*.
- CPBC: *Treasury Management and Investment Strategy Statement for 2020/21*.

## Summary of Loan Transactions and Interest Payable (accrued daily) for the period to 31st December 2020

### Loan transactions activity for the period

	Amount o/s 01/04/2020 £000's	Loans Repaid £000's	Amount o/s 31/12/2020 £000's
<b>Public Works Loan Board</b>			
General Fund	14,250	900	13,350
HRA	36,451	0	36,451
<b>Totals for the Council</b>	<b>50,701</b>	<b>900</b>	<b>49,801</b>

### Interest payable Comparison of estimate with actual

Budget Profile to 31/12/2020 £000's	Actual Interest to 31/12/2020 £000's	Variance 31/12/2020 £000's
224	224	0 0.0%
819	819	0 0.0%
<b>1,043</b>	<b>1,043</b>	<b>0 0.0%</b>

### Interest rates for the period

	Range of loans		Average
	From	To	
General Fund	1.08%	4.10%	2.18%
HRA	2.31%	3.49%	2.98%
<b>Totals for the Council</b>	<b>1.08%</b>	<b>4.10%</b>	<b>2.76%</b>

### Base rate history

08/01/2009	1.50%
05/02/2009	1.00%
05/03/2009	0.50%
04/08/2016	0.25%
02/11/2017	0.50%
02/08/2018	0.75%
11/03/2020	0.25%

## Summary of Temporary Investments and Interest Received (accrued daily) for the period to 31st December 2020

Type of Borrower	Amount Invested 01/04/2020 £000's	Made £000's	Repaid £000's	Amount Invested 31/12/2020 £000's
<b>Investments by Value:</b>				
Treasury bills	1,993	0	1,993	0
Local Authorities	8,500	2,000	4,500	6,000
Money Market Funds	18,630	91,010	79,880	29,760
Notice accounts	2,000	0	0	2,000
<b>Investments</b>	<b>31,123</b>	<b>93,010</b>	<b>86,373</b>	<b>37,760</b>
Lloyds current account	197	1,149	0	1,346
<b>Cash equivalents</b>	<b>197</b>	<b>1,149</b>	<b>0</b>	<b>1,346</b>
<b>Total</b>	<b>31,320</b>	<b>94,159</b>	<b>86,373</b>	<b>39,106</b>
<b>Number of Investment Transactions:</b>				
	Number	Number	Number	Number
Treasury bills	2	0	2	0
Local Authorities	4	1	2	3
Money Market Funds	10	85	76	19
Notice accounts	2	0	0	2
<b>Investments</b>	<b>18</b>	<b>86</b>	<b>80</b>	<b>24</b>
Lloyds current account	1	0	0	1
<b>Cash equivalents</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Total</b>	<b>19</b>	<b>86</b>	<b>80</b>	<b>25</b>

### Interest Received on Temporary Investments for the period to 31st December 2020

	£000's
Actual Interest Received	102
Original estimate	151
Variance	-49 -32%

### Temporary Investments

	£000's
Average Balance for the Period	36,328
Average Interest Rate for the Period	0.37%
Benchmark: Average 7-Day LIBID Rate	-0.06%

**AUDIT COMMITTEE****21st January 2021**

Subject: **Treasury Management and Investment Strategies 2021/22**

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**1. Purpose of Report**

The Council must comply with the Code of Practice - Treasury Management in the Public Services, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). As part of this Code the Council is required to approve an annual Treasury Management and Investment Strategy for the forthcoming financial year.

**2. Links to Council's priorities and objectives**

The scrutiny and approval of the Council's Treasury Management and Investment Strategy is linked to the Council's priority of Efficient and Effective Customer Focused Services. Sound and strategic financial management is essential in order to ensure that resources are available to support the Council's priorities and maintain or improve services.

**3. Recommendation**

That following scrutiny, the Treasury Management and Investment Strategies for 2021/22 are approved for onward submission to Council on 24 February 2021 as sections 11 and 12 of the overall Policy Framework and Budget Setting Report.

**Resolution required.**

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**4. Treasury Management and Investment Strategies 2021/22**

The strategies for 2021/22 are attached as an appendix to this report.

