Agenda

Audit Committee

Tuesday, 28 September 2021 at 7.30 pm

New Council Chamber, Town Hall, Reigate

Meetings will take place in accordance with Government guidance. Members of the Committee will assemble at the Town Hall, Reigate.

Members of the public may observe the proceedings live on the Council's website.

Members:	
J. P. King (Chairman)	
R. J. Feeney	G. Buttironi
J. Baker	S. A. Kulka
M. S. Blacker	R. Michalowski
J. Booton	S. T. Walsh

Substitutes:	
Conservatives:	A. King, S. Parnall and R. S. Turner
Residents Group:	N. D. Harrison and C. T. H. Whinney
Green Party:	P. Chandler, J. C. S. Essex, S. McKenna, S. Sinden, R. Ritter and D. Torra
Liberal Democrats	M. Elbourne

Mari Roberts-Wood
Interim Head of Paid Service

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Reigate & Banstead BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

Published 22 September 2021

1. Minutes (Pages 5 - 10)

To confirm as a correct record the Minutes of the previous meeting.

2. Apologies for Absence and Substitutions

To receive any apologies for absence and notification of substitutes in accordance with the Constitution.

3. Declaration of Interest

To receive any declarations of interest.

4. Appointment of the Independent Member to the Committee

To welcome and note the appointment of Robert Coyle as the Independent Member of the Audit Committee.

5. Treasury Management Outturn 2020/21 (Pages 11 - 38)

To note the Treasury Management Outturn Report 2020/21 and Annex 1 and provide any observations to the Executive at its meeting on 18 November 2021.

6. Internal audit - Q1 2021/22 progress report (Pages 39 - 56)

To note the Q1 internal audit progress report for 2021/22.

To make any comments and/or observations on the report to the Interim Head of Finance.

7. Risk management - Q1 2021/22 (Pages 57 - 82)

i. To note the Quarter 1 update on risk management provided by the report and associated annexes.

ii. To note the recommended closure of the strategic risk on ‘Reform of the planning system’ (SR11) as detailed in the report and in Annex 4.

iii. To note the recommended opening of a new strategic risk on ‘Planning system reform’ as detailed in Annex 5.

8. Work Programme - 2021/22 (Pages 83 - 86)

To note the work programme for 2021/22.

9. Any Other Urgent Business

To consider any item(s) which, in the opinion of the Chair, should be considered as a matter of urgency – Local Government Act 1972, Section 100b (4)(b).

Note: Urgent business must be submitted in writing but may be supplemented by an oral report.

10. Exempt Business

RECOMMENDED that members of the Press and public be excluded from the meeting for the following item of business under Section 100A(4) of the Local Government Act 1972 on the grounds that:

7. Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

Our meetings
As we would all appreciate, our meetings will be conducted in a spirit of mutual respect and trust, working together for the benefit of our Community and the Council, and in accordance with our Member Code of Conduct. Courtesy will be shown to all those taking part.

Streaming of meetings
Meetings are broadcast live on the internet and are available to view online for six months. A recording is retained for six years after the meeting. In attending any meeting, you are recognising that you may be filmed and consent to the live stream being broadcast online, and available for others to view.

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Notice is given of the intention to hold any part of this meeting in private for consideration of any reports containing "exempt" information, which will be marked accordingly.

BOROUGH OF REIGATE AND BANSTEAD

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held at the New Council Chamber - Town Hall, Reigate on 10 June 2021 at 7.00 pm.

Present: Councillors J. Baker, M. S. Blacker, J. Booton, G. Buttironi, R. J. Feeney, J. P. King, S. A. Kulka and R. Michalowski.

Also present: Councillor Lewanski.

1. ELECTION OF CHAIR

RESOLVED that Councillor J King; having been proposed by Councillor Michalowski, and seconded by Councillor Buttironi, be elected as Chairman of the Audit Committee for the 2021-22 municipal year.

2. ELECTION OF VICE-CHAIR

RESOLVED that Councillor Feeney; having been proposed by Councillor J King, and seconded by Councillor Michalowski, be elected as Vice-Chairman of the Audit Committee for the 2021-22 municipal year.

3. MINUTES

The minutes from the meeting held on 18 May 2021 were **APPROVED** as were the exempt minutes from the meeting held on 11 March 2021.

4. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

An apology for absence had been received from Councillor Walsh.

Councillor Feeney attended the meeting virtually and was therefore unable to vote.

5. DECLARATION OF INTEREST

There were no declarations of interest.

6. DRAFT ANNUAL GOVERNANCE STATEMENT 2020/21

The Interim Head of Finance explained that the Council was required to publish an annual statement on its internal control and corporate governance arrangements as part of the Statement of Accounts. It was good practice for this to be endorsed by the Committee that oversaw these arrangements.

Key information was shown in paragraph 5 of the report and this was explained. It was noted that consideration had also been given to COVID-19, its impact on governance arrangements, and the special measures put in place in response to the situation.

The final version would reference the most recent opinions from both internal and external auditors.

The Statement includes any areas of concern or requirement for improvement. Although no significant weaknesses had been identified, work was ongoing to continually improve, ensuring compliance with good practice.

The next step was to finalise the Statement for signature by the Leader of the Council and the Head of Paid Service. It would then be included in the audited Statement of Accounts which was due to be reported to this Committee in the Autumn.

RESOLVED that the Committee notes the Draft Annual Governance Statement 2020/21 as set out in Annex 1 to the report.

7. EXTERNAL AUDIT PLAN 2021/22

Ben Sheriff (Director), Deloitte, introduced the report and stated that the plan set out the audit regime for the year and included areas of risk and focus, particularly around valuations and pensions.

He observed that the situation relating to COVID-19 had progressed. Last year's financial statement was produced just a few days after the first lockdown and there was a high degree of uncertainty. Twelve months later, as a result of the ongoing pandemic the Council received additional income and was undertaking additional activities, including the payment of various grants. These created some complexities in the accounting for 2020/21 which would be focused on during the audit. However, unlike last year there will no longer be an asset valuation uncertainty comment that would need to be included in Deloitte's opinion. There would be a focus on the broader impacts of COVID-19 and this was explained.

It was highlighted that audit reporting in respect of the value for money and use of resources opinion would be different from previous years. The opinion issued on the 2020 accounts was unqualified: the new regime adopted for 2021/22 was explained, including the separate reporting timescales. It was noted that it if a significant weakness was identified, that would also be reported within the main audit opinion.

It was questioned whether any areas were being deprioritised for review during the audit and the impacts; it was stated that this was not the case. All relevant information in the accounts needed to be tested, focusing on materiality. There was still some uncertainty as to how COVID-19 transactions flow through the accounts, for example in terms of whether they were showing as income and cost to this authority or whether the Council was acting as an agent for MHCLG (Ministry of Housing, Communities and Local Government); this would have an effect on selection of areas to be tested.

A Councillor referred to page 13 of Deloitte's report and questioned why the risk highlighted in the report had been rebutted by Deloitte. In response, Practice Note 10 was referred to and was explained. It was stated that, for example, while some income streams for public bodies were material and complex, they were less open to manipulation than in other sectors.

RESOLVED that the External Audit Plan 2021/22 be noted and approved.

8. INTERNAL AUDIT - 2020-21 ANNUAL REPORT AND OPINION

Neil Pittman, Head of SIAP, presented the annual internal audit and opinion. It was acknowledged that this had been a challenging year, with competing demands. Thanks were extended to the team and all Officers across the Council on fulfilling the audits virtually.

Despite audits taking place virtually, the process had not been inhibited. The overall opinion was shown on Page 37 of the agenda pack and the Committee was informed that SIAP was able to give the opinion of “reasonable”. Key observations were shown on page 40, with an additional item in significant issues on page 42, alluding to financial resilience. It was explained that in the near future, new income streams were required, and this could not be underestimated.

In terms of SIAP’s review of Financial Sustainability, it was acknowledged that, while current financial position was sound, new income streams would not come online for some years and it was therefore questioned whether there was sufficient resilience over the medium term. The Committee was informed that the Council had healthy reserves but needed to bear in mind that these were finite. The key financial strategy was to develop sustainable sources of income. Part 1 of the Commercial Strategy had been agreed to support this and Part 2 was being produced. Officers reported that the Service and Financial Planning process had begun for 2022/23 and Executive Members acknowledged that the Council needed to see through its strategy for developing sustainable income. Fees and charges were being examined so these could be optimised. There were also a number of income generating projects that were closer to delivery and these were outlined.

A question was asked regarding the high level of suppliers (each with an aggregated spend higher than £25,000, where contract arrangements would be expected to be in place). It was explained that this was a concern as this was not in compliance with contracts procedure rules which was why it was highlighted. However, there was confidence in the actions to address the issues raised and that these were being acted on with expedience and diligence by Officers. The Interim Head of Finance agreed to provide a further written response to Members to help put the figures quoted into context .

A Councillor thanked everyone for the compilation of the report however raised concern that a fleet vehicle had been used without a valid MOT. Reassurance was sought that this could not reoccur. It was agreed that a written response on this action would be provided separately, along with further detail regarding the server room security.

In terms of the “reasonable” opinion, it was noted that this was standard wording and that reasonable was a fair outcome. The majority of Councils would sit within this category.

RESOLVED that:

(i) the Committee notes the annual internal audit report and opinion as per annex 1 of the report; and

(ii) written responses would be sent to Members.

9. INTERNAL AUDIT - Q4 2020/21 PROGRESS REPORT

Natalie Jerams, Deputy Head of Southern Internal Audit Partnership (SIAP), explained that the fundamental purpose of the report was to demonstrate key delivery of the 2020/21 Audit Plan.

Performance to date showed that 86% of audits were complete, 14% were in progress, this meant that two were at draft report stage, while one remained at field work stage.

The Committee was apprised that there had been four new final reports and one draft report published concluding “limited” or “no” assurance since SIAP’s last progress report. The report showed a line by line breakdown of audits undertaken this year; it also listed adjustments due to reprioritisation as a result of the risks around COVID-19.

Following a question by a Member regarding cyber security it was stated that in respect of section 4 of the report, that work had concluded with a “reasonable” assurance and in terms of section 8, it had been considered that cyber security should be incorporated into the 2021/22 plan. The rational for this audit related to staff working from home and any potential vulnerabilities to the network.

Concern was raised regarding procurement via credit card and there were questions regarding the management actions. In response, it was stated that there had been 19 management actions, of which 12 had been assessed as complete at the time of preparing the report. SIAP had been asked by the Interim Head of Finance to audit the use of credit cards as they were used more frequently during the emergency response to COVID-19. This area had been due for a review as this had not been undertaken for some time. Following the audit, new processes had been put in place and these were explained.

In response to a question relating to fleet management, it was noted that 16 management actions had been completed and 5 remained outstanding. Assurance was given that these would be followed through to completion as with all audits.

Members were referred back to Audit Guidance Statements and in terms of processes put in place, there was a whole framework that ensured processes, checks and controls were monitored on an ongoing basis. Measures were in place that ensured they remained relevant as business evolved.

RESOLVED that the Audit Committee notes the internal audit progress report contained in the annexes to the report.

10. RISK MANAGEMENT - QUARTER 4 2020/21

Councillor Lewanski introduced the item stating that the report provided an update on risk management in Q4 2020/21.

Annex 1 of the report provided an update on all strategic risks, including their rating and a summary of the key updates.

No new strategic risks were identified in Q4.

In Q4 one strategic risk was identified for closure: SR4 – Partner Public Sector Funding Decisions. This risk was recommended for closure as the Council's funding reliance on the County Council had reduced, therefore reducing the potential impact of any funding or budget decisions Surrey makes. This recommended closure aligned with the finalisation of the Council's and Surrey's 2021/22 budgets.

