

# Agenda

## Audit Committee

Thursday, 25 November 2021 at 7.30 pm

New Council Chamber, Town Hall, Reigate



This meeting will take place in accordance with Government guidance. The Committee will assemble at the Town Hall, Reigate. Members of the public, Officers and Visiting Members should attend remotely.

*Please wear a face covering at all times in the chamber, except when you are speaking, or, if you are seated at least 2 metres distance from others.*



Members of the public may observe the proceedings live on the Council's [website](#).

### Members:

#### J. P. King (Chairman)

R. J. Feeney  
J. Baker  
M. S. Blacker  
J. Booton  
G. Buttironi

S. A. Kulka  
R. Michalowski  
S. T. Walsh  
R. Coyle (Independent member)

### 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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- 1. Minutes** (Pages 5 - 12)

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. Treasury Management Mid-Year Report 2021/22** (Pages 13 - 52)

To review the Treasury Management Performance for the year to date and the updated prudential indicators and provide any comments for consideration by Executive.

To note the updated Treasury Management outturn results for 2020/21 that have been resubmitted now that the previously outstanding information is available.
- 5. External Audit Contract Agreements 2023 - 2023** (Pages 53 - 56)

To accept Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to local government and police bodies for five financial years from 1 April 2023.
- 6. Internal audit - Q2 2021/22 progress report** (Pages 57 - 80)

To note the Q2 2021/22 internal audit progress report available at Annex 1.

To make any comments and/or observations on the report to the Council's Chief Finance Officer.
- 7. Risk management - Q2 2021/22** (Pages 81 - 104)

To note the Q2 update on risk management provided in the report and associated annexes and make any observations to the Executive.
- 8. Update of the Code of Corporate Governance** (Pages 105 - 128)

To note that the Code of Corporate Governance be amended to reflect minor updates to the evidence for all six principles and to reflect the need for the Committee to review the Code annually.

**9. Work Programme**

(Pages 129 - 130)

To note the work programme for 2021/22.

**10. 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.**

**11. 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:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

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**

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### **Accessibility**

The Council's agenda and minutes are provided in English. However, the Council also embraces its duty to anticipate the need to provide documents in different formats, such as audio, large print or in other languages. The Council will provide such formats where a need is identified prior to publication or on request.



**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 28 September 2021 at 7.30 pm.

Present: Councillors J. P. King (Chairman), R. J. Feeney (Vice-Chair), J. Baker, M. S. Blacker, S. A. Kulka, R. Michalowski, S. T. Walsh and A. King (Substitute).

Also present: Councillors J. Booton.

#### **14. MINUTES**

The minutes from the meeting held on 10 June 2021 were **APPROVED**.

#### **15. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

An apology for absence had been received from Councillor Buttironi, Councillor A King attended as his substitute.

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

#### **16. DECLARATION OF INTEREST**

A Councillor declared that all members present had a general non-pecuniary interest as all were borough Council Tax payers.

#### **17. APPOINTMENT OF THE INDEPENDENT MEMBER TO THE COMMITTEE**

It was **NOTED** that the Full Council meeting held on 23 September 2021, appointed Robert Coyle as the Independent Member to the Audit Committee. Robert Coyle was welcomed to the meeting.

#### **18. TREASURY MANAGEMENT OUTTURN 2020/21**

The Interim Head of Finance gave an overview of the treasury management function, explaining that treasury management covered the management of the Council's cash and borrowing, as compared to budget management which focussed on controlling spending and income. The Council was required to have a balanced revenue budget whereby all expenditure was covered by income suggesting a neutral annual cash flow, therefore income would equal expenditure, however surpluses/shortfalls were held, either due to short term mismatches of spending and income flows, or as part of a deliberate strategy and this was explained. These cash sums were then reported at the end of the year on the balance sheet.

The Capital Financing Requirement (CFR) was a key element of treasury management and this set out how the capital programme would be funded over coming years. This was usually through a combination of grants, asset sales and borrowing. That borrowing had an impact on the revenue budget that includes funding for loan interest costs and sums set aside for principal repayment (known as the Minimum Revenue Provision or MRP). Management of the Council's cash balances and borrowing were the two key elements of treasury management. The

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governance of Local Authority treasury management was outlined as were the treasury management reporting requirements.

An overview of the Treasury Investment Strategy and borrowing plans was given, as was the delegation of responsibility for Treasury Management. It was highlighted that the Audit Committee's role was the scrutiny of Treasury Management Strategy and performance. The Committee would be consulted each year on development of the new Treasury Management Strategy. In anticipation of preparing the Treasury Management Strategy for 2022/23 in-depth training for the Committee would be arranged, with support from the Council's treasury advisors, Link, in the new year.

The Treasury Management Outturn report provided an update on the performance of the Council's treasury management activities for the last financial year and was part of the formal reporting requirements under the CIPFA Code of Practice on Treasury Management. It was stated that with one with one exception, the Council complied with legislative and regulatory requirements and operated within the limits specified in the Treasury Management Strategy. As previously reported to Overview and Scrutiny Committee and Executive throughout last year, the exception related to periods of time during the year when the Government paid over tens of millions of pounds in emergency funding to the Council at short notice as part of the national COVID-19 pandemic response. As a result, it had not been possible to spread the funds across a range of banks and financial institutions as was normally required, to ensure compliance with the limits for how much was invested with individual institutions as set out in the Treasury Management Strategy. However, this had now been resolved mainly through opening additional accounts with new institutions to spread the counterparty risk.

It was questioned as to the number of additional accounts that were opened and their lifespan. Further information regarding this would be provided in a written answer after the meeting.

The distribution of funds between in-house investments and investments with brokers was highlighted (Table 7 of the report). It was explained that some of these investments dated back over several years when rates of return were higher whereas more recent investments were invested at a point when rates of return were lower. Security and liquidity were the most important factors when investing. A written response was requested to provide a schedule of investment accounts held, to include the rates of return that the Council was receiving.

The level of inflation impacts on the Council's budget planning. The main area of concern would be pay inflation pressures and impacts of inflation on material and labour providers that would impact building projects. Once current energy deals expired, new deals available could also be impacted by inflation.

In terms of the extraordinary circumstances relating to COVID-19, the Council had to manage an influx of Government funding and had acted as an agency for distribution of these funds. This situation demonstrated that the Council had strong mechanisms in place to deal with this challenge as it occurred.

In respect of the debt portfolio (Table 6 of the report), it was explained that the Council was allowed to borrow within its Capital Financing Requirement. The Council did not currently have any long-term loans but there were cashflow

circumstances in which short-term loans were required. The local authorities from whom funds had been borrowed had a cash surplus and the Council was able to agree favourable terms with them.

The Committee questioned the figures which were stated as being 'to be confirmed' within Table 10 of the report (Investment Portfolio). It was stated that the timing for receipt of published accounts from third party companies was currently out of step due to COVID-19 publication delays and this had caused the gaps in information within this table. At the meeting of the Audit Committee being held in November, the Council should be in a better position to report the figures. When the accounts are published, the tables would be updated so that the complete figures were reported; this would include any reduction or increase in investment value.

It was confirmed that Greensand Holdings Limited and Horley Business Park LLP had issued management accounts however there were protocols on the timing for reporting them.

The Committee questioned who in the Council was aware when counterparty limits were breached (during the response to the pandemic). Starting with the first lockdown in late March 2020, when the Council started to receive an influx of Government funding, new controls were put in place to manage and report these funds. More frequent monitoring of the cashflow position was introduced, including the Interim Head of Finance receiving daily updates, giving daily approval to where the funds were placed, thereby ensuring clear accountability. This was later revised to weekly monitoring which was currently ongoing and would continue for the foreseeable future. Weekly updates were provided to the responsible Portfolio Holder and also to the Incident Management Team which included the Leader. Overall there were effective controls in place and there was transparency of reporting.

In respect of Tables 2 and 3, the Interim Head of Finance agreed to produce a written response detailing reconciliation.

With regard to the Council's investments, there were limited places it could invest, and these tended to be either short-term or long-term investments and conversations were always on going with the Council's treasury management advisors regarding investment options and opportunities.

The Interim Head of Finance agreed that the half-yearly report would be brought back to the Committee when the outstanding company information was available so that members would be able to re-scrutinize it.

**RESOLVED** that:

- (i) The Audit Committee notes the report;
- (ii) The comments made would be fed back to the Executive; and
- (iii) Written responses would be sent to Members.

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## 19. INTERNAL AUDIT - Q1 2021/22 PROGRESS REPORT

Natalie Jerams, Deputy Head of Southern Internal Audit Partnership (SIAP), gave the Committee an overview of Annex 1 to the report, which provided an update on the delivery of the 2021/22 internal audit plan as of the end of quarter 1. An update on the outstanding audit reviews from 2020/21 was also provided.

So far this year one limited assurance rated audit review, relating to the Harlequin Theatre, had concluded. This examined local income, banking and reconciliation functions.