**5. Corporate Implications****(a) Legal implications**

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance, including:

- The Local Government Act 2003, and associated Statutory Instruments;
- The CIPFA Prudential Code for Capital Finance in Local Authorities;
- The CIPFA Code of Practice for Treasury Management in the Public Services.

The Council continues to comply with all the relevant statutory and regulatory requirements.



**(b) Financial implications**

Setting Treasury Management and Investment Strategies are cornerstones for effective treasury management and essential for sound management of the Council's finances. They are an integral part of the Budget Framework. All implications arising from this strategy have been incorporated into the budget due to be approved by Council in February 2021.

**(c) Human resource and equality implications**

There are no new implications.

**(d) Timescale for implementation and risk factors**

The Code of Practice for Treasury Management states that the Council must receive a report on annual strategy and plan in advance of the year. The Council complies with this by submitting the strategies to the annual Council budget-setting meeting in February. Failure to do this effectively or in a timely manner, could adversely affect the security of investments and increase reputational risk for the Council.

**Report Author:** Robert Greenfield, Accountant

# 11 Treasury Management Strategy

## Definition of Treasury Management

- 1 Treasury management is:  
*“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 2 The Council includes the following Treasury Management clauses within its Constitution, as recommended by the Code of Practice:

The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMP's) setting out how the organisation will seek to achieve those policies and objectives, prescribing how it will manage and control those activities.
- Will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.
- Delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Strategic Director (Resources), who will act in accordance with the Council's policy statement and TMP's and CIPFA's Standard of Professional Practice on Treasury Management.
- Nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

## Treasury Management Strategy for 2021/22

- 3 The Strategy has been formulated after considering the advice of the Council’s consultants, Link Group (Link). All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement.

## Balanced budget requirement

- 4 It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. This means that the Council is required to ensure the affordability of existing and new projects, both revenue and capital, within the projected income of the Council for the foreseeable future.

## Brexit, economic uncertainty and interest rates

- 5 The United Kingdom left the EU on 31st January 2020 and the transition period ended on 31st December 2020 with a trade agreement but there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU, that now needs to be formalised on a permanent basis.

Brexit may reduce the economy’s potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID-19 crisis. The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is still subject to some uncertainty due to the COVID-19 virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions. There is relatively little UK domestic risk of increases or decreases in the Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in the Bank Rate are likely to be some years away given the underlying economic expectations.

- 6 The Bank of England base rate has been at **0.10%** throughout 2020/21. Growth in the UK economy is expected to remain very low and Link expects the base rate to remain at **0.10%** until at least March 2024. It is expected that the 50-year Public Works Loan Board (PWLB) long-term rate for maturity loans during 2021/22 will be around **1.40%**.
- 7 The Council adheres to strict investment criteria. As it remains difficult to predict longer-term rates accurately, the interest rates used to forecast investment income for the Council's budget process remain prudent. The Council may also be restricted in where it can invest funds. Officers will continue to seek the best return possible whilst always complying with the Council's policies and procedures and without compromising security and liquidity.

#### **Current debt position and requirements for 2021/22**

- 8 A summary of external debt that is expected to be outstanding at 31 March 2021 is as follows:

<b>Table 12.1 External debt outstanding</b>	
<b>Source</b>	<b>Total at 31/03/21 £000's</b>
Public Works Loan Board – General Fund	13,350
Public Works Loan Board – Housing Revenue Account	36,451
<b>Total</b>	<b>49,801</b>

- 9 The Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **1.08%** to **4.10%** per annum. The Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.49%** per annum. If loans are repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and the unexpired period at the time of repayment. Currently as interest rates are low, premature repayment of all loans would incur a huge premium in excess of **£13m**.
- 10 The proposed programme of capital expenditure due to be approved by Council in February 2021 is not currently anticipated to trigger a requirement for new borrowing in 2021/22. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.
- 11 Internal borrowing is the use of the Council's own temporary investments for capital expenditure and is when the Capital Financing Requirement (CFR) exceeds the level of external borrowing. This position is known as "under-borrowed". At the end of 2021/22 for the General Fund this is expected to be **£7.4m** due partly to capital expenditure on the Knightswick Shopping Centre and associated public realm works. As cash balances are relatively high and interest earned on investments is lower than the rate at which the Council can take out loans, borrowing internally is an efficient use of resources that also lowers the overall cost of funding for the projects. By the end of 2021/22 the HRA will be under-borrowed by approximately **£400k**. The position fluctuates from year to year depending on various factors such as the level of capital expenditure, and a prudential indicator in the Capital Strategy ("Gross Debt and the Capital Financing Requirement") monitors and reports on this position.