Impacts resulting from partner public sector funding decisions going forward would be covered in 'SR2 – Financial Sustainability'; in the 2021/22 Strategic Risk Register.

In addition to strategic risks, the Committee also received updates on RED rated operational risks. At the end of Q4 there was one rated operational risk, the detail of which is provided in the part 2 exempt annex.

Following this Audit Committee meeting this report would be considered by the Executive on 24 June.

In terms of the number of strategic red rated risks, it was acknowledged that COVID-19 had a big impact and there was a financial impact on residents. There was always a large workload, however there was a continuing desire to consider issues that affected residents. Risks around the impact COVID-19 had on Gatwick Airport were highlighted and it was acknowledged that this would skew the risk ratings.

In relation to SR8, it was asked whether spot checks were made on Officers to ensure appropriate use of ICT as it felt this was more effective than a reminder. The internal audit gave a reasonable assurance on cyber security and it was agreed that this observation be fed back to the ICT Team.

RESOLVED that:

(i) The Committee notes the Quarter 4 update on Risk Management provided by the report and associated annexes;

(ii) The recommended closure of strategic risk on 'Partner Public Sector Funding Decisions' (SR4) as detailed in Annex 2 be noted.

11. AUDIT COMMITTEE FORWARD PLAN 2021/22

RESOLVED that the Audit Forward Plan 2021/22 be noted.

12. ANY OTHER URGENT BUSINESS

There was none.

13. EXEMPT BUSINESS

RESOLVED that members of the Press and public be excluded from the meeting for part of agenda item 6 (Risk Management – Quarter 4 2020/21) under Section 100A(4) of the Local Government Act 1972 on the grounds that:

(i) it involves the likely disclosure of exempt information as defined in paragraph 7 of Part 1 of Schedule 12A of the Act; and
(ii) information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

The Committee concluded within the exempt part of the meeting, that as there were no further updates or comments since the meeting held on 11 March 2021 the Committee could move back into the public part of the meeting.

The Meeting closed at 8.00 pm

Reigate & Banstead
BOROUGH COUNCIL
Banstead I Horley I Redhill I Reigate

SIGNED OFF BY	Interim Head of Finance
AUTHOR	Nicola Pettett, Finance Manager
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EMAIL	nicola.pettett@reigate-banstead.gov.uk
TO	Executive Council Audit Committee
DATE	Thursday, 16 September 2021 Thursday, 23 September 2021 Tuesday, 28 September 2021
EXECUTIVE MEMBER	Portfolio holder for Finance & Governance

KEY DECISION REQUIRED	Yes
WARDS AFFECTED	(All Wards);

SUBJECT	Treasury Management Outturn Report 2020/21

RECOMMENDATIONS

RECOMMENDATIONS:

That Executive recommend to Council:

(i) To note the Treasury Management Performance for 2020/21;

(ii) To approve the outturn against the 2020/21 Prudential and Treasury Management Indicators and the Annual Treasury Management Report (Annex 1).

REASONS FOR RECOMMENDATIONS

This report confirms compliance with the requirements of the regulatory framework for treasury management.

The Council is required to receive and approve, as a minimum, three treasury reports each year, which incorporate relevant policies, estimates and actuals:

(i) **Prudential and Treasury Indicators and Treasury Strategy** – sets the framework for treasury management activities in the following financial year.

The Treasury Management Strategy and Performance Indicators for 2020/21 were approved by the Chief Executive in April 2020 under Section 4 of the Constitution, as approved by the Mayor who authorised this under Section 4.5 of the Constitution (Urgent Decision-Making) due to the COVID-19 meeting restrictions at that time. They were subsequently approved by Council on 28 May 2020 when meetings resumed.

(ii) **Mid-Year Treasury Management Report** – updates Members on the current borrowing and investment position, whilst amending prudential indicators and revising policies where necessary.

The mid-year report for 2020/21 was reported to Executive on 19 November 2020 and approved by Council on 10 December 2020.

(iii) **Annual Treasury Management Outturn Report** – a backward-looking review focussing on the previous year's performance. This report.

EXECUTIVE SUMMARY

This report sets out treasury management performance for 2020/21 including performance against the Prudential and Treasury Management Indicators.

It will be presented to the Executive on 16 September 2021 and Council will be asked to approve the recommendations on 23 September. It will also be considered by Audit Committee on 28 September.

Recommendations (i) and (ii) are subject to approval by full Council.

STATUTORY POWERS

1. The Council operates its Treasury Management activity as an integral part of its statutory obligation to effectively manage the Council's finances under the Local Government Act 2003 and associated regulations.

2. Treasury Management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Government's Investment Regulations.

BACKGROUND

3. Regulations issued under the Local Government Act 2003 require local authorities to produce an annual review of its treasury management activities for the previous year, including performance against the Prudential and Treasury Management Indicators.

4. The Treasury Management Strategy and Performance Indicators for 2020/21 were approved by the Chief Executive in April 2020 under Section 4 of the Constitution, as approved by the Mayor who authorised this under Section 4.5 of the Constitution (Urgent Decision-Making) due to the COVID-19 meeting restrictions at that time. They were subsequently approved by Council on 28 May 2020 when meetings resumed.

5. Audit Committee has taken on responsibility for scrutiny of the Council's treasury management arrangements for 2021/22 onwards. This was delegated to Overview & Scrutiny Committee in previous years.

KEY INFORMATION

Treasury Management Strategy

6. Performance during 2020/21 is reported at Annex 1.

7. No prudential limits were breached and, with the exception of compliance with the maximum exposure per institution (details below), all decisions were taken in accordance with the Treasury Management Strategy.

<u>COVID-19 Pandemic - Extraordinary Circumstances</u>

8. One of the most significant challenges from a treasury management perspective during 2020/21 was the revised timescales for receipt of planned and emergency Government funding. This encompassed both grants for the Council and grants to be passported on to support businesses.

9. The treasury and investment impacts of the COVID-19 pandemic which started in late 2019/20 included:
   - Less predictable cashflows due to receipt of planned and additional Government funding at short notice and taking on new responsibilities for paying grant funding to businesses on behalf of Government;
   - Incurring unplanned expenses as the authority's emergency response plan was implemented;
   - A reduction in income receipts across all services and the Collection Fund; and
   - A dramatic reduction in market return on all investments particularly those with lower risks, which were needed during unprecedented financial certainty

10. The revised timescales for receipt of planned and emergency funding created a significant challenge from a treasury management perspective. Cashflow forecasting was less certain, which meant that large cash balances could not be avoided. At the same time with staff working remotely and banks having no immediate answer which avoided the need for 'wet' signatures on documentation, new investments and call accounts could not be easily setup to take the excess funding.

OPTIONS

Executive has three options:

Option 1 – note the report and recommend its approval by Council.

Option 2 – note the report but ask officers to provide more detail on specific issues contained in the report before it can be submitted to Council for approval.

Option 3 – reject the report. This would result in non-compliance with the Treasury Management Code of practice and associated regulations.

Executive is asked to approve Option 1.

LEGAL IMPLICATIONS

1. There are no direct legal implications arising from this report

FINANCIAL IMPLICATIONS

2. The financial implications of the Treasury Outturn 2020/21 were reflected in the budget section of the Quarter 4 Performance Report to Executive on 24 June 2021. There are no additional direct financial implications that arise from this report.

EQUALITIES IMPLICATIONS

3. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

4. There are no communications implications arising from this report.

RISK MANAGEMENT CONSIDERATIONS

5. Key risks are managed in accordance with Prudential Code indicators, including ensuring Security, Liquidity and Yield for investments. Further details are provided at Annex 1.

OTHER IMPLICATIONS

6. There are no other implications relating to this report.

CONSULTATION

7. Executive will consider this report at its meeting on 16 September 2021. It will also be presented to the Audit Committee on 21 September 2021 for their observations.

POLICY FRAMEWORK

8. This report is submitted in accordance with the Council's Treasury Management Policy.

BACKGROUND PAPERS

- Executive 1 April 2020 – *Treasury Management Strategy 2020/21*
- Executive 19 November 2020 – *Half Year Treasury Management Report for 2020/21*
- Executive 24 June 2021 – *Quarter 4 Performance Report 2020/21*

ANNEX 1

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2020/21

APPENDICES

1. Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for the previous financial year as reported at Appendix 1. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2020/21 the minimum reporting requirements were that full Council should receive the following reports:

- an annual Treasury Management Strategy in advance of the year; this was reported to Council on 28 May 2020; this was later than originally scheduled due to disruption of Council meetings during the COVID-19 pandemic;
- a mid-year, (minimum), Treasury Update report; reported to Council on 10 December 2021; and
- an Annual Review following the end of the year (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is important in that regard, as it provides details of the outturn position for treasury activities and highlights compliance with the policies previously-approved by full Council. It will also be presented to the Audit Committee for scrutiny and review.

Member training on treasury management was undertaken in March 2021 in order to support Members in their scrutiny and oversight role.

Link Asset Management continued to provide services as the Council's treasury advisors. Their latest commentary is attached at Appendix 2.

2. Summary

During 2020/21, the Council complied with legislative and regulatory requirements. The key prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are set out below:

Table 1: PRUDENTIAL AND TREASURY INDICATORS	**2019/20 Actual £000**	**2020/21 Original Budget £000**	**2020/21 Actual £000**
Capital Expenditure:			
General Fund (see Table 2)	18,890	96,100	25,782
Total	**18,890**	**96,100**	**25,782**
Capital Financing Requirement: In year change			
General Fund	12,279	74,924	30,305
Total	**12,279**	**74,924**	**30,305**

Table 1: PRUDENTIAL AND TREASURY INDICATORS	2019/20 Actual £000	2020/21 Original Budget £000	2020/21 Actual £000
Gross Borrowing:			
Long Term credit arrangements	-	-	-
External Debt	14,000	9,000	9,000
Total	**14,000**	**9,000**	**9,000**
Investments:			
Longer than 1 year	13,000	0	-
Under 1 year	35,000	36,000	36,000
Total	**48,000**	**36,000**	**36,000**
Net Borrowing / (Net Investment)	**(34,000)**	**(27,000)**	**(27,000)**

The Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the Authorised Limit), was not breached.

The challenging investment environment of previous years was amplified in 2020/21, resulting in low investment returns.

COVID-19 Pandemic - Extraordinary Circumstances

The treasury and investment impacts of the COVID-19 pandemic which started in late 2019/20 include:

- Less predictable cashflows due to receipt of planned and additional Government funding at short notice and taking on new responsibilities for paying grant funding to businesses on behalf of Government;
- Incurring unplanned expenses as the authority's emergency response plan was implemented;
- A reduction in income receipts across all services and the Collection Fund.

One of the more significant challenges faced from a treasury management perspective was the revised timescales for receipt of planned and emergency Government funding.

Delays in capital projects due to COVID-19 constraints resulted in significant slippage in the Council's 2020/21 capital programme as displayed in table 1 above.

The Treasury Management Strategy specifies the maximum sums that can be invested with any one organisation. There were periods of time during the year when the Council breached its limit on the maximum sum to be invested in a single institution, as specified in the Treasury Management Strategy. This was due to the receipt of significant emergency funding at short notice from the Government. The breach was subsequently addressed by opening additional investment accounts with new institutions to spread the risk.

3. Introduction and Background

This report provides a summary of the Council's treasury management position for the year with regard to borrowing and investments, including:

- Capital investment activity and the impact of this activity on the Council's underlying indebtedness (the 'Capital Financing Requirement'); and
- Performance against Prudential and Treasury Management indicators (Appendix 1).