The Interim Head of Finance explained that the audit had been commissioned due to the unusually high level of banking discrepancies identified when the Finance team were preparing bank account reconciliations. The outcome of the audit was to highlight areas of weakness and inconsistency at the operational level that were causing these errors. It also confirmed that this was due to human error rather than irregularity. Action was now underway to update procedures to eliminate the scope for error and train Harlequin staff in their use.

The interim Head of Finance confirmed that the Harlequin was the service that received the highest volume of cash. Members were assured that there were controls in place for the Council's other venues that accepted cash payments.

The Interim Head of Finance agreed to provide a written response to members on progress in progressing the management actions arising from this audit and on the current budget position for the Harlequin.

Referring to page 49 of the report, it was noted that 44% of audits were yet to commence, all other audits related to Q4 and were on track for delivery. In terms of live audits there were a number of management actions that were pending. A number of actions that were overdue had received revised implementation dates. All quarter 2 audits were on track. The audit review on the Local Government (COVID-19 Sales, Fees & Charges) Compensation Scheme had been signed off in October.

There were 2 outstanding actions relating to cyber security and they had received revised implementation times for the end of September. SIAP would follow these actions through to completion.

Concern was raised regarding the number of overdue actions for the review relating to Human Resources and Organisational Development. It was explained that because the report was undertaken in October 2019, this did not mean the actions needed to be completed by this date and may have only just become overdue. The revised date for these actions was December 2021. Meetings with senior officers consider SIAPs reports monthly and question why some deadlines were being delayed or deferred. SIAP attended these meetings and discussed areas of concern, particularly with high priority actions. It was important to set realistic targets for actions, as it had become apparent that some original target dates were likely to have been unachievable.

A member stated that it would be useful to have a summary of the overdue actions in a table, as well as further information showing target dates, showing planned, managed and actual.

Further information was requested regarding the 2 high priority cyber security actions. It was stated that one related to the need for recruiting a member of staff and the other related to patch that was awaiting implementation.

**RESOLVED** that:

- (i) written responses would be sent to Members;
- (ii) a summary table to be produced detailing information regarding management actions;
- (iii) That the Audit Committee notes the Q1 2021/22 internal audit progress report available at annex 1; and,
- (iv) That the Council's Chief Finance Officer notes the comments made.

## **20. RISK MANAGEMENT - Q1 2021/22**

Councillor Lewanski, Portfolio Holder for Corporate Policy and Resources, introduced the item stating that this report provided an update on risk management in Q1 2021/22.

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

In Quarter 1, one strategic risk has been identified for closure:

- The risk SR11 – 'Reform of the Planning System' was recommended for closure as the Government's plan to reduce the threshold for the provision of affordable homes had now been dropped. This therefore changed the implication of this risk and necessitated its closure.

However, to reflect the ongoing risk associated with broader planning reform, a replacement strategic risk was proposed:

- The new risk 'Planning system reform' reflected the latest implications of the Government's proposed reforms to the planning system, as detailed in the 'Planning for the Future' White Paper. Additional detail was available in annex 5 of the report.

As well as receiving an update on strategic risks, the Committee also received updates on red rated operational risks.

At the end of Q1 there were two red rated operational risks. Additional detail on red rated operational risks was provided in the part 2 exempt annex and in annex 3.

Due to meeting scheduling limitations, this report was considered by the Executive in advance of the Audit Committee on 16 September. The Executive approved the

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closure of the previous planning risk and the reopening of a new risk to reflect the current implications of the risk.

It was stated that any observations or recommendations made by the Audit Committee would be reported to the relevant Executive member and, if required, to the following meeting of the Executive.

There was a general question regarding the composition of the risk register and why the financial activities (including companies/commercial ventures) of the Council were not within this, and Horley Business Park was given as an example. In response it was stated that the Chair of Overview and Scrutiny had raised this as an issue at the Executive. This was being looked into by the Portfolio Holder, Councillor Archer, to look at showing Horley Business Park as a strategic risk on the register however there were commercial sensitivities to consider. The Committee concurred that more of a general risk to the risk register should be added around commercial ventures. The Head of Corporate Policy stated that commercial ventures formed part of SR2, which focused on the overall financial sustainability of the Council.

In respect of SR5, it was noted that the Council had not yet received a response to its "Levelling Up" bid.

In response to a question asking why broader items that were out of the Council's control were included in the risk register, the Head of Corporate Policy stated that despite the Council not having direct control over employment in the borough for example, unemployment had implications on Council services and its financial position. The Council was able to support businesses in the area and needed to acknowledge the risk.

In respect of the Risk Register as a whole, comments were made regarding its composition and format. It was agreed that options would be considered with the Portfolio Holder for Corporate Policy and Resources.

Discussion took place around SR7, Cyber Security and it was confirmed that the Council's ICT strategy would drive future investment in ICT capabilities and resilience.

**RESOLVED** that:

- (i) Options relating to the risk register to be considered;
- (ii) the Q1 update on risk management provided by the report and associated annexes be noted;
- (iii) the recommended closure of the strategic risk on 'Reform of the planning system' (SR11) as detailed in the report and in Annex 4 be noted; and
- (iv) the recommended opening of a new strategic risk on 'Planning system reform' as detailed in Annex 5 be noted.

## 21. WORK PROGRAMME - 2021/22

The Clerk explained that the work programme showed the intended work to be carried out by the Committee over the coming municipal year. This was a live document and was subject to change according to requirements and availability of information.

A Member suggested that an additional meeting of the Committee could be required.

**RESOLVED** that the work programme be noted.

## **22. ANY OTHER URGENT BUSINESS**

There was none.

## **23. EXEMPT BUSINESS**

**RESOLVED** that members of the Press and public be excluded from the meeting for part of agenda item 5 (Risk Management – Quarter 1 2021/22) 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 paragraphs 3 and 7 of Part 1 of Schedule 12A of the Act;
- (ii) Information relating to the financial or business affairs of any particular person (including the authority holding that information).
- (iii) information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

The Meeting closed at 9.46 pm

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# Agenda Item 4



<b>SIGNED OFF BY</b>	Interim Head of Finance
<b>AUTHOR</b>	Pat Main, Interim Head of Finance,
<b>TELEPHONE</b>	Tel: 01737 276063, Tel: 01737 276634
<b>EMAIL</b>	pat.main@reigate-banstead.gov.uk,
<b>TO</b>	Audit Committee Executive Council
<b>DATE</b>	Thursday, 25 November 2021 Thursday 16 December 2021 Thursday 10 February 2022
<b>EXECUTIVE MEMBER</b>	Deputy Leader and Portfolio Holder for Finance and Governance

<b>KEY DECISION REQUIRED</b>	Y
<b>WARDS AFFECTED</b>	(All Wards);

<b>SUBJECT</b>	Treasury Management Mid-Year Report 2021/22
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<b>RECOMMENDATIONS</b>
<p><b>Audit Committee</b></p> <ul style="list-style-type: none"> <li>(i) Review the Treasury Management Performance for the year to date and the updated prudential indicators and provide any comments for consideration by Executive; and</li> <li>(ii) Note the updated Treasury Management outturn results for 2020/21 that have been resubmitted now that the previously-outstanding information at Section 6 is available.</li> </ul> <p><b>Executive and Council</b></p> <ul style="list-style-type: none"> <li>(i) Note the Treasury Management Performance for the year to date and the updated prudential indicators.</li> </ul>

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## 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 2021/22 were previously approved by Council on the 8 April 2021.
- (ii) **Half-Year Treasury Management Report** – updates Members on the current borrowing and investment position, whilst amending prudential indicators and revising policies where necessary.
  - This report.
- (iii) **Annual Treasury Management Outturn Report** – a backward-looking review focussing on the previous year's performance.
  - The outturn report for 2020/21 was reported to Executive on 16 September 2021 and approved by Council on 23 September 2021. It was also reported to Audit Committee on 28 September 2021. It is now re-submitted to this meeting of Audit Committee and includes the previously-outstanding information at Section 6.

## EXECUTIVE SUMMARY

This report sets out treasury management performance for 2021/22 to date including performance against the Prudential and Treasury Management Indicators.

It will be presented to Audit Committee on 25 November and Executive on 16 December 2021 and to full Council on 10 February 2022 will be asked to approve the recommendations.

2021/22 has continued to be a challenging year for treasury management due to uncertainty in the financial markets caused by COVID-19. The Council has been holding funds at a higher level than expected due to the vital role it has played in passing on grants to support businesses during the pandemic, and to provide additional business rates reliefs. It has, however, ensured that these funds were passed on as soon as possible to those in need.

Overall performance is currently forecast to be better than budget. This is as a result of the borrowing facility not being utilised due to slippage in the 2021/22 capital programme.