#### **Borrowing Strategy**

- 12 The uncertainty over future interest rates increases the risk associated with treasury activity. As a result, the Council will take a fairly cautious approach to its Treasury Management Strategy.
- 13 If a need to borrow should arise, the Strategic Director (Resources), under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.

- 14 Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. Any new borrowing would result in additional annual interest charges to either the General Fund or Housing Revenue Account, as well as the need to set aside sums from those funds for future repayment of the principal amount borrowed. In effect, borrowing does not finance capital expenditure, instead it merely provides the cash to enable the expenditure to take place. Therefore, the financial impact on the longer-term budget positions for both the General Fund on the Medium-Term Financial Forecast (MTFF) and the Housing Revenue Account on the HRA Business Plan, must be taken into careful consideration in all borrowing decisions. As shown within the MTFF and HRA Business Plan, the General Fund has annual funding gaps in future years to be closed, and the HRA also faces challenges, such as the impact of changes in central government policies including imposed 4-year rent reductions, as detailed within the separate HRA budget setting report.
- 15 On 9 October 2019 the PWLB increased their margin over gilt yields by 100 basis points to 180 basis points on loans to local authorities, making borrowing from the Government more expensive. However, on 25 November 2020 the Government reversed this. The PWLB periodically allows local authorities to register for a preferential “certainty rate” for borrowing, which is currently **0.20%** below the standard rate or **0.80%** above gilt rates. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows it to access the preferential rate should the need arise. Although there are no current plans to borrow before 2024/25, the Council routinely registers for the preferential rate.
- 16 The weighted average maturity of the Council’s General Fund **£13.35m** debt is quite long at 18 years. **£0.90m** matures every year for the next 9 years, currently with no requirement to refinance. **£5.25m** of the debt portfolio does not mature before 2052. Therefore, there is little refinancing risk for the General Fund.
- 17 The Housing Revenue Account debt of **£36.5m** taken out in March 2012 as part of the HRA self-financing changes is set to mature at different times between 2021/22 and 2041/42 with **£7m** being repaid in 2021/22. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1m** above the **£36.5m**. The autumn 2018 budget announced that, subject to final consultation, the borrowing cap would be removed, so that local authorities would be allowed to undertake additional borrowing to enable investment in building new homes. However, as stated above, any additional borrowing would still have to be affordable within the 30-year HRA Business Plan and be subject to a full assessment of the financial viability of any scheme.
- Borrowing in advance of need**
- 18 The Council has some flexibility to borrow funds in advance for use in future years. The Strategic Director (Resources) may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so. Furthermore, councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. They must also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.
- 19 MHCLG guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Strategic Director (Resources) does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:
- It will be limited to no more than **£2m** of the expected increase in borrowing need (CFR) over the three-year planning period; and
  - The Council would not look to borrow more than 18 months in advance of need.
- 20 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus

funds arising from borrowing in advance of need will be invested in accordance with the Council's Investment Strategy.

### **Treasury management indicators**

- 21 The Council is required to calculate several Treasury Management Indicators as part of the Treasury Management Code of Practice. The indicators are reported in the following paragraphs.

### **Borrowing maturity structure**

- 22 The Prudential Code for Capital Finance in Local Authorities requires the Council to set upper and lower limits for the maturity structure of fixed rate borrowing. These limits are designed to help the Council minimise its exposure to large fixed rate sums falling due for refinancing. The proposed limits, expressed as percentages of total projected fixed rate borrowing, are as follows:

<b>Table 12.2 Maturity structure of fixed rate borrowing</b>				
<b>Maturity</b>	<b>General Fund</b>		<b>Housing Revenue Account</b>	
	<b>Upper limit</b>	<b>Lower limit</b>	<b>Upper limit</b>	<b>Lower limit</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Within 1 year	50	0	50	0
Within 2 years	50	0	50	0
Within 5 years	60	0	60	0
Within 10 years	80	0	80	0
After 10 years	100	0	100	0