4. Capital Expenditure and Financing

The Council undertakes capital expenditure to acquire or create long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing requirement.

The table below sets out the capital expenditure during 2020/21 and how it was financed.

Table 2: CAPITAL FINANCING	**2019/20 Actual £000**	**2020/21 Original Budget £000**	**2020/21 Actual £000**
Capital Programme Expenditure	18,890	96,100	25,782
Less: amounts not defined as Capital by statute	-	-	(329)
Total Capital Expenditure			**25,453**
Financed By:			
Capital Grants	1,016	1,843	1,994
Capital Receipts	2,099	8,805	4,403
Revenue Contribution	-	10,000	-
Capital Reserves	1,063	-	-
Total Grants & Receipts	**4,178**	**20,648**	**6,396**
Borrowing in Year	14,712	75,452	19,057
Total Finance	**18,890**	**96,100**	**25,453**

5. Overall Borrowing Need

The underlying need to borrow for capital expenditure is the 'Capital Financing

Requirement' (CFR). The Council's CFR for the year is set out below and represents a key prudential indicator.

Table 3: CAPITAL FINANCING REQUIREMENT (CFR)	2019/20 Actual £000	2020/21 Original Budget £000	2020/21 Outturn £000
Opening balance	18,826	31,105	31,105
Add unfinanced capital expenditure	12,446	75,452	30,571
Less MRP/VRP	(167)	(528)	(266)
Less PFI & finance lease repayments	-	-	-
In year change in CFR	12,279	74,924	30,305
Cumulative Capital Financing Requirement (CFR)	**31,105**	**106,029**	**61,411**

The Council's treasury team ensures that sufficient cash is available to meet capital expenditure plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Government's Public Works Loan Board (PWLB), other local authorities or private sector lenders, or by utilising available cash balances on a temporary basis.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that the costs of borrowing to fund capital assets are charged to the revenue budget over the life of the asset. In order to achieve this the Council is required to make an annual charge to the revenue budget, the Minimum Revenue Provision (MRP) to reduce its CFR. This is effectively repayment of the associated borrowing.

The CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The 2020/21 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Management Strategy for 2020/21 on 28 May 2020.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and that borrowing is only used for a capital purpose, the Council has to ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This confirms that the Council is not borrowing to support revenue expenditure. The table below sets out the Council's gross borrowing position against its CFR and confirms that

the Council has complied with this prudential indicator.

Table 4: GROSS BORROWING POSITION	2019/20 Actual £000	2020/21 Original Budget £000	31 March 2020 (2020/21) Actual £000
Gross External Borrowing Position (Table 1)	**14,000**	**9,000**	**9,000**
Cumulative CFR (Table 3)	31,105	106,029	61,411
(Under) / Over Funding of CFR	**(17,105)**	**(97,029)**	**(52,411)**

The Authorised Limit - the Authorised Limit is the 'affordable borrowing limit' required by section 3 of the Local Government Act 2003. Once this has been approved, the Council does not have authority to borrow above this level without formal adoption of a revised Limit. The table below confirms that the Council has maintained gross borrowing within its Authorised Limit during 2020/21

The Operational Boundary – the Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator confirms the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the 'Net Revenue Stream' (the Council's revenue budget).

TABLE 5: COST of CAPITAL AGAINST NET REVENUE STREAM	2020/21
Authorised Limit	£162m
Maximum gross borrowing position during the year	£9m
Operational Boundary	£152m
Average gross borrowing position	£9m
Net financing costs as a proportion of Net Revenue Stream	(3.77)%

6. Treasury Position at 31 March 2021

The Council's debt and investment position is organised by the treasury management team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks across all treasury management activities. Procedures and controls to achieve these objectives are well established both through officer and Member reporting and through officer activity as set out in the Council's Treasury Management Practices. At the end of 2020/21 the Council's treasury position was as follows:

Table 6: DEBT PORTFOLIO	31 March 2020 Principal £000	Rate / Return %	Average Life (years)	31 March 2021 Principal £000	Rate / Return %	Average Life (years)
Fixed rate funding:						
PWLB	-	-	-	-	-	-
Lincolnshire County Council	6,000	1.00%	9 months	-	-	-
Portsmouth City Council	3,000	1.00%	9 months	-	-	-
Portsmouth City Council	5,000	1.20%	1.3 years	5,000	1.20%	3 months
Elmbridge Borough Council	-	-	-	4,000	1.70%	9 months
Total	**14,000**	**1.07%**		**9,000**	**1.45%**	
Variable Rate Funding:						
PWLB	-	-	-	-	-	-
Market Loans	-	-	-	-	-	-
Total Debt	**14,000**	**1.07%**		**9,000**	**1.45%**	
CFR (Table 3)	31,105			61,411		
Over / (Under) Borrowing	**(17,105)**			**(52,411)**		

Table 7: INVESTMENT PORTFOLIO	31 March 2020 Principal £000	Rate/ Return %	Average Life (years)	31 March 2021 Principal £000	Rate/ Return %	Average Life (years)
Investments:						
- In-House	35,000	0.50%	1 year	23,000	0.01%	1 year
- With Brokers	13,000	1.56%	2.5 years	13,000	1.58%	5 months
Total Investments	**48,000**	**0.90%**	**1.67 years**	**36,000**	**0.69%**	**0.75 years**

The maturity structure of the debt portfolio is set out below:

Table 8: INVESTMENT PORTFOLIO	31 March 2020 Actual	2020/21 Original Limits	31 March 2021 Actual
Under 12 months	64%	100%	100%
12 months and within 24 months	36%	100%	0
24 months and within 5 years	0%	100%	0
5 years and within 10 years	0%	100%	0

Table 8: INVESTMENT PORTFOLIO	31 March 2020 Actual	2020/21 Original Limits	31 March 2021 Actual
10 years and within 20 years	0%	100%	0
20 years and within 30 years	0%	100%	0
30 years and within 40 years	0%	100%	0
40 years and within 50 years	0%	100%	0

The limit for maturity structure of the debt portfolio at 100% reflects the fact that the Council has little external borrowing at present.

Table 9: INVESTMENT PORTFOLIO	Actual 31 March 2020 £000	Actual 31 March 2020 %	Actual 31 March 2021 £000	Actual 31 March 2021 %
Treasury investments				
Banks	5,000	10%	-	-
Building Societies - rated	18,000	38%	13,000	36%
Local authorities	-	-	-	-
Money Market Funds	25,000	52%	23,000	64%
Total	**48,000**	**100%**	**36,000**	**100%**
Bond funds	-	-	-	-
Property funds	-	-	-	-
Total managed externally	**-**	**-**	**-**	**-**
TOTAL TREASURY INVESTMENTS	**48,000**	**100%**	**36,000**	**100%**

Table 10: INVESTMENT PORTFOLIO	Actual 31 March 2020 £000	Actual 31 March 2020 %	Actual 31 March 2021 £000	Actual 31 March 2021 %
Non-Treasury Investments				
Third party loans & share capital:	-	-	-	-
Subsidiaries – Greensand Property Holdings Ltd	12,482	21%	TBC[2]	TBC[2]
Companies – Horley Business Park Development LLP	594	1%		
Associate – Pathway for Care Ltd [1]	1,100	2%		
Investment Property	45,531	76%	43,373	TBC[2]
TOTAL NON-TREASURY INVESTMENTS	**59,707**	**100%**	**TBC[2]**	**TBC[2]**
Treasury investments	48,000	45%	36,000	TBC[2]
Non-Treasury investments	59,707	55%	TBC[2]	
TOTAL – ALL INVESTMENTS	**107,707**	**100%**	**TBC[2]**	

Note 1: Third party loan and share capital information includes expected credit loss.

Note 2: Values to be confirmed. At the time of preparing this report the figures were not available due to the extended deadline for closedown as part of the response to the COVID-19 Pandemic.

The maturity structure of the investment portfolio is set out below:

Table 11: ALL TREASURY INVESTMENTS	2019/20 Actual £000	2020/21 Budget £000	2020/21 Actual £000
Investments:			
Longer than 1 year	23,000	13,000	13,000
Up to 1 year	25,000	23,000	23,000
Total	**48,000**	**36,000**	**36,000**

7. Borrowing Outturn 2020/21

Loans were drawn during the year to fund the net unfinanced capital expenditure.

Table 12: LOANS						
Lender	**Principal**	**Type**	**Interest Rate**	**Start date**	**Maturity Date**	**Duration**
Short-term Market Loan	£4m	Fixed Interest Rate	1.70%	18/12/2020	20/12/2021	12 months

This compares well with the 2020/21 budget assumption that long term borrowing would be at an interest rate of 2.70%.

Borrowing in advance of need - the Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8. Investment Outturn 2020/21

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance and was implemented in the Treasury Management Strategy approved by the Council on 28 May 2020. The Policy sets out the approach for choosing investment counterparties based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, such as rating outlooks, credit default swaps and bank share prices etc.

Investment activity during the year conformed to the approved Policy and the Council experienced no liquidity difficulties.

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. Core cash resources comprised usable reserves as follows:

Table 13: USABLE RESERVES	2019/20 Actual	2020/21 Actual
	£000	£000
General Fund Balance	7,939	2,331
Earmarked Reserves	33,652	37,558
Usable Capital Receipts	581	7,361
Capital Grants Unapplied	21,396	21,396
Total	**63,568**	**68,646**

Investments - the Council maintained an average balance of £36m of investments in 2020/21 which earned an average rate of return of 0.51%. This compares with a (pre-pandemic) budget assumption of £36m investment balances earning an average rate of 0.93%. The comparable external performance indicator is the average 12-month LIBID uncompounded rate, which was 0.17%. The Council's average rate of return of 0.51% is mainly driven by the fixed investments made prior to the pandemic where interest rates were most favourable.

9. Other Treasury Management Matters

Pooled Investment Funds. The Council had no pooled investment funds during the year.

Non-treasury management investments. The Council's current approach to making property investment decisions is set out in its Capital Investment Strategy which explains how investment decisions are made, how delivery is approached and how risks are managed. In order to support investment decisions, the Council relies on the principles established in its evolving Commercial Investment Strategy and powers under the Localism Act 2011. This forms the framework for maximisation of new and existing income streams to secure financial sustainability.