At the half year, the position is that:

- Borrowing has reduced to £4m; since the end of the financial year 2020/21 a loan for £5m was repaid on 18 June 2021;

- Investments in Money Market Funds now stand at £28m, up from £23m at the end of 2020/21;
- Fixed term investments have reduced to zero from a balance of £13m as at the end of the financial year 2020/21; and
- Long-term investments in companies including interest risen since year-end to remain at £16.891m.

The forecast year end position:

- Borrowing to rise to £20m, depending on the requirements of the capital programme. We currently anticipate this borrowing occurring no earlier than March 2022;
- Investments with interest in both fixed term and long-term company investments to rise to £17.394m; and
- Additional Money Market Funds to be opened and then others to mature and close. In addition to Money Market Funds, there is likely to be further investment in Building Society and other secure investments, depending upon the interest rate offered.

The updated Treasury Management outturn position for 2020/21 is also reported, as requested by Audit Committee at its meeting on 28 September 2021.

- At that date there was a small number of figures at Section 6 (Table 10) to be confirmed relating to the Council's non-treasury (company) investments.
- This information is now available and the updated version is attached at Annex 2.

## **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.
3. This report meets these statutory requirements and incorporates the needs of the Prudential Code to ensure adequate monitoring of Capital Expenditure Plans and the Council's Prudential Indicators.

## **BACKGROUND**

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4. 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.
5. The Treasury Management Strategy and Performance Indicators for 2021/22 were approved by Council on the 8 April 2021.
6. The Treasury Management outturn position for 2020/21 was considered by Audit Committee at its meeting on 28 September 2021. The updated Treasury Management outturn position for 2020/21 is reported again, as at that date there was a small number of figures at Section 6 (Table 10) to be confirmed relating to the Council's non-treasury (company) investments. This information is now available and the updated version is attached at Annex 2.

## **FORWARD VIEW**

7. The first half of 2021/22 has continued to reflect the Council's response to the COVID-19 situation and this experience needs to be considered and reflected in investment decisions made in the current year and the progress made on the capital programme. This experience also needs to be considered when the Treasury Management Strategy 2022/23 is produced.
8. It is still important to revisit the investment targets and risk appetite for investments in light of the latest economic environment and forecasts of future economic activity. The Treasury Management Strategy needs to be subject to ongoing review to ensure that it reflects the costs of actual borrowing and projections of future costs of borrowing and sets out the required rate of return of investments.
9. The Council regularly consults with its Treasury management advisors (Link) and takes account of their briefings on any changes in the risk profile of individual Money Market Funds, as well as considering updates from the Money Market Fund institutions themselves and the wider market in general.
10. We will continue to review the calculation and the assumptions that underpin the minimum revenue provision (MRP) calculation and the estimated loss allowance calculation for investments in trading companies to ensure that the General Fund is protected from any unforeseen losses.
11. In considering and updating the Treasury Management Strategy we ensure that any investments that are made are comply with our local carbon reduction targets.
12. The Treasury Management Strategy for 2022/23 will be set after the Capital Programme 2022/23 to 2026/27 and its financing are approved as part of budget-setting in January. The Strategy will be reported in draft to Audit Committee in March 2022, and then in its final form to Executive in March for consideration and onward approval by Council in April.
13. The Treasury Management Strategy 2022/23 will take account of any residual ongoing COVID-19 risks and the timing of expected capital receipts.

## KEY INFORMATION

### Half-Year Performance 2021/22

14. Performance during 2021/22 is reported at Annex 1.

#### COVID-19 Pandemic

15. The impacts of COVID-19 are still being felt including:

- Less predictable cashflows due to receipt of planned and additional Government funding;
- A continuation of the reduction in income receipts across all services and the Collection Fund; and
- A reduction in market return on all investments

16. COVID 19 still means that the revised timescales for receipt of planned and emergency funding created a significant challenge from a treasury management perspective. They made cashflow forecasting less certain, which meant that large cash balances could not be avoided. Remote working and banks having no immediate solution which avoids the need for 'wet' signatures on documentation, means that new investments and call accounts cannot always be easily set up to place the excess funding.

#### Investments

17. The underlying economic environment continues to remain challenging for the Council due to market uncertainties driven by Brexit and tariff tensions between USA and China. The approach of maintaining short-term investments with high quality counterparties has continued, which allows the Council to be responsive when allocating funding to approved projects.

18. To manage the associated risks, investments are limited to a small group of banks and some building societies where they meet the Council's Treasury Management Strategy. The returns on investment continue to be low.

19. The Council continues to seek to reduce its investment counterparty risk (i.e. those institutions it is 'safe' to invest with) by further diversifying its investment portfolio.

#### Borrowing

20. Borrowing options are currently being considered in preparation for meeting the forecast cash funding requirements of the Capital Programme. The chief objective when borrowing is to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the authority's long-term plans change.

#### Treasury Management Strategy

21. The Treasury Management Strategy Statement (TMSS), for 2021/22 was approved before the start of the year. There are no policy changes to the TMSS in this report, which focusses on updating the in-year position in the light of the updated economic position and budgetary allocations previously approved.

# Agenda Item 4

## The Council's Capital Position (Prudential Indicators)

22. This part of the report is structured to update:
- The Council's capital expenditure plans;
  - How these plans are being financed;
  - The impact of changes in capital expenditure plans on the prudential indicators and the underlying need to borrow; and
  - Compliance with the limits in place for borrowing activity.

## Prudential Indicators for Capital Expenditure

23. The table below sets out the latest estimates for capital expenditure and any changes since the Capital Programme original budget was approved earlier this year.

Table 1: CAPITAL EXPENDITURE AND FINANCING	2020/21	2021/22			
	Actual at 31-Mar-21	Budget at 01-Apr-21	Budget including approved Slippage at 30-Sep-21	Actual Cap Ex to date at 30-Sep-21	Forecast including approved growth at 31-Mar-22
	£000	£000	£000	£000	£000
<b>Capital Expenditure</b>	<b>25,453</b>	<b>41,624</b>	<b>141,080</b>	<b>15,620</b>	<b>42,025</b>
<b>Financed by:</b>					
Capital Grants	2,113	1,600	1,600	-	1,600
Capital Receipts	4,403	24,488	5,409	-	4,402
Funding equivalent to historic New Homes Bonus allocation			19,079		
Revenue contribution	-	-	-	418	427
Capital Reserves	-	7000	7000	3500	7000
Prudential Borrowing	18,937	8,536	107,992	11,702	28,595
<b>Total Capital Funding</b>	<b>25,453</b>	<b>41,624</b>	<b>141,080</b>	<b>15,620</b>	<b>42,025</b>

24. The Capital Programme forecast has been updated to take account of 2020/21 carry-forwards, re-profiling of projects and new project approvals.
25. The borrowing element of the table increases underlying indebtedness by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue budget charges for the repayment of debt (the Minimum Revenue Provision - MRP).

## Prudential Indicator: Capital Financing Requirement (CFR)

26. The table below sets out the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose.

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Table 2: PRUDENTIAL INDICATOR – CFR	2020/21		2021/22	
	Actual at 31-Mar-21	Budget at 01-Apr-21	Budget including approved growth at 30-Sep-21	Forecast including approved growth at 31-Mar-22
	£000	£000	£000	£000
<b>Opening balance - CFR</b>	<b>31,105</b>	<b>106,235</b>	<b>49,875</b>	<b>49,875</b>
Add prudential borrowing (Table 1)	18,937	8,536	107,992	28,595
Less MRP	(167)	(528)	(528)	(294)
Less PFI and Finance Lease repayments	-	-	-	-
Net movement in CFR	18,770	8,008	107,464	28,301
<b>Closing Balance CFR</b>	<b>49,875</b>	<b>114,243</b>	<b>157,339</b>	<b>78,176</b>

27. The borrowing need in 2020/21 resulted in a closing Capital Financing Requirement (CFR) of £49.875m.

28. Internal borrowing is a ‘...*treasury management practice whereby an authority delays the need to borrow externally by temporarily using cash held for other purposes, such as insurance funds held in earmarked reserves...*’ (source: National Audit Office) This borrowing will be repaid over time by way of the Minimum Revenue Provision.

29. The minimum revenue provision (MRP) charge is the means by which capital expenditure, which is financed by borrowing (internal & external) or credit arrangements, is paid for by council taxpayers. Local authorities are required each year to set aside some of their revenue budget as provision for this debt. There will be a requirement to make a minimum revenue provision (MRP) toward the repayment of borrowing in 2021/22 estimated to be £0.294m. The Council is not required to make a minimum revenue provision for loans to companies or investment properties as an estimated loss allowance is made instead under IFRS9.

30. Table 3 sets out the performance to date against the limits set out in the Treasury Management Strategy and the likely position to year end.

Prudential Indicator: Limits to Borrowing Activity

31. The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

32. A key prudential indicator is to ensure that over the medium term, net borrowing, (borrowing less investments) will only be for a capital purpose. Gross external borrowing should therefore not, except in the short term, exceed the total of the

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CFR in the preceding year plus the estimate of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years. The table below sets out gross borrowing not exceeding the total of the CFR over the 5-year period. The Council complies with this requirement, as shown in the table.