### **Borrowing – limits of fixed and variable rate exposure**

- 23 The Prudential Code also requires the Council to set upper limits for fixed and variable interest rate exposure. These indicators identify the maximum limits for both fixed and variable interest rates based upon the Council's debt position net of investments. The proposed limits are as follows: -

<b>Table 12.3 Upper limits of fixed and variable exposures</b>						
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Upper limit – fixed rates	56	55	47	47	46	45
Upper limit – variable rates	(21)	(19)	(17)	(15)	(13)	(11)

### **Borrowing - interest rate sensitivity**

- 24 Any borrowing decisions will need to take account of any changes in interest rates. There are two possible scenarios: -
- a sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low;
  - a sharp fall in rates – if this is expected, any borrowing will be postponed (waiting for borrowings to become cheaper) and rescheduling from fixed to variable rate funding will be considered.

### **Debt management objectives**

- 25 A summary of the Council's debt management objectives for 2021/22 is therefore as follows: -
- to borrow, if necessary, in order to finance cash flows arising from capital expenditure in accordance with the Prudential Code;
  - to reduce, if possible, the amount of long-term borrowing without incurring net losses for early redemption;

- to manage the debt maturity profile in order to avoid a high level of repayments in any one year;
- to borrow at the best interest rates achievable in relation to estimated future rates;
- to monitor and review the level of any variable interest rate loans, in order to take advantage of interest rate movements;
- if possible, to reschedule debt in order to take advantage of potential savings as interest rates change;
- to avoid as far as possible, excessive overdrawn bank balances by achieving a balanced daily cash position, unless market borrowing proves favourable by comparison;
- to ensure that overall borrowing is within the authorised limit for external debt and that this is monitored on a regular basis.

# 12 Investment Strategy

## Investment guidance

- 1 This Council has regard to the MHCLG's Guidance on Local Government Investments ("Guidance") and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

## Investment principles

- 2 The primary policy objective of the Council's treasury management and investment activities is the security of funds, and to avoid exposing public funds to inappropriate and unquantified risk. The Council's investment priorities are:
  - Firstly – the **security** of capital (protecting the capital sum invested from loss) and
  - Secondly – the **liquidity** of its investments (keeping the money readily available for expenditure when needed).

Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities. All investments will be in sterling.

- 3 Under the guidance investments made by local authorities are classified into two main categories:
  - Investments held for treasury management purposes
  - Other investments

All of the Council's temporary investments are held for treasury management purposes and the interest received contributes to the General Fund budget, as shown in the table below. Investments are not split between General Fund and Housing Revenue Account (HRA) but held as one portfolio with a proportion of the overall interest received applied to the HRA, calculated on the levels of HRA reserves and balances. For 2021/22 this amount is forecast to be **£7k**.

<b>Table 13.1 General Fund investment income</b>						
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Forecast investment income	140	107	53	53	52	51

- 4 The guidance maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

## Financial investments

- 5 Under the guidance financial investments fall in to three categories:
  - Specified investments - high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year.
  - Loans – for example to local enterprises, charities etc. The Council has none.
  - Non-specified investments – all others, may be less secure.

Specified investment instruments identified for use in the financial year are listed in table 13.2. Non-specified Investments are any other type of investment, i.e. not defined as specified above, are listed in tables 13.3 and 13.4.

## Non-financial investments

- 6 Non-financial investments are assets an organisation holds primarily or partially to generate a profit, essentially for commercial activities. The Council does not currently hold non-financial investments, but may consider doing so, if they support the priorities of the Council as detailed in the Corporate Plan, after taking expert external advice and a thorough appraisal by officers, scrutiny by the appropriate committee and approval by Council. The Council would have to carefully assess

whether such assets retain sufficient value to provide security of investment, and if they do not, the Strategy must provide details of the mitigating actions taken to protect the capital.

### **Liquidity**

- 7 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2021/22 to range between **£24m** and **£35m**.