APPENDIX 1

PRUDENTIAL AND TREASURY INDICATORS

1.1 PRUDENTIAL INDICATORS	2019/20 Actual £000	2020/21 Original Budget £000	2020/21 Actual £000
Capital Expenditure			
General Fund (Table 2)	18,890	96,100	25,454
Ratio of net financing costs to net revenue stream			
General Fund	(4.99)%	4.95%	(3.77)%
Gross Debt			
Brought forward 1 April	12,000	14,000	14,000
Carried forward 31 March	14,000	9,000	9,000
In year borrowing requirement	2,000	(5,000)	(5,000)
Capital Financing Requirement			
Opening CFR (Table 3)	18,826	31,105	31,105
In year CFR change (Table 3)	12,279	74,924	30,305
Closing CFR (Table 3)	31,105	106,029	61,411
Annual change in Capital Financing Requirement			
General Fund	12,279	74,924	30,305

1.2 TREASURY MANAGEMENT INDICATORS	2019/20 Actual £000	2020/21 Original Budget £000	2020/21 Actual £000
Authorised Limit for External Debt			
Borrowing	80,000	161,000	161,000
Other long-term liabilities	-	500	500
Total	**80,000**	**161,500**	**161,500**
Operational Boundary for External Debt			
Borrowing	70,000	151,000	151,000
Other long-term liabilities	-	500	500
Total	**70,000**	**151,500**	**151,500**
Actual External Debt	**14,000**	**9,000**	**9,000**

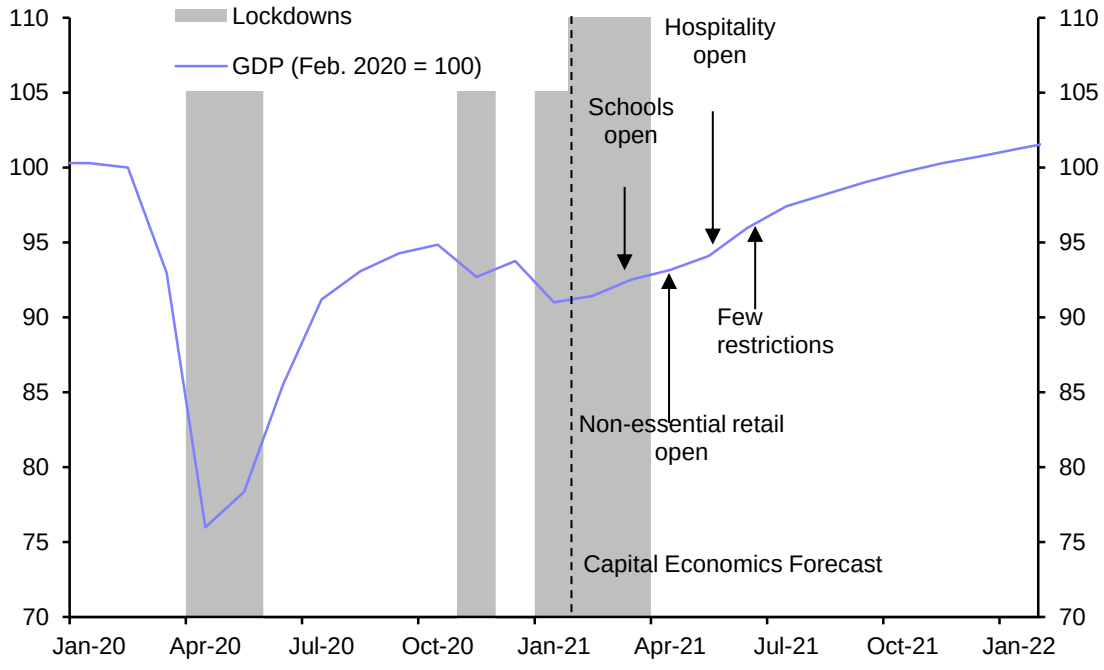
1.3 MATURITY STRUCTURE OF FIXED RATE BORROWING DURING 2020/21	Target upper limit	Target lower limit	Actual
Under 12 months	100%	0%	100%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and within 20 years	100%	0%	0%
20 years and within 30 years	100%	0%	0%
30 years and within 40 years	100%	0%	0%
40 years and within 50 years	100%	0%	0%
Maturity structure of Investments during 2020/21	upper limit	lower limit	
Longer than 1 year	£20m	£0m	£0m
Up to 1 year	£13m	£0m	£36m
Total	£33m	£0m	£36m

APPENDIX 2

LINK ASSET SERVICES COMMENTARY – April 2021

The Economy and Interest Rates

UK. Coronavirus. *The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.*



Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The ***Monetary Policy Committee*** *cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which*

time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

***Average inflation targeting**. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.*

***Government support.** The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.*

***BREXIT.** The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so 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. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.*

***USA.** The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a $2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.*

*After Chair Jerome Powell spoke on the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed a new inflation target - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial*

markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already. The Fed expects strong economic growth during 2021 to have only a transitory impact on inflation, which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping treasury yields at historically low levels. However, financial markets in 2021 have been concerned that the sheer amount of fiscal stimulus, on top of highly accommodative monetary policy, could be over-kill leading to a rapid elimination of spare capacity in the economy and generating higher inflation much quicker than the Fed expects. They have also been concerned as to how and when the Fed will eventually wind down its programme of monthly QE purchases of treasuries. These concerns have pushed treasury yields sharply up in the US in 2021 and is likely to have also exerted some upward pressure on gilt yields in the UK.

EU. *Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.*

Inflation was well under 2% during 2020/21. ***The ECB*** *did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore,* ***unlikely to be a euro crisis*** *while the ECB is able to maintain this level of support.*

China. *After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.*

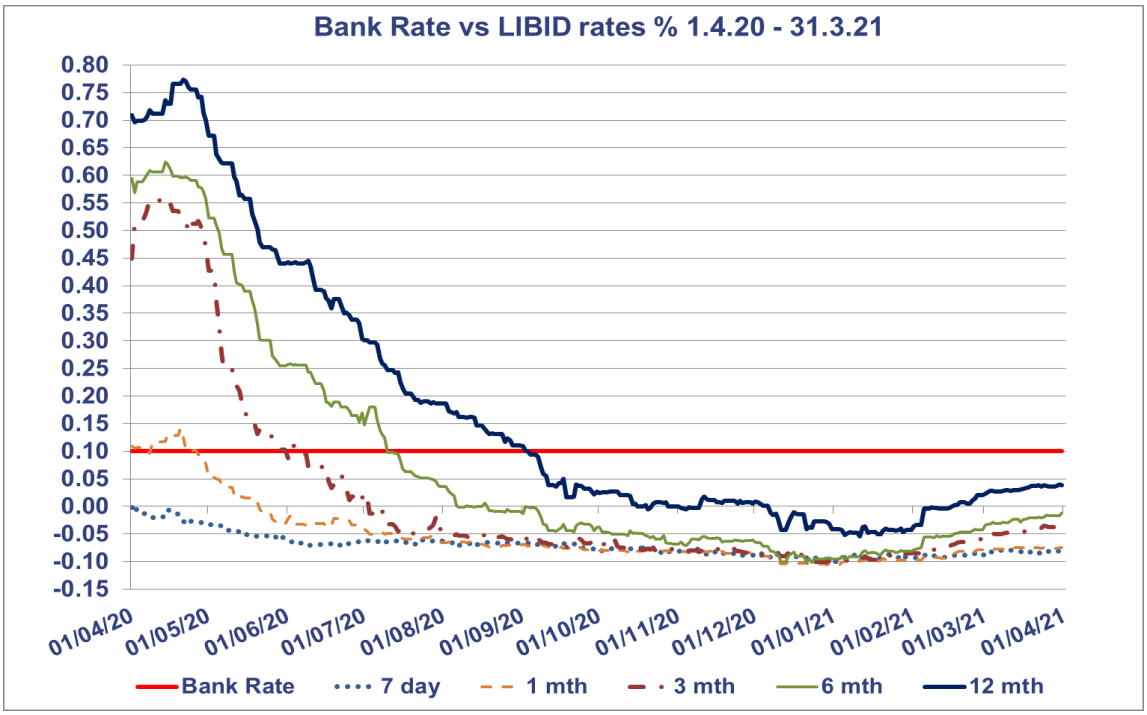
Japan. *Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.*

World growth. *World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.*

Deglobalisation. *Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China and is likely to mean that the China / EU investment deal then being negotiated, will be torn up. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates.*

Central banks' monetary policy. *During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.*

Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

For authorities that have sufficient cash balances to place longer term investments -

Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

For authorities with minimal cash balances that can only be placed out for up to one month.

Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

This authority does not have sufficient cash balances to be able to place deposits for more than a month so as to earn higher rates from longer deposits. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

Borrowing strategy and control of interest rate risk

During 2019/20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks (please adapt this outline to what you actually did in the year):

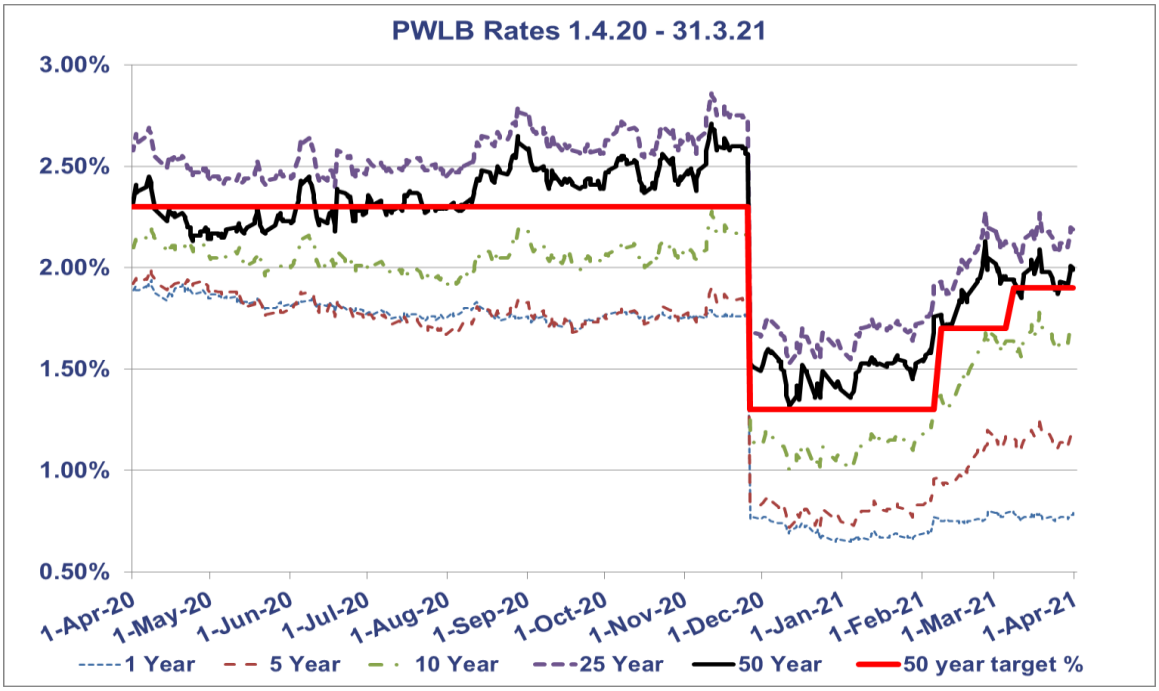
- *if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.*

- *if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.*

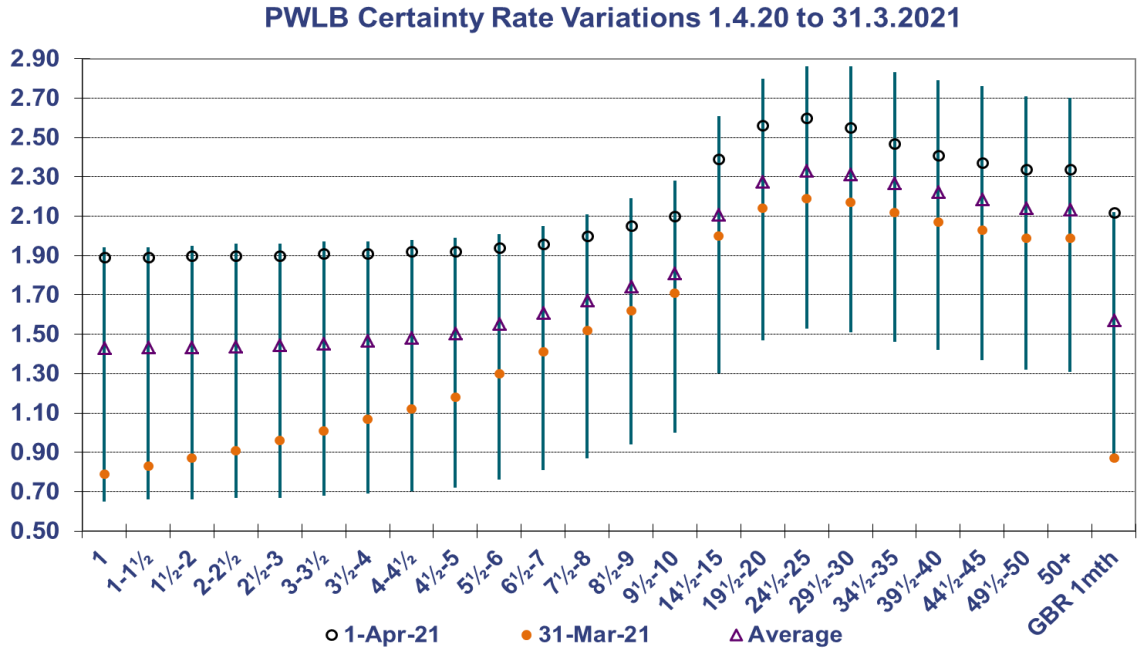
Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates,