<b>Table 3: COMPARISON OF BORROWING PARAMETERS TO ACTUAL EXTERNAL BORROWING</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Actual</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	£000	£000	£000	£000	£000
<b>Opening CFR</b>	<b>31,105</b>	<b>49,875</b>	<b>85,604</b>	<b>87,226</b>	<b>89,839</b>
In Year addition to CFR	18,937	36,023	2,134	3,538	3,362
MRP	(167)	(294)	(511)	(926)	(970)
<b>Closing CFR</b>	<b>49,875</b>	<b>85,604</b>	<b>87,226</b>	<b>89,839</b>	<b>92,231</b>
External Borrowing	-	-	2,134	3,538	3,362
<b>Authorised Limit</b>	<b>161,500</b>	<b>161,500</b>	<b>161,500</b>	<b>161,500</b>	<b>161,500</b>
<b>Operational Boundary</b>	<b>151,500</b>	<b>151,500</b>	<b>151,500</b>	<b>151,500</b>	<b>151,500</b>

### Prudential Indicator- Authorised Limit

33. The Council sets limits on borrowing activity. The Authorised Limit represents the limit beyond which borrowing is prohibited, unless further approval is obtained from Council. The Authorised Limit is unchanged and is set out in Table 3 above.

### Investment Portfolio 2021/22

34. A detailed commentary on the economy and interest rates, as provided by the Council's treasury advisor, Link Asset Services, can be found in section 2 at Appendix 1 to this report.
35. In summary, the investment market remains difficult in comparatively low interest rates and the continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its consequent impact on banks, prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low. The table below sets out the net treasury investment position as at 30 September 2021 and the projected position at 31 March 2022.
36. Following investment in the capital programme, treasury investments were £28m at 30 September 2021. Cash requirements will be closely monitored to assess any borrowing necessary by the end of the financial year to meet the requirements of the capital programme.

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Table 4: INVESTMENT PORTFOLIO – TREASURY INVESTMENTS	Actual		Actual		Forecast	
	31-Mar-21		30-Sep-21		31-Mar-22	
	£000	%	£000	%	£000	%
Banks	12,468	26	22,553	45	11,478	70
Building Societies	13,000	27	-	-	-	-
Aberdeen Liquidity Fund	5,000	10	10,000	20	-	-
Black Rock	5,000	10	8,000	16	-	-
Federated Money Market Fund	5,000	10	-	-	-	-
Goldman Sachs International	5,000	10	-	-	-	-
GS Sterling Liquid Reserve			10,000	20	5,000	30
LGIM Sterling Liquidity 4	3,000	6	-	-	-	-
<b>TOTAL TREASURY INVESTMENTS</b>	<b>48,468</b>	<b>100</b>	<b>50,553</b>	<b>100</b>	<b>16,478</b>	<b>100</b>

37. The table below sets out total investments, including non-treasury investments such as investment in property assets and council-owned companies.

Table 5: INVESTMENT PORTFOLIO – NON-TREASURY INVESTMENTS	Actual		Actual		Forecast	
	31-Mar-21		30-Sep-21		31-Mar-22	
	£000	%	£000	%	£000	%
Third Party Loans:						
Subsidiaries - Greensand Property Holdings Ltd	14,410	24	14,869	25	15,325	25
Companies - Horley Business Park Development LLP	877	1	922	2	968	2
Associate - Pathway for Care Ltd	1,100	2	1,100	2	1,100	2
Investment Property	43,372	73	43,372	72	43,372	71
<b>TOTAL NON-TREASURY INVESTMENTS</b>	<b>59,759</b>	<b>100</b>	<b>60,263</b>	<b>100</b>	<b>60,766</b>	<b>100</b>

38. The figures above are shown gross of any impairment for credit loss but without any rolled-up interest.
39. The treasury investment portfolio yield for the first 6 months of the year was 0.0157% which compares to the benchmark of SONIA rate of 0.048%.

#### Approval Limits

40. The Treasury Management Strategy specifies the maximum sums that can be invested with any one organisation. There was a period when the Council breached its limit on the maximum sum to be invested in a single institution, as specified in the 2021/22 Treasury Management Strategy, by retaining funds for COVID-19 in the operational bank accounts.
41. This was due to the continued receipt of significant emergency funding at short notice from the Government. The breach has subsequently been addressed by

# Agenda Item 4

opening additional investment accounts with new institutions, after agreeing new processes for doing so which allowed for remote working and social distancing

**Table 6.1: Breaches of Maximum Limits - Lloyds Bank (only)**

Quarter	Days in period	Days above limit	Average above limit
One	65	26	£4,532,198
Two	66	0	£0

**Table 6.2: Breaches of Maximum Limits - Lloyds and Bank of Scotland Combined (being part of the same banking group)**

Quarter	Days in period	Days above limit	Average above limit
One	65	30	£4,601,614
Two	66	32	£5,592,553

42. In addition, there was one investment from 1 April to 10 September 2021 where £5m was deposited in a Federated Money Market Fund to help spread counterparty-risk. This investment is accredited by two rather than three of the relevant credit agencies, being Standard & Poors and Fitch (no rating provided by Moody), and therefore did not fully-meet TMSS rating requirements.

### Borrowing Strategy

43. The Borrowing Strategy has been updated to reflect the Capital Financing Requirement as set out in Table 3 above. We currently anticipate borrowing occurring no earlier than March 2022.

### **Updated Outturn Performance 2020/21**

44. The Treasury Management outturn position for 2020/21 was considered by Audit Committee at its meeting on 28 September 2021. At that date there was a small number of figures to be confirmed relating to the Council's non-treasury (company) investments. This information is now available and the updated version is attached at Annex 2.

### **OPTIONS**

45. The Audit Committee has three options:

**Option 1** – note the report and provide any feedback to the Executive.

**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 Executive and Council for approval.

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

The Audit Committee is asked to approve Option 1.

46. The 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.

The Executive is asked to approve Option 1.

## **LEGAL IMPLICATIONS**

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

## **FINANCIAL IMPLICATIONS**

48. The financial implications of treasury management activities were reported in the budget section of the Quarter 1 Performance Report to Executive on 16 September 2021. There are no additional direct financial implications that arise from this report.

## **EQUALITIES IMPLICATIONS**

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

## **COMMUNICATION IMPLICATIONS**

50. There are no communications implications arising from this report

## **RISK MANAGEMENT CONSIDERATIONS**

51. 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**

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

## **CONSULTATION**

53. Audit Committee will be asked to consider this report at its meeting on 25 November 2021 and it will be reported to Executive on 16 December 2021. It will then be presented to Council on 10 February 2022.

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<b>POLICY FRAMEWORK</b>
54. This report is submitted in accordance with the Council's Treasury Management Policy.
<b>Annexes</b>
<ol style="list-style-type: none"><li>1. Treasury Management Half-Year Report 2021/22</li><li>2. Treasury Management Outturn 2020/21</li></ol>
<b>BACKGROUND PAPERS</b>
<ul style="list-style-type: none"><li>• Executive 25 March 2021 – <i>Treasury Management Strategy 2021/22</i></li><li>• Executive 28 September 2021 – <i>Treasury Management Outturn Report for 2020/21</i></li></ul>

## TREASURY MANAGEMENT MID-YEAR REPORT 2021/22

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1. Link Treasury Commentary
2. Capital Expenditure and Financing and Capital Financing Requirement (CFR)
3. Approved Countries for Investments at 30 September 2021

# 1. Link Treasury Commentary

## Economic update

### MPC meeting 24.9.21

- The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.
- There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, **the MPC had been prepared to look through a temporary spike in inflation.**
- So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to **faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement;** this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.
- Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.
- **The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:** -
  1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
  2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
  3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.
- **COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big