### **Risk assessment and risk appetite**

- 8 As the Council's primary policy objective of treasury management is to avoid exposing public funds to inappropriate and unquantified risk, the Council has a very cautious approach to investing, reflected in the internal guidance which ensures the following:
1. a very high average credit weighting for the portfolio, typically AA
  2. a diversified portfolio
  3. weighted average maturity approximately 250 days
  4. strict stepped limits on lower-rated, but still high grade (A-rated) investments of up to **£6m**.
  5. Officers monitor market information including financial updates from the Council's treasury adviser on a daily and weekly basis, to keep as well-informed as possible to make the best decisions. The internal guidance can be amended by the S151 Officer, with advice from treasury officers, at very short notice. This is for flexibility and to adapt to changing circumstances in the current time of economic uncertainty, firstly to protect the security of the Council's temporary investments and secondly to achieve liquidity and yield.

### **Credit ratings**

- 9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Tables 13.2 to 13.4 also set out the Council's minimum credit ratings that it considers appropriate for each category of investment.
- 10 The Brexit agreement hopefully reduced the possibility that credit rating agencies will downgrade the sovereign rating for the UK from the current level of AA. Two agencies have the UK on stable outlook and one on negative outlook. Investments are placed with institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.

### **Monitoring of credit ratings**

- 11 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Group, also alert the Council to changes in ratings as they occur.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.



**Amendment to the 2021/22 Investment Strategy to add one new investment type to the approved list of investment counterparties**

- 12 The portfolio of investments maintained by the Council is very cautious and the yield is below that earned by some other councils. During 2019/20 the Treasury Management Strategy was amended to allow investing for longer periods than the original 364-day limit with banks and other local authorities, to increase the return on investments without significantly compromising security. In 2020/21 three further types of non-specified investment were added to the approved list of counterparties: property funds, bond funds and multi-asset funds. Due to the uncertainties created by COVID-19 and the subsequent significant fluctuations the markets have seen, Officers opted to take a cautious approach and not invest in these new areas. It is anticipated that in 2021/22 once markets have settled the Council may invest in these new approved investments to further enhance returns. Some research into these funds has already been undertaken in 2020/21, with selection criteria established.
- 13 For 2021/22, the Strategic Director (Resources) also now recommends adding equity funds. This will give more diversification and yield with new investments, which are used regularly by other councils, whilst maintaining reasonable levels of security. It is anticipated the new investments could provide additional investment income. Some non-specified investments are more complex instruments, requiring greater consideration and due diligence by Officers and Members. Therefore, Officers will consult with Link before investing in this new asset class to ensure a full appraisal is made of all products and any associated risks.
- 14 **Equity funds**  
A traditional way to invest is to buy shares in companies. Shareholders have an equity stake in a business, which is why shares are also known as equities. An equity fund is an open or closed-end fund that invests primarily in stocks, allowing investors to buy into the fund and thus buy a basket of stocks more easily than they could purchase the individual securities. Equity funds tend to focus their investment on various countries, regions, industries and investment styles as a way of diversifying or spreading risk. They can be sold on daily with settlement typically after 3 days.
- 15 Returns can be variable but in the current low interest rate environment it may be lower. Historically equities have outperformed safer investments, such as bank accounts and bonds, however prices can be volatile, past performance is not an indication of future performance and the value of investments can fall as well as rise. Unrated credit, derivatives and other complex instruments may be used. Any fund exposes the Council to market price volatility and so Officers will carefully consider any investment opportunity.

**Table 13.2 Specified Investments for the Financial Year 2021/22**

<b>Investment</b>	<b>Counterparty limit</b>	<b>Security / Minimum Credit Rating</b>	<b>Maximum period of investment</b>
<b>Debt Management Agency Deposit Facility (DMADF)</b> (this facility is at present available for investments up to 6 months)	No limit	The Debt Management Office is an agency of the UK Government	6 months (DMO imposed time limit)
<b>Treasury Bills</b> issued by the UK Government (currently maximum 6-month duration)	No limit	The Debt Management Office is an agency of the UK Government	364 days
<b>Term Deposits</b> with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 33% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	364 days
<b>Term Deposits</b> with institutions, part nationalised by the UK Government	The lesser of £5m or 33% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Money Market Funds</b> (i.e. a collective investment scheme as defined in SI 2004 No 534) CNAV, LVNAV and VNAV These funds do not have a maturity date	The lesser of £5m or 33% of total investments	Fitch, Moody's or Standard and Poors AAA (Minimum of two ratings)	n/a (repayable on demand)
<b>Current accounts, notice accounts or term deposits</b> with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days (Call deposits repayable on demand)
<b>Forward deals</b> with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Certificates of Deposit</b> issued by UK institutions	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Covered bonds</b> (maximum 364-day period includes borrower extension option)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Reverse repurchase agreements "repos"</b> (a form of secured lending with enhanced security)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