Forecasts at the time of approval of the treasury management strategy report for 2020/21 were as follows:-

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Low date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
High date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%



PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

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Reigate & Banstead
BOROUGH COUNCIL
Banstead I Horley I Redhill I Reigate

Signed off by	Interim Head of Finance
Author	Luke Harvey, Project & Performance Team Leader
Telephone	Tel: 01737 276519
Email	Luke.Harvey@reigate-banstead.gov.uk
To	Audit Committee
Date	Tuesday, 28 September 2021

Key Decision Required	N
Wards Affected	(All Wards);

Subject	Internal audit - Q1 2021/22 progress report

Recommendations

(i) That the Audit Committee note the Q1 2021/22 internal audit progress report available at annex 1; and,

(ii) That the Committee make any comments and/or observations on the report to the Council's Chief Finance Officer.

Reasons for Recommendations

In accordance with its constitutional responsibilities and the Council's Internal Audit Charter, the Audit Committee is required to receive regular updates on the progress of internal audit plan delivery.

Executive Summary

This report provides an update on the delivery of the 2021/22 internal audit plan as of the end of Q1 2021/22. It also provides an update on the outstanding audit reviews from 2020/21.

The Committee has the authority to approve the above recommendations.

Statutory Powers

1. The requirement of an internal audit function in local government is detailed within the Accounts and Audit (England) regulations (2015), which state that authorities must: 'undertake an effective internal audit to evaluate the effectiveness of [their] 45

Agenda Item 6 risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

2. The latter standards are defined in the Public Sector Internal Audit Standards (PSIAS) which were last updated in 2017.
3. Under Section 151 of the Local Government Act (1972), the Council's Chief Financial Officer holds the statutory responsibility for the overall financial administration of the Council's affairs and is therefore responsible for maintaining an adequate and effective internal audit function.

Background

4. The Council's internal auditors are the Southern Internal Audit Partnership (SIAP).
5. The Partnership is hosted by Hampshire County Council and is comprised of a number of local authorities and other public sector organisations.
6. A professional, independent and objective internal audit service is a key element of ensuring good corporate governance.
7. The PSIAS defines internal audit as an 'independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.
8. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and are operating effectively.
9. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.
10. The Council's Chief Internal Auditor – the Head of the Southern Internal Audit Partnership – is responsible for the management of the Council's internal audit activity.
11. The Audit Committee endorsed the 2021/22 internal audit plan in March 2021.
12. The audit plan is risk based and determines the priorities of internal audit activity. The plan is kept under close review to ensure that it continues to be relevant to the Council's risk profile and to ensure an appropriate level of audit coverage.
13. Under the Council's Constitution the Committee is responsible for reviewing internal audit progress reports and monitoring delivery of the annual audit plan.
14. The attached progress report:
    - Summarises the status of 'live' audit reports (an audit is considered to be 'live' if there are outstanding management actions);
    - Provides an update on the delivery of the annual audit plan;
    - Summarises internal audit performance, including assurance opinions given; and,

- Summarises any adjustments made to the audit plan.

Key Information

2020/21 audit plan

15. Two reviews remain in progress from 2020/21:
    - HR – Establishment Controls; and,
    - Environmental Health and Licensing.
16. Both reports are at draft report stage and are therefore expected to conclude shortly.

Q1 2021/22 progress update

17. Section 3 of SIAP's report details the overall progress in delivering the 2021/22 audit plan; section 7 provides a detailed overview of the work programme for the year.
18. Internal audit reviews result in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service under review. SIAP's assurance opinions are categorised as follows:

Opinion	Description
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

19. So far this year one audit review has concluded with an assurance opinion:

Audit	Assurance opinion
Harlequin Theatre – Income, Banking and Reconciliation	Limited

20. Section 5 of SIAP's report provides a summary of the key observations arising from the above review that concluded with a limited assurance opinion. Management actions are now being implemented in line with the agreed timescales and will address the underlying reasons for the limited assurance opinion.

Management actions

21. Section 4 of SIAP's report provides a summary of all outstanding management actions.
22. As previously reported to the Audit Committee, the Council is continuing to prioritise efforts on the ongoing response to, and recovery from, the COVID-19 pandemic. As such, all identified management actions in section 4 of SIAP's report have been given revised implementation dates from those originally identified. A number of actions have been completed since the Q4 2020/21 progress report was considered by the Committee.
23. Outstanding management actions will continue to be reported to the Audit Committee until their full implementation.

Adjustments to the 2021/22 audit plan

24. Section 8 of SIAP's report details the amendments made to the audit plan during the year.
25. The 2021/22 audit plan approved by the Audit Committee included provision of audit days to allow for reviews relating to Covid-19. As such, two reviews have been added to the plan:
    - Covid-19 Compliance and Enforcement Grant; and,
    - Local government compensation scheme.

Options

26. The Audit Committee has two options:
27. Option 1: note this report and make any observations and comments to the Council's Chief Finance Officer.
28. Option 2: note the report and make no observations to the Council's Chief Finance Officer.

Legal Implications
29. There are no legal implications arising from this report.
Financial Implications
30. Internal audit fees are funded through the Council's annual revenue budget. 31. There are no other financial implications arising from this report.
Equalities Implications
32. There are no equalities implications arising from this report.
Communication Implications
33. There are no communications implications arising from this report.
Risk Management Considerations
34. An effective internal audit function is an important part of effectively managing risk. 35. The Council's strategic and operational risk registers were utilised in the development of the annual internal audit plan. 36. There are no other risk management implications.
Other Implications
37. There are no other implications arising from this report.
Consultation
38. This report has been considered by the Council's Corporate Governance Group as part of its governance role.
Policy Framework
39. Internal audit makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all Corporate Plan Priority areas.
Background Powers
None.

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Internal Audit Progress Report 2021/22

August 2021

Reigate & Banstead Borough Council

Southern Internal Audit Partnership

Contents:

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

> ***'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'***

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

> ***'Independent, objective assurance and consulting activity designed to add value and improve an organisations' operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.***

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations' objectives.

2. Purpose of report

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:

Substantial A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

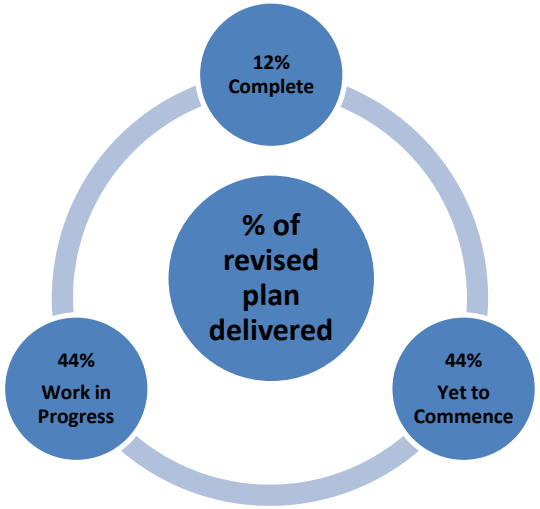
Reasonable There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

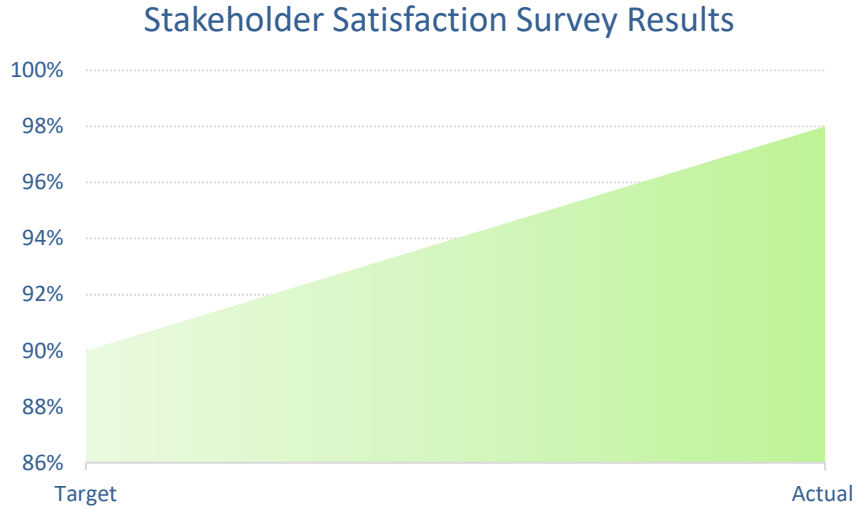
Limited Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

** Some reports listed within this progress report (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to adoption of the CIPFA standard definitions, reference is provided at Annex 1*

3. Performance dashboard





Compliance with Public Sector Internal Audit Standards

An External Quality Assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

4. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions*	Not Yet Due	Complete	Overdue		
							L	M	H
Human Resources and Organisational Development	03.10.19	HofOD	Adequate	7(0)	0(0)	1(0)	6		
Refuse, Recycling and Street Cleansing	15.10.19	HofNO	Adequate	15(3)	0(0)	14(3)		1	
Council Tax	05.02.20	HofRB&F	Adequate	6(2)	0(0)	3(2)		3	
Risk Management	03.02.21	HofP&P	Reasonable	3(0)	2(0)	1(0)			
Health and Safety	04.02.21	HofNO	Reasonable	5(3)	0(0)	4(3)		1	
Cyber Security	04.02.21	HofIT	Reasonable	7(4)	2(2)	3(0)			2
Fleet Management	06.04.21	HofNO	Limited	16(3)	4(1)	11(2)		1	
Covid-19 Decision Making and Governance	07.04.21	HofPP	Reasonable	5(0)	2(0)	3(0)			
Procurement	05.05.21	HofF	Limited	8(0)	7(0)	1(0)			
IT Disaster Recovery	27.05.21	HofIT	Limited	8(6)	8(6)	0(0)			
Harlequin Centre, Income Banking and Reconciliation	15.06.21	HofF	Limited	3(3)	2(2)	0(0)			1
Information Security – Data Centre Security	28.06.21	HofIT	Limited	6(2)	2(0)	3(2)		1	
Total				**89(26)**	**29(11)**	**44(12)**	**6**	**7**	**3**

***Total number of actions (total number of high priority actions)**

5. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

There has been one new final report published concluding a "Limited" or "No" assurance opinion.

Harlequin Centre – Income, Banking & Reconciliation

Audit Sponsor	Assurance opinion	Management Actions		
Head of Finance	Limited	Low 0	Medium 0	High 3

Summary of key observations:

This review was completed at the request of the Head of Finance, due to regular anomalies between monies received at the bank and the daily reporting of income received at the Harlequin Centre. This review sought to establish an explanation for these variances.