*question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.*

**US.** See comments below on US treasury yields.

**EU.** *The slow roll out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.*

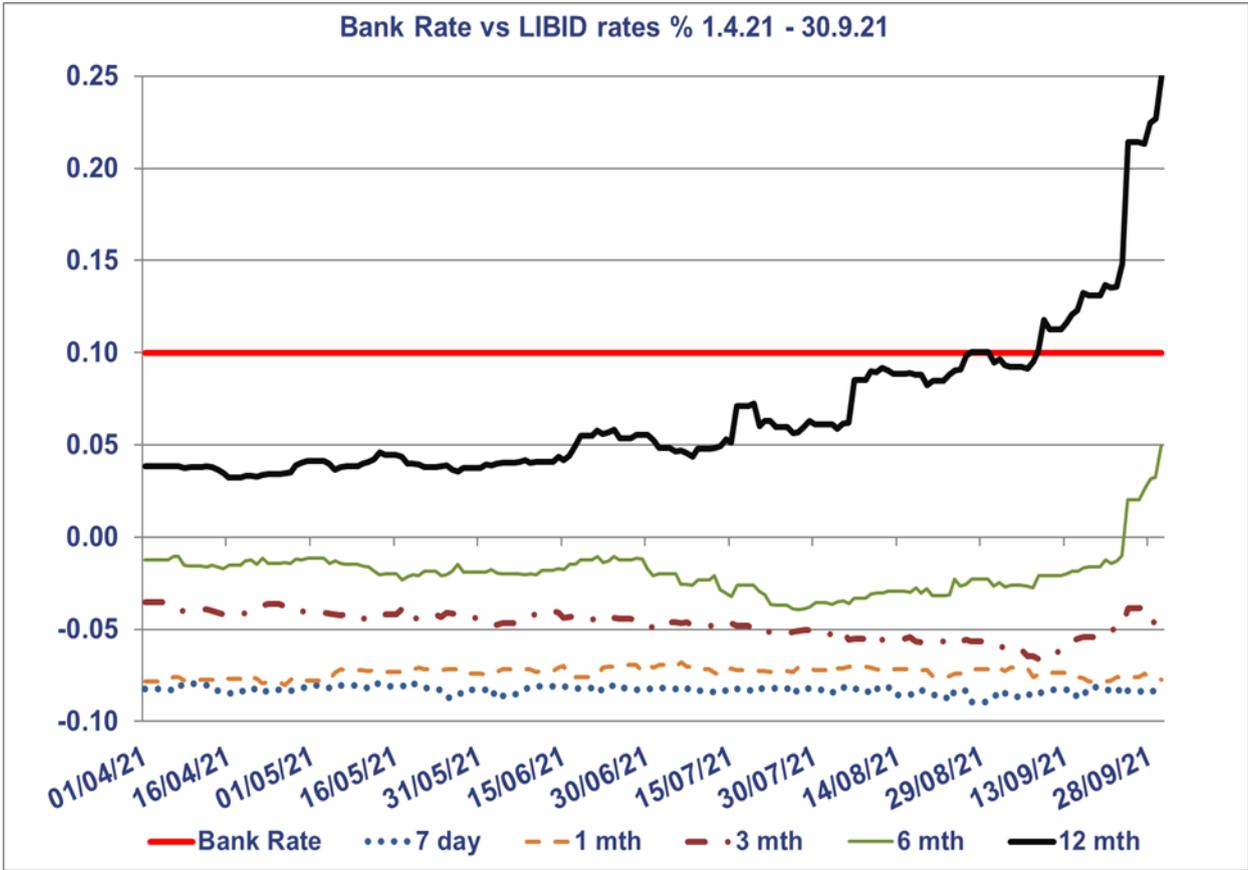
*German general election. With the CDU/CSU and SPD both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SPD-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.*

**China.** *After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.*

**Japan.** *2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.*

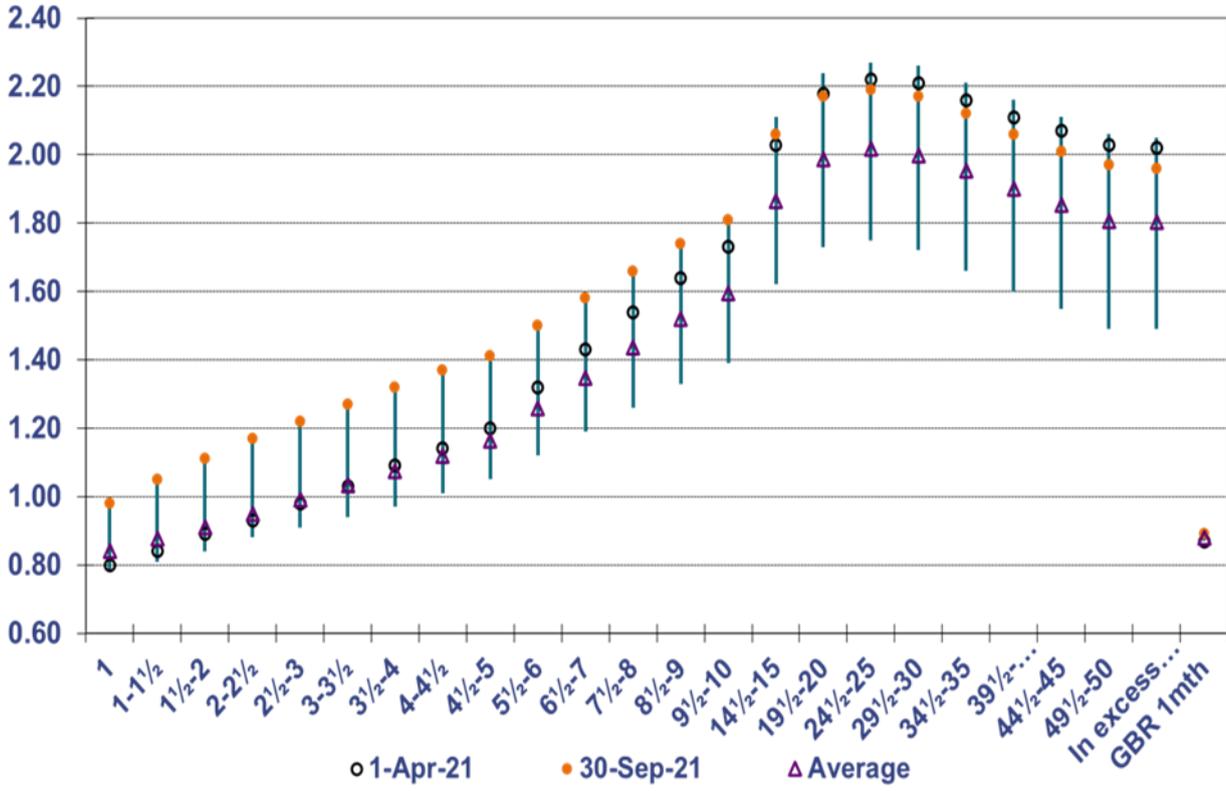
**World growth.** *World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that 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 from those in prior decades.*

**Supply shortages.** *The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.*



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
<b>High</b>	0.10	-0.08	-0.07	-0.04	0.05	0.25
<b>High Date</b>	01/04/2021	09/04/2021	06/07/2021	01/04/2021	30/09/2021	30/09/2021
<b>Low</b>	0.10	-0.09	-0.08	-0.07	-0.04	0.03
<b>Low Date</b>	01/04/2021	27/08/2021	26/04/2021	08/09/2021	27/07/2021	16/04/2021
<b>Average</b>	0.10	-0.08	-0.07	-0.05	-0.02	0.07
<b>Spread</b>	0.00	0.01	0.01	0.03	0.09	0.22

PWLB Certainty Rate Variations 1.4.21 to 30.9.2021



## 2. Capital Expenditure and Financing and Capital Financing Requirement (CFR)

Table 1: APPROVED CAPITAL EXPENDITURE PROGRAMME	2020/21	2020/21	2021/22	2022/23	2023/24	2024/25
	Budget	Actual	Projected	Projected	Projected	Projected
	£'000	£'000	£'000	£'000	£'000	£'000
Capital Budget 2020/21	96,100	25,453	42,025	30,099	4,725	4,549
<b>Total Capital Expenditure</b>	<b>96,100</b>	<b>25,453</b>	<b>42,025</b>	<b>99,576</b>	<b>4,725</b>	<b>4,549</b>

Table 2: APPROVED CAPITAL EXPENDITURE PROGRAMME	2020/21	2020/21	2021/22	2022/23	2023/24	2024/25
	Budget	Actual	Projected	Projected	Projected	Projected
	£'000	£'000	£'000	£'000	£'000	£'000
Capital Reserves	-	-	-	-	-	-
Capital Receipts	8,805	4,403	4,402	44,266	-	7,000
Capital Grants and Contributions	1,843	2,113	1,600	917	1,187	1,187
Revenue Contribution	-	-	-	-	-	-
Funding equivalent to historic New Homes Bonus allocation	10,000	-	-	17,000	-	-
<b>Total Financing</b>	<b>20,648</b>	<b>6,516</b>	<b>6,002</b>	<b>69,183</b>	<b>1,187</b>	<b>1,187</b>
Borrowing Need	75,452	18,937	36,023	30,393	3,538	3,362
<b>Total Capital Expenditure</b>	<b>96,100</b>	<b>25,453</b>	<b>42,025</b>	<b>99,576</b>	<b>4,725</b>	<b>4,549</b>

<b>Table 3: PROJECTED CAPITAL FINANCING REQUIREMENT (CFR)</b>	<b>2020/21</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	Budget	Actual	Forecast	Projected	Projected	Projected
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Opening Balance</b>	31,699	31,105	49,875	85,604	87,226	89,839
Borrowing Need	75,452	18,937	36,023	2,134	3,538	3,362
Less Minimum Revenue Provision / Voluntary Revenue Provision	(528)	(167)	(294)	(511)	(926)	(970)
<b>Total CFR</b>	<b>106,623</b>	<b>49,875</b>	<b>85,604</b>	<b>87,226</b>	<b>89,839</b>	<b>92,231</b>

### 3. Approved Countries for Investments at 30 September 2021

This list is based on those countries which have sovereign ratings of AA- or higher (lowest rating from Fitch, Moody's and S&P) and also have banks operating in sterling markets which have credit ratings of 'green or above' in the Link Asset Services credit worthiness service. Based on lowest available rating

#### AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

#### AA+

- Canada
- Finland
- U.S.A.