<b>Table 13.3 - Non-specified Investments for the financial year 2021/22</b>			
<b>Investment</b>	<b>Counterparty limit</b>	<b>Security / Minimum Credit Rating</b>	<b>Maximum period of investment</b>
<b>Term deposits</b> with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £4m or 25% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	2 years
<b>Current accounts, notice accounts or term deposits</b> with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	2 years
<b>Property Funds</b>	The lesser of £4m or 25% of total investments	Unrated	n/a
<b>Bond funds</b>	The lesser of £4m or 25% of total investments	Unrated	n/a
<b>Multi-Asset funds</b>	The lesser of £4m or 25% of total investments	Unrated	n/a

<b>Table 13.4 - Non-specified Investments for the financial year 2021/22 (Note – new addition from 2021/22)</b>			
<b>Investment</b>	<b>Counterparty limit</b>	<b>Security / Minimum Credit Rating</b>	<b>Maximum period of investment</b>
<b>Equity Funds</b>	The lesser of £4m or 25% of total investments	Unrated	n/a

- All Specified Investments listed above must be sterling denominated.
- All investments are managed in-house.
- No shares or loan capital is held by the Council
- None of the investments are classified as capital expenditure

### **Country, group and sector limits**

- 17 The Council selects counterparties according to credit quality as well as the additional information in paragraph 19 below. Group and sector limits do not form part of the formal Investment Strategy, but are used within the temporary, stricter investment guidance described in paragraph 21.

### **Money Market Funds**

- 18 As has been the practice for several years, the Council continues to place a high proportion of its investments in Money Market Funds. By March 2019 the valuation method for the Council's Money Market Funds changed from constant net asset value to low volatility net asset value. Constant net asset value funds aim to preserve a stable value (such as £1) per share at which investors either subscribe or redeem, but under money market fund regulations they are being replaced with low volatility net assets funds where the underlying investments may have to be priced at market value, so potentially investors could get back slightly more or less than the £1 invested, although this is very unlikely with AAA-rated funds. The Council has assessed the implications, but it is not expected that there will be any significant impact on the value of investments.

### **Markets in Financial Instruments Directive (MiFID)**

- 19 From 3rd January 2018 changes in legislation required the Council to opt up to professional status (rather than the default status of a retail client) with several of its counterparties to continue using a range of secure and diversified investments and not be limited solely to simple bank deposits. Organisations classified as professional have a good understanding of financial products but do not have the same protection as retail clients or ordinary consumers.

### **Use of additional information other than credit ratings**

- 20 Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example equity prices, Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

### **Bail-in legislation**

- 21 To avoid a Government bailout (i.e. where Governments inject monetary support into institutions to keep them solvent) that occurred during the financial crisis, bail-in legislation is now fully implemented in the UK. In future large investors or creditors may contribute to the rescue of failing banks rather than taxpayers, as some or all their deposits are converted into equity which could be worth less than the original investment. Consequently, the potential risk of depositing with banks may have increased, however this is reflected in the credit ratings.

### **Internal stricter guidance**

- 22 The Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. These will remain in place for as long as they are required and are reviewed regularly, considering information and advice supplied by Link. Changes to the internal guidance are approved by the Strategic Director (Resources).

### **Use of derivative instruments**

- 23 Local authorities can use any hedging tools such as derivatives, but only for the management of risk and the prudent management of financial affairs. When an authority intends to use derivative instruments the policy for their use must be clearly detailed in the annual Treasury Management Strategy. The Council does not currently use derivatives, but should this change then the Treasury Management Strategy will be amended prior to their use. The Council will seek proper advice when entering into arrangements to use such products to ensure that it fully understands those products.