Daily Return spreadsheets, which record the income received at the Harlequin Centre each day, are forwarded to the Finance team to record the income on the finance system. Five Daily Return spreadsheets were reviewed, together with the relevant documentation to support the card payment values being recorded and accounted for. As a result of COVID-19, the Harlequin Centre had a no cash policy during the period of this audit and therefore, the process for banking and recording cash was not included within this review.

Harlequin Centre

The Harlequin Centre's procedure documentation, to support the processes followed by the Catering and Front of House staff, had not been updated to reflect the change in processes for the recording of income during COVID-19 restrictions.

The End of Day reports, which provide totals and a breakdown of sales for the Café, Bar and Kiosk showed the sales recorded did not always agree to the Z till reading totals. This had not been identified by either the quality assurance review by the Duty Manager or by the Admin and Finance Supervisor. The Centre staff were unable to identify why the totals were different, bearing in mind both the Z till reading and the End of Day Report were generated from the till system.

A review of the Daily Return spreadsheets, for the five days under review, showed several errors. This would suggest there is no consistent independent check of the Daily Return figures, prior to them being forwarded to the Finance team for processing.
Values entered on the Daily Tills Control spreadsheet did not agree with the Z till reading and End of Day report for one of the days reviewed.

Finance

A review of the General Ledger transactions, for the Harlequin cost centre and account code combinations, confirmed the values being entered, for the five days under review, were recorded accurately within the finance system based on the data provided within the Daily Return.

However, when the Finance Officer is unable to match the card receipts bank statement lines, with the Daily Returns received from the Harlequin Centre, an additional adjustment line is added to the Daily Return and an additional General Ledger transaction line is created. This action is not reviewed, or quality assured by any other member of the Finance Team. Additional income, or refund, transactions are being generated within the General Ledger, with no supporting documentation. During this review, our testing found that none of the adjustment lines within our sample were necessary and had been added erroneously. These errors were compounded by inaccurate Daily Returns completed by the Duty Managers.

6. Planning & Resourcing

The internal audit plan for 2021-22 was presented to Corporate Governance Group and the Audit Committee in March 2021.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

7. Rolling Work Programme 2021/22

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
2020/21 Reviews								
HR - Establishment Controls	HofF	✓	✓	✓	✓			Awaiting management response & Senior Management sign off
Environmental Health & Licensing	HofNO	✓	✓	✓	✓			Awaiting management response & Senior Management sign off
2021/22 Reviews								
Corporate								
Financial Resilience	HofF							Q4
Transformation	HofCPP&BA							Q3
Governance								
Contract Management	HofL&G							Q3
HR - Absence Management	HofOD	✓	✓					
Information Governance	HofIT	✓	✓	✓				
Annual Governance Statement	HofF	✓	✓	✓				
Capital Programme	HofF							Q3
IT								
IT Governance	HofIT							Q4
Virtualisation (Networking & Communications)	HofIT	✓	✓	✓				
Payment Card Industry Data Security Standard	HofIT							Q3
Core Financial Reviews								
Accounts Payable	HofF							Q2 – scoping to be booked

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Accounts Receivable & Debt Management	HofF	✓	✓	✓				
Harlequin Centre – Income, Banking & Reconciliation	HofF	✓	✓	✓	✓	✓	Limited	
Compliance & Enforcement Grant	HofF	✓	✓	✓	✓	✓	n/a	Grant certification
Local Government Compensation Scheme	HofF	✓						
Organisation								
Property Management & Maintenance	HofF	✓	✓	✓	✓			
Place								
Parking & Enforcement	HofNO							Q4
Disabled Facility Grants	HofNO	✓	✓	✓	✓			

54

Audit Sponsors

HofCPP&BA	Head of Corporate Policy, Projects & Business Assurance	HofW&I	Head of Wellbeing and Intervention
HofOD	Head of Organisational Development	HofCP	Head of Community Partnerships
HofIT	Head of IT	HofC&CC	Head of Communications and Customer Contact
HofL&G	Head of Legal and Governance	HofP	Head of Planning
HofF	Head of Finance	HofPD	Head of Place Delivery
HofH	Head of Housing	HofEP	Head of Economic Prosperity
HofRB&F	Head of Revenues Benefits and Fraud	HofNO	Head of Neighbourhood Operations

8. Adjustment to the Internal Audit Plan

There has been the following amendment to the plan:

Plan Variations for 2021/22	
Added to the plan	**Reason**
Compliance & Enforcement Grant	A number of days are included in the Annual Plan to allow for work in relation to Covid. This area of work has now been confirmed and will make use of an element of the agreed allowance and has consequently been added into the plan.
Local Government Compensation Scheme	A number of days are included in the Annual Plan to allow for work in relation to Covid. This area of work has now been confirmed fand will make use of an element of the agreed allowance and has consequently been added into the plan.

Annex 1

Reigate & Banstead Borough Council Assurance Opinions (Pre 2020-21)

Substantial	A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
Adequate	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Limited	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
No	Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

Reigate & Banstead
BOROUGH COUNCIL
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SIGNED OFF BY	Head of Corporate Policy
AUTHOR	Ross Tanner, Performance Officer Luke Harvey, Project & Performance Team Leader
TELEPHONE	Tel: 01737 276022 Tel: 01737 276519
EMAIL	Ross.Tanner@reigate-banstead.gov.uk Luke.Harvey@reigate-banstead.gov.uk
TO	Audit Committee Executive
DATE	Audit Committee: Tuesday, 28 September Executive: Thursday, 16 September 2021
EXECUTIVE MEMBER	Portfolio Holder for Corporate Policy and Resources

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards);

SUBJECT	Risk management - Q1 2021/22

RECOMMENDATIONS

That the Audit Committee:

(i) Note the Q1 update on risk management provided by the report and associated annexes.

(ii) Note the recommended closure of the strategic risk on 'Reform of the planning system' (SR11) as detailed in the report and in Annex 4.

(iii) Note the recommended opening of a new strategic risk on 'Planning system reform' as detailed in Annex 5.

That the Executive:

(i)	**Note the Q1 update on risk management provided by the report and associated annexes.**
(ii)	**Approve the closure of the strategic risk on 'Reform of the planning system' (SR11) as detailed in the report and in Annex 4.**
(iii)	**Approve the opening of a new strategic risk on 'Planning system reform' as detailed in Annex 5.**

REASONS FOR RECOMMENDATIONS

The Audit Committee and Executive's constitutional responsibilities require the regular receipt of updates on risk management.

EXECUTIVE SUMMARY

This report provides an update on risk management in Q1 of 2021/22. Additional detail is provided in the report as well as the supporting associated annexes.

The Audit Committee and Executive have the authority to approve their respective recommendations.

STATUTORY POWERS

1. The Council holds various statutory responsibilities for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, accounted for, and is used economically and effectively.
2. The Council also has a duty under the Local Government Act (1999) to put in place proper arrangements for the governance of its affairs.
3. The discharge of this responsibility includes arrangements for managing risk.
4. The Council's Code of Corporate Governance outlines these core governance principles; compliance with the code is reported each year via the Annual Governance Statement.

BACKGROUND

5. Reigate & Banstead Borough Council has a proactive approach to risk management. It is an integral part of the Council's corporate governance arrangements and is built into management processes.
6. The Council operates a two-tiered risk management process to address the dynamic and interdependent nature of risk categorisation. The risk categories are strategic and operational risks.
7. Strategic risks are defined as those risks that have an impact on the medium- and long-term ambitions and priorities of the Council as set out in the Corporate Plan and Medium-Term Financial Plan (MTFP).

8. Members of the Management Team and Executive Members have shared responsibility for strategic risks. It is the responsibility of the Executive to formally endorse any new risks for inclusion on the strategic risk register.
9. The Audit Committee has a constitutional responsibility to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment. It provides independent review of Reigate and Banstead Borough Council's governance, risk management and control frameworks. A key component of fulfilling this responsibility is to regularly receive and review the Council's risks.
10. Operational risks are risks that are encountered in the course of the day-to-day delivery of services. However, if an operational risk cannot be fully managed within the service or it has a wider organisational impact then it will be considered for inclusion in the operational risk register by the Council's Corporate Governance Group. Heads of Service have responsibility for operational risks.

KEY INFORMATION

Risk management reporting

11. The Council's risk registers have been updated at the end of Q1 2021/22, working alongside Directors and Heads of Service.
12. The full risk registers are made available to all members via the ModernGov document library. Risk registers from previous years are available on the eMembers portal.
13. Each quarter the Audit Committee and Executive receives an update on risk management. As per the Council's risk management methodology, this report provides an update on all strategic risks as well as any red rated operational risks.
14. The update – available in Annex 1 – includes the current risk rating, the direction of risk travel for the risk (with reference to its score) as well as a summary of the key updates in the quarter.

Risk ratings

15. The Council's risk management strategy and methodology utilises the following risk ratings:

Rating	Action
Red	Where management should focus attention. Immediate actions should be identified and plans put in place to reduce risk as a priority.
Amber	Where management should ensure that contingency plans are in place. These may require immediate action and will require monitoring for any changes in the risk or controls. These will be a key area of assurance focus.
Yellow	These should have basic mechanisms in place as part of the normal course of management.

Green	Where risk is minimal and does not demand specific attention but should be kept under review.

Q1 2021/22 risk management update

16. An update on the Council's strategic risks for Q1 2021/22 is provided in Annex 1.
17. In Q1 there were two RED rated operational risks, the details of which are set out in the part 2 exempt Annex 2, and Annex 3.
18. In Q1 one strategic risk was identified for closure (SR11 – Reform of the Planning System). This risk is recommended for closure as the government's plan to reduce the threshold for the provision of affordable homes has now been dropped, which changes the implications of this risk. Additional information is available at Annex 4.
19. In Q1 one new strategic risk was identified. This risk covers the latest proposed changes to the planning system and therefore supersedes the risk recommended for closure. Additional information is available in Annex 5.

Audit Committee – 28 September 2021

20. This report will be considered by the Executive in advance of the Audit Committee's meeting on 28 September 2021.
21. It is usual practice for the Audit Committee to receive the risk management report in advance of the Executive. Due to limitations on the scheduling of meetings, this has not been possible in Q1 2021/22 reporting. Any observations made by the Audit Committee will be reported to the relevant portfolio holder and, if necessary, to the next meeting of the Executive.

OPTIONS

22. The Audit Committee has two options:
23. Option 1: Note this report and the associated annexes and make no observations to the Executive.
24. Option 2: Note this report and the associated annexes and make any observations to the Executive.
25. The Executive has two options:
26. Option 1: Note this report and endorse the closure of the strategic risk on 'Reform of the Planning System' (SR11) and the opening of the new strategic risk on 'Planning system reform'. This is the recommended option.
27. Option 2: Note this report and not endorse the closure of the strategic risk on 'Reform of the Planning System' (SR11) and the opening of the strategic risk on 'Planning system reform'.

LEGAL IMPLICATIONS

28. There are no legal implications arising from this report.

FINANCIAL IMPLICATIONS

29. Financial risks are considered when preparing the Medium-Term Financial Plan. Capital Investment Strategy, Revenue Budget, and Capital Programme each year.
30. There are no additional financial implications arising from this report

EQUALITIES IMPLICATIONS

31. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

32. There are no communications implications arising from this report.

RISK MANAGEMENT CONSIDERATIONS

33. The Council's risk registers inform the development of the annual risk based internal audit plan.
34. The Council's approach to managing risk is core component of the Code of Corporate Governance.

OTHER IMPLICATIONS

35. There are no other implications arising from this report.

CONSULTATION

36. The contents of this report and the associated annexes have been considered by the Council's Corporate Governance Group.