#### AA

- Abu Dhabi (UAE)
- France

#### AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

Source: Link Asset Services:

# ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2020/21

Updated November 2021 (Section 6: Table 10)

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1. Purpose
2. Summary
3. Introduction and Background
4. Capital Expenditure and Financing
5. Overall Borrowing Need
6. Treasury Position at 31 March 2021
7. Borrowing Outturn 2020/21
8. Investment Outturn 2020/21
9. Other Issues

## APPENDICES

1. Prudential and Treasury Indicators
2. Link Treasury Commentary

## 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.

<b>Table 1: PRUDENTIAL AND TREASURY INDICATORS</b>	<b>2019/20 Actual £000</b>	<b>2020/21 Original Budget £000</b>	<b>2020/21 Actual £000</b>
<b>Capital Expenditure:</b>			
General Fund (see Table 2)	18,890	96,100	25,782
<b>Total</b>	<b>18,890</b>	<b>96,100</b>	<b>25,782</b>
<b>Capital Financing Requirement: In year change</b>			
General Fund	12,279	74,924	30,305
<b>Total</b>	<b>12,279</b>	<b>74,924</b>	<b>30,305</b>
<b>Gross Borrowing:</b>			
Long Term credit arrangements	-	-	-
External Debt	14,000	9,000	9,000
<b>Total</b>	<b>14,000</b>	<b>9,000</b>	<b>9,000</b>
<b>Investments:</b>			
Longer than 1 year	13,000	0	-

Under 1 year	35,000	36,000	36,000
<b>Total</b>	<b>48,000</b>	<b>36,000</b>	<b>36,000</b>
<b>Net Borrowing / (Net Investment)</b>	<b>(34,000)</b>	<b>(27,000)</b>	<b>(27,000)</b>

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:

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.

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

## 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.

<b>Table 3: CAPITAL FINANCING REQUIREMENT (CFR)</b>	<b>2019/20 Actual £000</b>	<b>2020/21 Original Budget £000</b>	<b>2020/21 Outturn £000</b>
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
<b>Cumulative Capital Financing Requirement (CFR)</b>	<b>31,105</b>	<b>106,029</b>	<b>61,411</b>

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.

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

**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).

<b>TABLE 5: COST of CAPITAL AGAINST NET REVENUE STREAM</b>	<b>2020/21</b>
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:

<b>Table 6: DEBT PORTFOLIO</b>	<b>31 March 2020 Principal £000</b>	<b>Rate / Return %</b>	<b>Average Life (years)</b>	<b>31 March 2021 Principal £000</b>	<b>Rate / Return %</b>	<b>Average Life (years)</b>
<b>Fixed rate funding:</b>						
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
<b>Total</b>	<b>14,000</b>	<b>1.07%</b>		<b>9,000</b>	<b>1.45%</b>	
<b>Variable Rate Funding:</b>						
PWLB	-	-	-	-	-	-
Market Loans	-	-	-	-	-	-
<b>Total Debt</b>	<b>14,000</b>	<b>1.07%</b>		<b>9,000</b>	<b>1.45%</b>	
<b>CFR (Table 3)</b>	31,105			61,411		
<b>Over / (Under) Borrowing</b>	<b>(17,105)</b>			<b>(52,411)</b>		

<b>Table 7: INVESTMENT PORTFOLIO</b>	<b>31 March 2020 Principal £000</b>	<b>Rate/ Return %</b>	<b>Average Life (years)</b>	<b>31 March 2021 Principal £000</b>	<b>Rate/ Return %</b>	<b>Average Life (years)</b>
<b>Investments:</b>						
- 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
<b>Total Investments</b>	<b>48,000</b>	<b>0.90%</b>	<b>1.67 years</b>	<b>36,000</b>	<b>0.69%</b>	<b>0.75 years</b>

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

<b>Table 8: INVESTMENT PORTFOLIO</b>	<b>31 March 2020 Actual</b>	<b>2020/21 Original Limits</b>	<b>31 March 2021 Actual</b>
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
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.

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

<b>Table 10: INVESTMENT PORTFOLIO (updated November 2021)</b>	<b>Actual 31-Mar 2020 £000</b>	<b>Actual 31-Mar 2020 %</b>	<b>Actual 31-Mar 2021 £000</b>	<b>Actual 31-Mar 2021 %</b>
<b>Non-Treasury Investments</b>				
Third party loans & share capital:				
Subsidiaries – Greensand Property Holdings Ltd	12,482	21%	13,258	23%
Companies – Horley Business Park Development LLP	594	1%	602	1%
Associate – Pathway for Care Ltd <sup>1</sup>	1,100	2%	1100	2%
Investment Property	45,531	76%	43,373	74%
<b>Total Non-Treasury Investments</b>	<b>59,707</b>	<b>100%</b>	<b>58,333</b>	<b>100%</b>
Treasury investments	48,000	45%	36,000	38%

<b>Table 10: INVESTMENT PORTFOLIO (updated November 2021)</b>	<b>Actual 31-Mar 2020 £000</b>	<b>Actual 31-Mar 2020 %</b>	<b>Actual 31-Mar 2021 £000</b>	<b>Actual 31-Mar 2021 %</b>
Non-Treasury investments	59,707	55%	58,333	62%
<b>Total – All Investments</b>	<b>107,707</b>	<b>100%</b>	<b>94,333</b>	<b>100%</b>

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

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

## 7. Borrowing Outturn 2020/21

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

<b>Table 12: LOANS</b>						
<b>Lender</b>	<b>Principal</b>	<b>Type</b>	<b>Interest Rate</b>	<b>Start date</b>	<b>Maturity Date</b>	<b>Duration</b>
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:

<b>Table 13: USABLE RESERVES</b>	<b>2019/20 Actual</b>	<b>2020/21 Actual</b>
	<b>£000</b>	<b>£000</b>
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
<b>Total</b>	<b>63,568</b>	<b>68,646</b>

**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 un compounded 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.

## PRUDENTIAL AND TREASURY INDICATORS

1.1 PRUDENTIAL INDICATORS	2019/20 Actual £000	2020/21 Original Budget £000	2020/21 Actual £000
<b>Capital Expenditure</b>			
General Fund (Table 2)	18,890	96,100	25,454
<b>Ratio of net financing costs to net revenue stream</b>			
General Fund	(4.99)%	4.95%	(3.77)%
<b>Gross Debt</b>			
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)
<b>Capital Financing Requirement</b>			
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
<b>Annual change in Capital Financing Requirement</b>			
General Fund	12,279	74,924	30,305

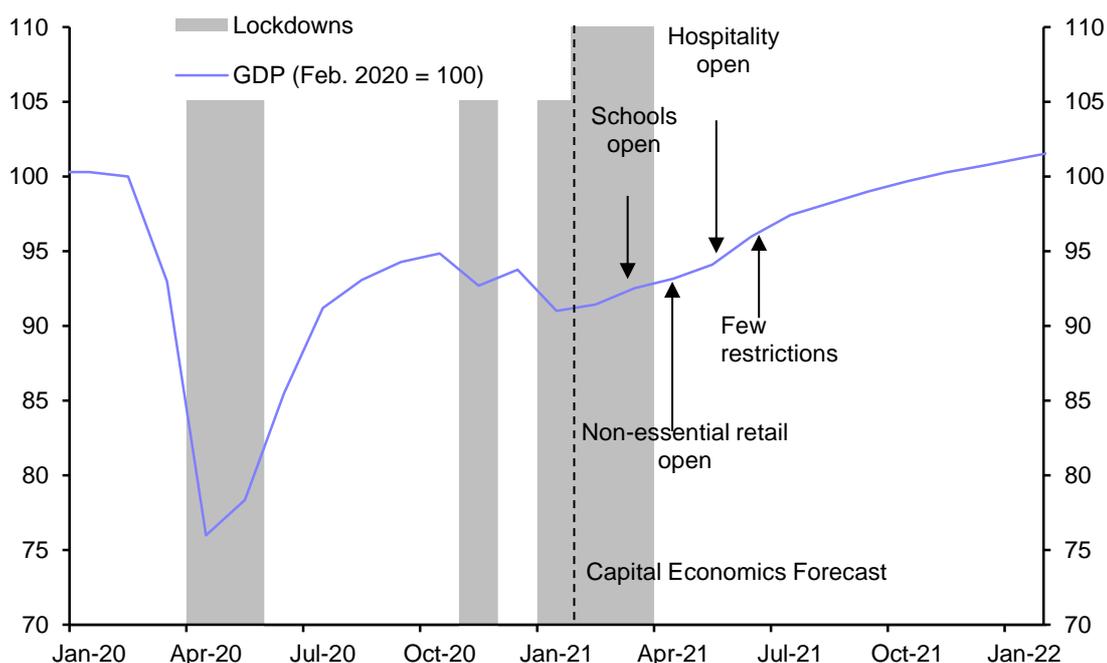
<b>1.2 TREASURY MANAGEMENT INDICATORS</b>	<b>2019/20 Actual £000</b>	<b>2020/21 Original Budget £000</b>	<b>2020/21 Actual £000</b>
<b>Authorised Limit for External Debt</b>			
Borrowing	80,000	161,000	161,000
Other long-term liabilities	-	500	500
<b>Total</b>	<b>80,000</b>	<b>161,500</b>	<b>161,500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