### **Investments defined as capital expenditure**

- 24 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as Non-specified Investments. As already stated, the Council does not currently intend to invest in Non-specified Investments.
- 25 Investments in Money Market Funds are not treated as capital expenditure.
- 26 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure, should it occur.

### **Provisions for credit-related losses**

- 27 If any of the Council's investments appeared at risk of loss due to default (i.e. a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

### **Investment strategy to be followed in-house**

- 28 The Council's in-house managed funds are mainly cash-flow derived. At least approximately **80%** of the Council's funds will be invested for periods of less than 365 days. There are core funds of approximately **£5m** that it is very unlikely will be required for cash flow purposes for another 2 to 5 years. The recent changes to the treasury strategy will allow some or all of these funds to be invested longer-term, at higher rates, to provide additional investment income for the Council.

### **The Council's banking arrangements**

- 29 The Council's banking operations are all with Lloyds Bank PLC. The current contract expires on 31<sup>st</sup> March 2025.

### **Risk benchmarking**

- 30 The most recent version of the CIPFA Treasury Management Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.
- 31 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the Mid-Year or Annual Report. Use of these benchmarks will be reviewed and they may be amended or added to if necessary.

- 32 **Security** – The Council's maximum-security risk benchmark for the current portfolio is:
- A credit-rating score of **4.0** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.

- 33 **Liquidity** – In respect of this area the Council seeks to maintain:
- The bank overdraft facility was reviewed for the new banking contract that started in April 2020 and it was decided it was not cost effective for the Council to have one permanently in place
  - Liquid short-term deposits of at least **£1m** available with a day's notice
  - Weighted Average Life benchmark is expected anything up to 270 days, with a max of 1 year

- 34 **Yield** – Local measures of yield benchmarks are:
- Investments – returns above the 7-day LIBID rate.

### **Treasury management adviser**

35 Link Group, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council's current treasury adviser. The company provides a range of services through a formal contract, which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets. Officers hold meetings with the advisers at least twice a year, as well as ad-hoc when required for specific purposes, and receive various briefing documents on a continual basis. The four-year contract expires in 2022 and is regularly monitored to ensure the quality of advice and service is consistent with the schedule of services agreed with Link.

36 Whilst Link Group provide support to the internal treasury function, under current market rules and the CIPFA Treasury Management Code, the final decision on all treasury matters remains with the Council.

### **Member and officer training and experience**

37 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Link Group both to maintain and improve their knowledge and expertise. All treasury staff have accountancy or treasury qualifications and many years' experience in local authority treasury across the team.

### **Investment activity reporting and publication**

38 Officers prepare a mid-year monitoring report on investment activity each autumn and an end of year report as part of its Annual Treasury Report after the close of each financial year. This does not preclude more frequent reporting should changes or circumstances dictate, including changes to the Treasury Management and Investment Strategy if required. The Investment Strategy is published annually on the Council's website.

### **Code Update**

39 The 2017 edition of the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes reaffirmed CIPFA's previous view that "throughout the public services the priority for treasury management is to protect capital rather than to maximise return." The Council complies with this view, as shown in the principles stated in paragraph 2 above.

40 The 2017 edition also included:

- Three key principles of Treasury Management, which are unchanged from the previous publication.
- Four clauses that CIPFA recommends all public services formally adopt. These are as stated in paragraph 2 of section 12 of this report.
- Twelve main practices, which cover matters such as risk management, performance measurement, decision making, approved instruments, cash flow management, and others. The requirements of these twelve practices feature throughout sections 12 and 13 of this report. Elements of these practices have been updated or expanded upon in the 2017 edition but have no fundamental impact on current procedures undertaken by the Council's officers in performing their treasury management and investment duties.

### **Changes in accounting standards**

41 Implemented in 2018/19 IFRS9 on Financial Instruments, specified how an entity should classify and measure financial assets and financial liabilities and the CIPFA 2018/19 Code of Practice on Local Authority Accounting set out how it applies to Councils. Officers consulted with auditors and treasury advisers and made a thorough assessment of the changes required and they were not material to the Financial Statements, and only affected presentation and disclosure of the financial instruments and liabilities.