POLICY FRAMEWORK

37. The Council's risk management strategy and methodology provides additional information on how the Council manages risk.

BACKGROUND PAPERS

None

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ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
SR1	**COVID-19 pandemic** The Council will continue to respond to the COVID-19 pandemic in supporting residents, businesses as well as other partner public sector organisations. The effects of the pandemic, coupled with the ongoing response, could result in significant disruption to the delivery of services and the achievement of corporate objectives.	Cllr Brunt	**AMBER**	Where paused or altered, Council services have restarted as appropriate and in full accordance with government guidance and the roadmap out of lockdown restrictions. It is important to note that operating within the confines of, and responding to, Covid-19 has now become 'normal' for the Council. Ongoing disruption is expected and planned for. Plans for surge testing were invoked in June 2021 as surge testing was required in the borough. The Council was the lead agency for the successfully delivered operation and worked closely alongside multi-agency partners including Surrey Public Health and the Department for Health and Social Care. A debrief has taken place, with key learning captured for any future surge testing requirement, both in Reigate and Banstead and in our neighbouring and partner local authorities.	▬
SR2	**Financial sustainability** In the wake of the COVID-19 pandemic and resultant recession, the Council faces a period of unprecedented financial uncertainty. The most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes.	Cllr Schofield	**RED**	The Council will continue to ensure that strong financial management arrangements are in place and will continue to invest in skills and expertise to support delivery of the Council's financial and commercial objectives while managing associated risks. The Council's updated Medium-Term Financial Plan was reported to the Executive in July 2021. This sets out the forecast budget challenges over the coming five years. It will form the basis for service and financial planning for 2022/23 onwards.	▬

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
	If this substantial financial burden is not mitigated through direct Government support, then these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver against its Corporate Plan ambitions. The delivery of corporate plan objectives will similarly be jeopardised if the Council is unable to secure additional income streams. The ongoing financial settlement with the Government also remains uncertain. The Council is therefore increasingly reliant on income derived, and to be derived and generated, from investments, fees and charges and commercial activities – the ability to do so, however, may be further restricted by changes in legislation, regulations, and codes of practice. Commercial activity and investments are similarly not without risk.			The Council's Capital Investment Strategy was reported to the Executive in July 2021. The specific outcomes of the Fair Funding Review and Business Rates Reset remain unknown; however, it is expected to result in significantly reduced funding. COVID-19 has resulted in material new financial risks, both in the current financial year and over the medium term. Additional unbudgeted expenditure has been incurred to deliver the authority's response and budgeted sources of income have been impacted by reduced demand during lockdown restrictions. At the close of the 2020/21 financial year the overall budget outturn is a net underspend for the Council, with reserves remaining healthy. Despite the impact of COVID-19 on priorities and workloads, the Council adopted Part 1 of its Commercial Strategy in Q3 2020/21 demonstrating the continued importance of: (i) adopting and implementing strategies that support sustainable income generation and (ii) taking forward income generating projects such as Horley Business Park, and a crematorium. As of Q1 2021/22, work is now underway on part 2 of the Commercial Strategy.	
SR3	**Local government reorganisation** A reorganisation of local government could be prompted by a range of scenarios and circumstances, including the financial failure of an authority within Surrey or as part of the government's devolution	Cllr Brunt	**AMBER**	The 2019 Queen's speech announced an upcoming white paper on devolution and local government reorganisation. In response to this, in the summer of 2020 Surrey County Council announced its intention to develop a proposal for a single unitary authority for the county.	▬

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
	agenda. A White Paper on English devolution and local recovery is expected in the latter part of 2021, delayed from its original date in autumn 2020. The uncertainty surrounding, and subsequent results of, any local government reorganisation could adversely affect the Council and the delivery of services for residents.			Surrey's proposal was not one of three that the government invited to take forward. It has also been confirmed that, at present, the government is not pursuing a mandatory top down reorganisation. In July 2021 the Prime Minister confirmed that a white paper on devolution and 'levelling up' will be published in the latter part of 2021. Further to the prime minister's speech, the Secretary of State wrote to all local authority Leaders and Chief Executives in July 2021 and provided additional detail on the government's plans. The Council will continue to proactively seek to influence the debate on the future structure of local government within Surrey.	
SR4	**Organisational capacity and culture** The Council has adopted an ambitious Corporate Plan, supported by a capital investment, housing and Great People strategy. The COVID-19 pandemic has changed the way the Council operates, the context within which it does so, and will similarly drastically change the organisational culture and ways of working. The Council will continue to be ambitious and new ways of working will need to be embraced by both members and officers for objectives to be achieved. Key to this is ensuring that staff welfare and wellbeing is maintained, particularly in the challenging circumstances caused by the pandemic.	Cllr Lewanski	**AMBER**	Before the COVID-19 pandemic significant work was undertaken on the Council's Great People work programme and has formed a solid basis for post COVID planning. The pandemic has resulted in a need for the organisation to work differently. Projects in this area are being taken forward by the Organisation Board. We are continuing to give priority to understanding and addressing staff welfare and wellbeing issues. An officer working group is meeting and is taking an action plan forward to address wellbeing issues associated with the continuation of remote working.	–

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
	The failure to remain ambitious and adapt to the ongoing challenges of the pandemic will risk the delivery of corporate objectives.			The HR team has continued to promote training and development opportunities for managers and staff around managing their wellbeing and different ways of working. Before COVID-19 the Employment Committee considered and endorsed the organisation's approach to developing the Council's vision, values, and behaviours. The next steps to this piece of work are being reviewed in the context of COVID-19. As recently agreed by the Employment Committee, the recruitment of a new Chief Executive will be paused and reconsidered later in 2021. Suitable plans are in place within the Management Team to cover all duties. A new Strategic Head of Corporate Resources joined the Council in June 2021.	
SR5	**Economic prosperity** A prosperous economy is essential for the wellbeing of the borough, creating employment and wealth that benefits local people and businesses. The COVID-19 pandemic has resulted in significant negative impacts upon the economy, which will continue to be felt for some time. Prevailing economic conditions have a direct impact on the Council's financial position and likewise impacts upon the demand for Council services, particularly in terms of income derived from fees and charges and the collection of monies owed. Challenging financial circumstances for residents may also increase their reliance on Council services.	Cllrs Humphreys and Schofield	**RED**	The latest available data (current as of June 2021) shows that Reigate and Banstead continues to have the highest number of furloughed employees in Surrey. The government's Jobs Retention Scheme has been extended until the end of September 2021, though the scheme has begun to taper as businesses are now required to pay 10% of furloughed employees' wages. This will increase to 20% in August 2021. The scheme has supported a significant number of jobs in the borough and for residents that work outside of Reigate and Banstead. Its gradual removal could therefore result in an increase in unemployment and businesses struggling,	↓

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
				which could similarly have a knock-on demand for Council services. The Council has been active in helping to support local businesses using virtual platforms throughout the COVID-19 pandemic. Support has also included the processing of business grants and applications for business rate relief. The Council has also distributed money to support businesses via the local authority discretionary grant fund, and has similarly signposted businesses to other sources of grants and government support. An East Surrey COVID-19 recovery taskforce has been launched by local MPs. The Council will continue to proactively engage with this group. The taskforce continues and has been successful in encouraging a greater number of businesses to apply for funding to the Coast-Capital Local Enterprise Partnership. The partnership is looking into securing funding for local infrastructure projects. During Q1 the Council submitted a bid to the Government's 'Levelling up Fund'. The bid was for Horley and was supported by the local MP. The Council will find out the result of the bid in the coming months. The 'R&B Works' project launched in 2020/21. This project highlights and provides support towards local employment opportunities for residents. The Council is continuing to promote and enhance the website and a launch event will take place in Q2.	

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
SR6	**Reliance on the welfare system** The COVID-19 pandemic has resulted in increasing numbers of residents being reliant upon the welfare system as the economy is negatively impacted. This increases the risk of household budgets being stretched. The latter could result in an increase in cost pressures on the Council as our services are increasingly relied upon.	Cllr Neame	**RED**	The COVID-19 pandemic has resulted in significant negative economic impacts on residents. The Council will closely monitor the impact of the gradual ending of the government's furlough scheme (see SR5). The scheme will now conclude at the end of September 2021. The Council continues to administer Test and Trace support payments. The range of Council services that work directly with residents' report that the needs of local people are becoming more complex, with residents requiring support with debt, alcoholism, domestic abuse, and substance misuse. This is an increasing trend and is being closely monitored. The full roll-out date for universal credit has yet to be confirmed. However, the system is live for those experiencing changes in their circumstances. The effects of COVID-19 has increased universal credit claimants in the borough. The Council's Money Support service is receiving increased referrals in comparison to previous years. This will continue to be monitored and services adjusted/scaled up if required. Additional resourcing has been identified to support the service. We continue to work closely with partners to manage the effects of upcoming welfare and homelessness changes, including the YMCA,	–

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
				Raven Housing Trust, Surrey County Council and primary care networks. The Council has participated in a cross-Surrey application made to the 'Changing Futures Fund'. This fund is a new pilot service aimed at providing support to vulnerable homelessness clients. As of the end of Q1, the bid of which the Council is part, has made it to the final round (last 20 applicants, of 70). Of the 20, 15 will be allocated grants of up to £3.4 million to tackle a range of health, wellbeing, and housing issues. The courts are now operating and are able to issue possession orders. However, the ban on bailiff enforcement action expired on 31 May. Bailiffs are now executing possession warrants. June 2021 resulted in an increase in contact to the Council's Housing service, which may result in elevated homelessness support cases. The long-term effects of the pandemic will likely result in residents continuing to require support from Council services. This is particularly acute for those in receipt of support but who do not meet the threshold for adult social care support. The Council continues to provide a scaled back Covid-19 welfare offer in response to resident need. Consideration is being given to the provision of a pilot scheme to support residents with ongoing welfare needs and who do not meet the threshold of adult social care.	