<b>1.3 MATURITY STRUCTURE OF FIXED RATE BORROWING DURING 2020/21</b>	<b>Target upper limit</b>	<b>Target lower limit</b>	<b>Actual</b>
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%
<b>Maturity structure of Investments during 2020/21</b>	upper limit	lower limit	
Longer than 1 year	£20m	£0m	£0m
Up to 1 year	£13m	£0m	£36m
<b>Total</b>	<b>£33m</b>	<b>£0m</b>	<b>£36m</b>

## 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.

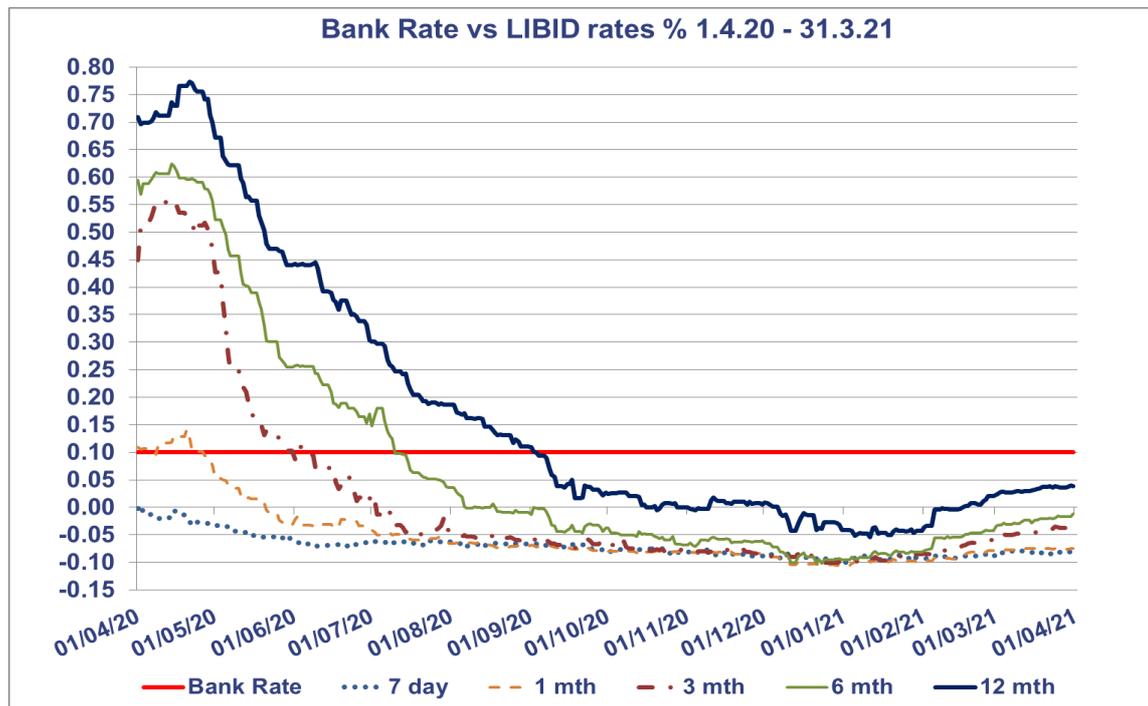
**Japan.** Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by 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
<b>High</b>	0.10	0.00	0.14	0.56	0.62	0.77
<b>High Date</b>	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
<b>Low</b>	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
<b>Low Date</b>	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
<b>Average</b>	0.10	-0.07	-0.05	0.01	0.07	0.17
<b>Spread</b>	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.*

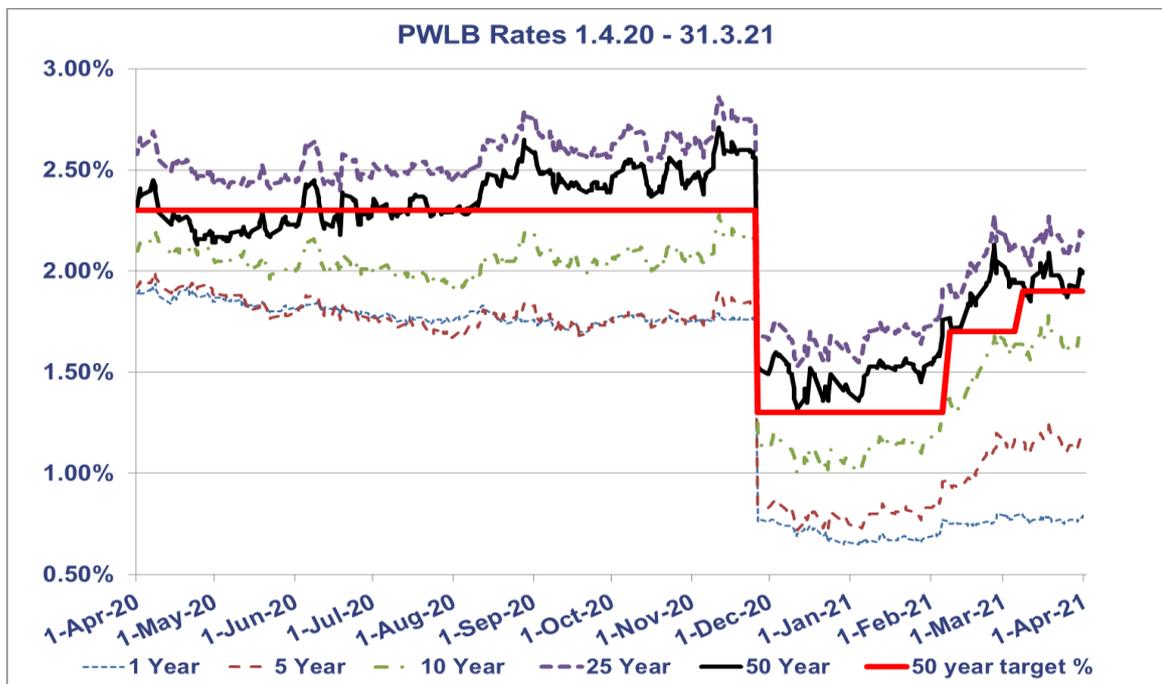
*Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks (please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

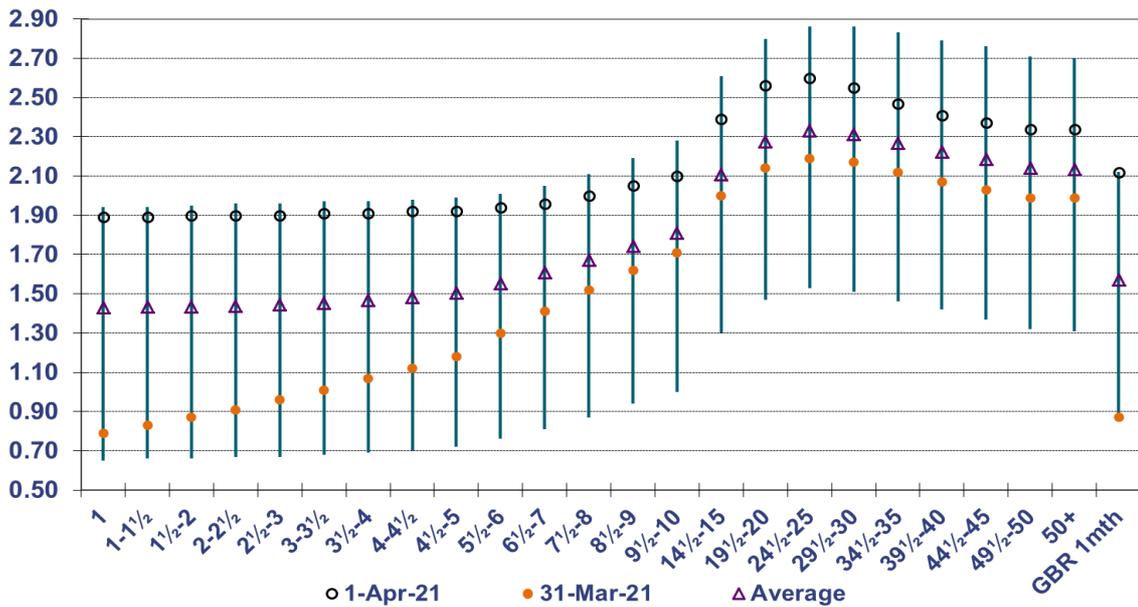
Forecasts at the time of approval of the treasury management strategy report for 2020/21 were as follows:-

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
<b>Low</b>	0.65%	0.72%	1.00%	1.53%	1.32%
<b>Low date</b>	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
<b>High</b>	1.94%	1.99%	2.28%	2.86%	2.71%
<b>High date</b>	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
<b>Average</b>	1.43%	1.50%	1.81%	2.33%	2.14%
<b>Spread</b>	1.29%	1.27%	1.28%	1.33%	1.39%

### PWLB Certainty Rate Variations 1.4.20 to 31.3.2021



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.