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
SR7	**Cyber security** Organisations are at an ever-increasing risk of cyber-attack as the use of digital systems and technologies increases, particularly as home working has become the norm in response to the COVID-19 pandemic. More sophisticated attacks and new variants of malicious software underscore the risk of corporate defences being compromised. The effects of a cyber-attack are wide and varied though at their worst could result in data destruction and theft, as well as significant disruption to the delivery of services.	Cllr Lewanski	**AMBER**	ICT reports data security matters to the Senior Information Risk Officer (SIRO). The ICT customer base is kept informed of any specific threats and will be continually reminded to be vigilant when opening email or browsing websites, particularly those from unknown sources. If the ICT team believes that expenditure is required to improve defences an urgent business case will be raised and presented to the SIRO for consideration by the Organisation Board. ICT has worked with the National Computer Centre to implement a statement of works to improve the Council's cyber security. The work concluded in March 2021 and resulted in a work plan which will inform future improvements to the Council's cyber security in 2021/22.	▬
SR8	**Fraud** Due to the wide range of activities undertaken by the Council, there is a risk of fraud being committed. The latter is exacerbated by the new areas of activity which the Council has launched following the COVID-19 pandemic.	Cllr Schofield	**AMBER**	The Council continues to have robust control measures in place to protect public funds from fraudulent activity. In 2020/21, the Council's internal auditors undertook reviews into: Covid-19 Business Support Grants and discretionary grant payments. Both reviews resulted in a 'substantial assurance' opinion, with no management actions recommended. The Council's Fraud and Financial Investigations team proactively monitors and investigates many possible areas where fraud may occur.	▬

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
				A staff fraud awareness programme has been developed and has been implemented in Q1 of 2021/22, with training of teams taking place.	
SR9	**Marketfield Way** Marketfield Way is a major place delivery project for the Council and is critical to shaping Redhill and ensuring the town's continued vitality. It will also generate income which can be reinvested in Council services. The ongoing economic fallout of the COVID-19 pandemic may have negative impacts on this development, particularly with regards to securing commercial tenants and its consequent financial viability.	Cllr Biggs	**AMBER**	The project continues to be on track. Appropriate terms for the main build contract with Vinci have been negotiated. The Council has entered into a building contract which reduces financial risk by fixing a high proportion of outstanding costs. Funding for the project has been secured from the Local Enterprise Partnership (LEP). The Council is adopting a flexibility-of-use methodology for Marketfield Way's commercial units. This is to ensure that there are appropriate tenant incentive packages in place to encourage interest. A cinema operator has been selected and a lease agreement is being finalised with a major retailer for a retail unit. As a consequence of the national materials shortage throughout the construction industry, work is being carried out to ensure that materials are being ordered in advance of when they are required to avoid delays on site.	▬
SR10	**Gatwick Airport** The COVID-19 pandemic will continue to negatively impact on Gatwick airport. The outbreak has seen a large reduction in air travel which can be expected to continue for the foreseeable future due to the negative	Cllr Humphreys	**RED**	The situation at Gatwick Airport is being closely monitored. Our neighbouring borough of Crawley (the local authority area in which Gatwick is located) has one of the highest numbers of	▬

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
	economic outlook and ongoing global travel restrictions. As a key local employer the financial position of the airport will affect local employment, which may result in an increased number of residents seeking support from the Council. Moreover, despite the negative economic outlook, Gatwick Airport have indicated that they will continue to pursue their previously announced expansion plans. An intensification or expansion of Gatwick has attendant local environmental and infrastructural risks.			furloughed workers in the country, a significant portion of whom work at Gatwick. As noted above, Reigate and Banstead also has the highest number of furloughed employees in Surrey. It is likely that a high number of Reigate and Banstead residents are on furlough from Gatwick and its associated supply chain. This will continue to be closely monitored through to the planned end of the furlough scheme in September 2021. British Airways had recommenced some long-haul flights from Gatwick last year, however short haul flights have moved to Heathrow and are not expected to return to Gatwick until the end of October 2021. There have been circa 1,400 redundancies at Gatwick (this figure does not include job losses in the associated supply chain). Passenger numbers are down by 80% on pre-pandemic levels. Prior to third lockdown announced before Christmas 2020, Gatwick had indicated some confidence of returning to around 50% of normal capacity in the summer of 2021. Recovery is subject to the success of the government's vaccination program and will be limited by any future travel restrictions. However, as of end of Q1 2021/22, Gatwick continues to operate at reduced levels. Gatwick is continuing to pursue its plans for expansion and is currently undertaking studies	

ANNEX 1 – Q1 2021/22 STRATEGIC RISKS UPDATE

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
				into the impacts of the proposal in advance of submitting a Development Consent Order. The Council will continue to work closely with other local authorities surrounding the airport to monitor potential local implications and respond to proposals.	
SR11	**Reform of the planning system** Following the publication of the 'Planning for the Future' white paper, the government is consulting on changes to planning system. Whilst the proposals are at an early stage, the current White Paper proposes increasing the threshold at which affordable housing is required from developments from 10 units to 40 or 50. Given the large number of developments in the borough offering 11-40 homes, the increase in the threshold to 40 would reduce RBBC's delivery of affordable housing by up to approximately 60%. This change could therefore negatively impact delivery of affordable housing in the borough.	Cllr Biggs	**AMBER**	In Q2 2020/21 the Council responded to the consultation and lodged its opposition to the White Paper's proposals, principally in regard to the potential loss of affordable housing in the borough. The consultation closed on 29 October 2020. As of the end of Q1 2021/22, the outcomes of the Government's proposals for structural reform of the planning system are still unknown as a Parliamentary Bill has not been published following the White Paper. However, the government has recently confirmed that the plan to reduce the threshold for affordable homes from developments of 11 homes to 40 or 50 is not being pursued, meaning that medium sized developments will still be required to provide affordable housing. As such, in Q1 2021/22 reporting this risk is recommended for closure, with a new strategic risk raised to reflect the current implications of the government's plans for reform in this area. Annex 5 of this agenda pack provides additional information.	↓

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ANNEX 3 – Q1 2021/22 RED RATED OPERATIONAL RISK

Ref.	Risk description	Owner	Rating	Mitigating actions/update	Direction of travel
OR2	**Resources and Waste Strategy** The government has recently launched a consultation on its Resources and Waste strategy. The strategy – if adopted in its current form – will result in a significant change in the composition of the materials that the Council collects, which could have adverse budget implications. The strategy also proposes a range of changes to existing services and the introduction of new services which, if adopted, will likely result in further adverse budget implications. Moreover, the ongoing uncertainty of the changes could necessitate delays in investment decisions as well as on service enhancements and future operating models. This could hold the service back as it awaits clarity to ensure that such decisions cohere with any statutory changes.	Cllr Bramhall	**RED**	The Council responded to the first and second consultations and voiced its concerns over the adverse implications the strategy would have if it was adopted in its consultation form. The strategy's legislative underpinning will be via the Environment Bill which is progressing through Parliament and is currently at the third reading stage in the House of Lords. It is expected to pass into law later in 2021, with the changes coming into effect in 2023/24. There is a concern that the Bill (once enacted) will have a significant financial impact on the Council through, for instance, changing the configuration of waste services, the composition of recycling materials collected and through making services which are currently chargeable free. To reflect this, in Q1 2021/22 reporting this operational risk has been rated as RED.	↑

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ANNEX 4 – Q1 2021/22 STRATEGIC RISKS RECOMMENDED FOR CLOSURE

Ref.	Description	Owner	Mitigating actions/update
SR11	**Reform of the planning system** Following the publication of the 'Planning for the Future' white paper, the government is consulting on changes to planning system. Whilst the proposals are at an early stage, the current White Paper proposes increasing the threshold at which affordable housing is required from developments from 10 units to 40 or 50. Given the large number of developments in the borough offering 11-40 homes, the increase in the threshold to 40 would reduce RBBC's delivery of affordable housing by up to approximately 60%. This change could therefore negatively impact delivery of affordable housing in the borough.	Cllr Biggs	As noted in Annex 1 of this agenda item, this risk is recommended for closure in Q1 2021/22 reporting. This risk was raised following the publication of the 'Planning for the Future' White Paper and the subsequent consultation on changes to the planning system. The government has recently confirmed that its plan to reduce the threshold for affordable homes from developments of 11 homes to 40 or 50 is not being pursued, meaning that medium sized developments will still be required to provide affordable housing. This risk is therefore recommended for closure, with a new strategic risk raised to reflect the current implications of the risk.

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ANNEX 5 – Q1 2021/22 NEW STRATEGIC RISKS IDENTIFIED

Description	Owner	Rating
Planning system reform Following the publication of the 'Planning for the Future' White Paper, the government is considering changes to the planning system in England. There is a risk that, if adopted in the form contained in the White Paper, these changes could result in a loss of local democratic control over planning matters. Moreover, whilst the government have confirmed that they will not be increasing the threshold at which affordable housing is required from developments (which was included in the original consultation document), there is also a risk that the other proposed changes could result in a reduction in the delivery of affordable housing in the borough.	Cllr Biggs	**AMBER**

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Reigate and Banstead Borough Council
Audit Committee Work Programme

Published:

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
28 September 2021								
Pat Main, Interim Head of Finance and Assets, Nicola Pettett, Group Accountant	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance Interim Head of Finance	**Treasury Management Outturn 2020/21** To report to members the performance of the Treasury function in the financial year 2020/21		16 Sep 2021		Open	
Luke Harvey, Project & Performance Team Leader	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Internal audit - Q1 2021/22 progress report** To receive the Q1 internal audit progress report for 2021/22.				Open	
Luke Harvey, Project & Performance Team Leader	Portfolio Holder for Corporate Policy and Resources	Head of Corporate Policy	**Risk management - Q1 2021/22** To receive an update on risk management for Q1 2021/22.		16 Sep 2021		Open	
25 November 2021								
Pat Main, Interim Head of Finance	Deputy Leader and Portfolio	Interim Head of Finance	**Final Annual Govenance Statement 2020/21**				Open	

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
and Assets	Holder for Finance and Governance		To consider the Final Annual Governance Statement 2020/21					
Pat Main, Interim Head of Finance and Assets, Nicola Pettett, Group Accountant	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Statement of Accounts 2020/21** To consider the Audited Statement of Accounts 2020/21.				Open	
Pat Main, Interim Head of Finance and Assets, Nicola Pettett, Group Accountant	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**External Auditor Report (ISA 260) 2020/21** This report, from the Council's external auditors, summarises conclusions and significant issues arising from the audit of the 2020/21 Annual Financial Report.				Open	
Pat Main, Interim Head of Finance and Assets, Nicola Pettett, Group Accountant	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Treasury Management Mid-Year Report 2021/22** To consider the Treasury Management Mid-Year Report 2021/22		16 Dec 2021	2 Dec 2021	Open	KEY
Pat Main, Interim Head of Finance and Assets	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**External Audit Contract Agreements 2023 - 2023** To seek Council approval to become an opted-in authority with Public Sector Audit Appointments Limited (PSAA) in anticipation of PSAA tendering for the new five-year audit			2 Dec 2021	Open	KEY

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
			contract for external audit services from 2023/24 onwards.					
Luke Harvey, Project & Performance Team Leader	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Internal audit - Q2 2021/22 progress report** To receive the Q2 2021/22 internal audit progress report.				Open	
Luke Harvey, Project & Performance Team Leader	Portfolio Holder for Corporate Policy and Resources	Head of Corporate Policy	**Risk management - Q2 2021/22** To receive an update on risk management for Q2 2021/22		16 Dec 2021		Open	
Alex Berry, Deputy Democratic Services Manager	Portfolio Holder for Corporate Policy and Resources	Commercial and Investment Director	**Update of the Code of Corporate Governance** To adopt the updated Code of Corporate Governance.				Open	
15 March 2022								
Pat Main, Interim Head of Finance and Assets, Nicola Pettett, Group Accountant	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Treasury Management Strategy 2022/23** Treasury Management Strategy 2022/23		24 Mar 2022	7 Apr 2022	Open	KEY
Luke Harvey, Project & Performance Team Leader	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Internal audit - Q3 2021/22 progress report** To receive the Q3 2021/22 internal audit progress report.				Open	
Luke Harvey, Project & Performance	Deputy Leader and Portfolio Holder for	Interim Head of Finance	**Internal audit plan 2022/23-2024/25 and Charter 2022/23**				Open	

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
Team Leader	Finance and Governance		To approve the internal audit plan for 2022/23-2024/25 and Charter for 2022/23.					
Luke Harvey, Project & Performance Team Leader	Portfolio Holder for Corporate Policy and Resources	Head of Corporate Policy	**Strategic risks - 2022/23** To consider the strategic risks for 2022/23		24 Mar 2022		Open	
Luke Harvey, Project & Performance Team Leader	Portfolio Holder for Corporate Policy and Resources	Head of Corporate Policy	**Risk management - Q3 2021/22** To receive an update on risk management for Q3 2021/22.		24 Mar 2022		Open	
Liane Dell, Democratic Services Officer	Portfolio Holder for Corporate Policy and Resources	Head of Legal and Governance	**Audit Committee Annual Report 2021/22** To consider and note the Audit Committee's Annual Report and forward work programme for 2022/23.				Open	

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