# Agenda Item 5



<b>Signed off by</b>	Interim Head of Finance
<b>Author</b>	Pat Main, Interim Head of Finance
<b>Telephone</b>	Tel: 01737 276063
<b>Email</b>	pat.main@reigate-banstead.gov.uk
<b>To</b>	Audit Committee Council
<b>Date</b>	Thursday, 25 November 2021 Thursday 10 February 2021
<b>Executive Member</b>	Deputy Leader and Portfolio Holder for Finance & Governance

<b>Key Decision Required</b>	Y
<b>Wards Affected</b>	(All Wards);

<b>Subject</b>	External Audit Contract Agreements 2023 - 2028
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<b>Recommendations</b>
(i) That the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to local government and police bodies for five financial years from 1 April 2023
<b>Reasons for Recommendations</b>
The reason for the recommendation is for the Council to approve the process by which the external auditors for the Council will be appointed for the period from 1 April 2023 to 31 March 2028.
<b>Executive Summary</b>
This report sets out proposals for appointing the external auditor to the Council for the statutory financial accounts for the five-year period from 2023/24. The purpose of the report is to describe how, by accepting the Public Sector Audit Appointments' invitation, the external auditors will be selected. This has to be a decision of Full Council.

# Agenda Item 5

**Audit Committee has authority to make the above recommendations to Full Council.**

## **Statutory Powers**

1. Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts on behalf of principal local government bodies that opt in, in accordance with the Regulations.
2. Eligible bodies are principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities.

## **Background**

3. The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
4. Deloitte LLP are the Council's current external auditors under that contract.
5. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make decisions about their external audit arrangements from 2023/24.
6. Local authorities have options to:
  - (i) arrange their own procurement and make the appointment themselves or in conjunction with other bodies; or
  - (ii) they can join and take advantage of the national collective scheme administered by PSAA.
7. This report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for this Council than a procurement undertaken locally because:
  - Collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
  - If it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
  - It is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and

- Supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

8. If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council.
9. The opt-in period started on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council therefore needs to return completed opt-in documents to PSAA by 11 March 2022.

## Options

The Audit Committee has three options:

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

**Option 3** – reject the report. This would mean that officers would have to find options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies.

The Audit Committee is asked to approve Option 1.

## Legal Implications

10. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in to a sector-led scheme must be made by full Council.

## Financial Implications

11. There are no specific financial implications arising from this report. The annual Revenue Budget includes provision for external audit fees.

## Equalities Implications

12. There are no equalities implications arising from this report

## Communication Implications

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

## Environmental Sustainability Implications

14. There are no environmental sustainability implications arising from this report.

## Risk Management Considerations

# Agenda Item 5

15. Considering and approving the recommendations in this report reduces the risk of the Council not meeting its obligation to appoint an external auditor.

## **Other Implications**

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

## **Consultation**

17. Council will consider this report at its meeting on 10 February 2022

## **Policy Framework**

18. This report supports delivery of Value for Money objectives in the Corporate Plan.

## **Background Papers**

None



<b>Signed off by</b>	Interim Head of Finance
<b>Author</b>	Luke Harvey, Project & Performance Team Leader
<b>Telephone</b>	Tel: 01737 276519
<b>Email</b>	Luke.Harvey@reigate-banstead.gov.uk
<b>To</b>	Audit Committee
<b>Date</b>	Thursday, 25 November 2021

<b>Key Decision Required</b>	N
<b>Wards Affected</b>	(All Wards);

<b>Subject</b>	Internal audit - Q2 2021/22 progress report
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<b>Recommendations</b>
<p>(i) That the Audit Committee note the Q2 2021/22 internal audit progress report available at annex 1; and,</p> <p>(ii) That the Audit Committee make any comments and/or observations on the report to the Council's Chief Finance Officer.</p>
<b>Reasons for Recommendations</b>
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.
<b>Executive Summary</b>
This report provides an update on the delivery of the 2021/22 internal audit plan as of the end of Q2 2021/22. It also provides an update on the two previously outstanding audit reviews from 2020/21 that have now concluded.
<b>The Audit Committee has the authority to approve the above recommendations.</b>

<b>Statutory Powers</b>
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

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39 Agenda Item 6 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. A professional, independent and objective internal audit service is a key element of ensuring good corporate governance.
5. The Council’s internal auditors are the Southern Internal Audit Partnership (SIAP). The Partnership is hosted by Hampshire County Council and is comprised of a number of local authorities and other public sector organisations.
6. 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’.
7. 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.
8. 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.
9. 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.
10. The Audit Committee endorsed the 2021/22 internal audit plan in March 2021. The plan details the audit activity that is to take place during the year.
11. 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.
12. Under the Council’s Constitution the Committee is responsible for reviewing internal audit progress reports and monitoring delivery of the annual audit plan.
13. 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;

# Agenda Item 6

- Summarises internal audit performance, including assurance opinions given; and,
- Summarises any adjustments made to the audit plan.

## Key Information

14. 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.

15. SIAP's assurance opinions are categorised as follows:

Opinion	Description
<b>Substantial</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	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.
<b>No</b>	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.

## 2020/21 audit plan

16. During Q2 the two remaining reviews from the 2020/21 audit plan concluded. The reviews and their respective assurance opinions are as follows:

2020/21 review	Opinion
HR – Establishment Controls	Limited
Environmental Health and Licensing	Limited

17. Section 5 of SIAP's report provides additional information relating to these two limited assurance reviews, including management's response to SIAP's findings.

# Agenda Item 6

18. Full copies of internal audit reports are made available to all members via the ModGov document library.

## Q2 2021/22 progress update

19. Section 3 of SIAP's report details the progress in delivering the 2021/22 internal audit plan, whilst section 7 provides an overview of the work programme for the year.
20. At the end of Q2, the following reviews have concluded:

2021/22 review	Reported in	Opinion
Harlequin Theatre – Income, Banking and Reconciliation	Q1 <i>(to September's Audit Committee)</i>	Limited
Annual Governance Statement	Q2	Substantial
Disabled Facilities Grants	Q2	Reasonable
Local Government Compensation Scheme	Q2	N/A

21. The Local Government Compensation Scheme review provided assurance on the methodology, principles and calculation of losses claimed for the period P5-P8 for the Local Government Compensation Scheme (relating to Covid-19).
22. Section 5 of SIAP's report provides a summary of the key observations arising from the reviews 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 opinions.
23. As above, full copies of internal audit reports are made available to all members via the ModGov document library.

## Management actions

24. Section 4 of SIAP's report provides a summary of all outstanding management actions.
25. Following previous Audit Committee feedback, SIAP's report now also includes additional information on outstanding management actions, including their revised implementation date.
26. Outstanding management actions will continue to be reported to the Audit Committee until their full implementation.

## Adjustments to the 2021/22 audit plan

27. Section 8 of SIAP's report details the amendments made to the audit plan during the year.
28. Since the Committee received the Q1 progress report one additional review has been added to the audit plan: 'Cultural Recovery Fund'. In a similar vein to the Covid-19 Local Government Compensation Scheme review, this review will certify the

# Agenda Item 6

Council's application to the government's cultural recovery fund. The audit plan included provision for reviews relating to Covid-19; this review will therefore be resourced from this contingency.

## **Options**

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

## **Legal Implications**

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

## **Financial Implications**

33. Internal audit fees are funded through the Council's annual revenue budget.
34. There are no other financial implications arising from this report.

## **Equalities Implications**

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

## **Communication Implications**

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

## **Risk Management Considerations**

37. An effective internal audit function is an important part of effectively managing risk.
38. The Council's strategic and operational risk registers were utilised in the development of the annual internal audit plan.
39. There are no other risk management implications.

## **Other Implications**

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

## **Consultation**

41. This report has been considered by the Council's Corporate Governance Group as part of its governance role.

## **Policy Framework**

# Agenda Item 6

42. 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.

# Internal Audit Progress Report 2021/22

October 2021 (Q2)

Reigate & Banstead Borough Council



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## 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:

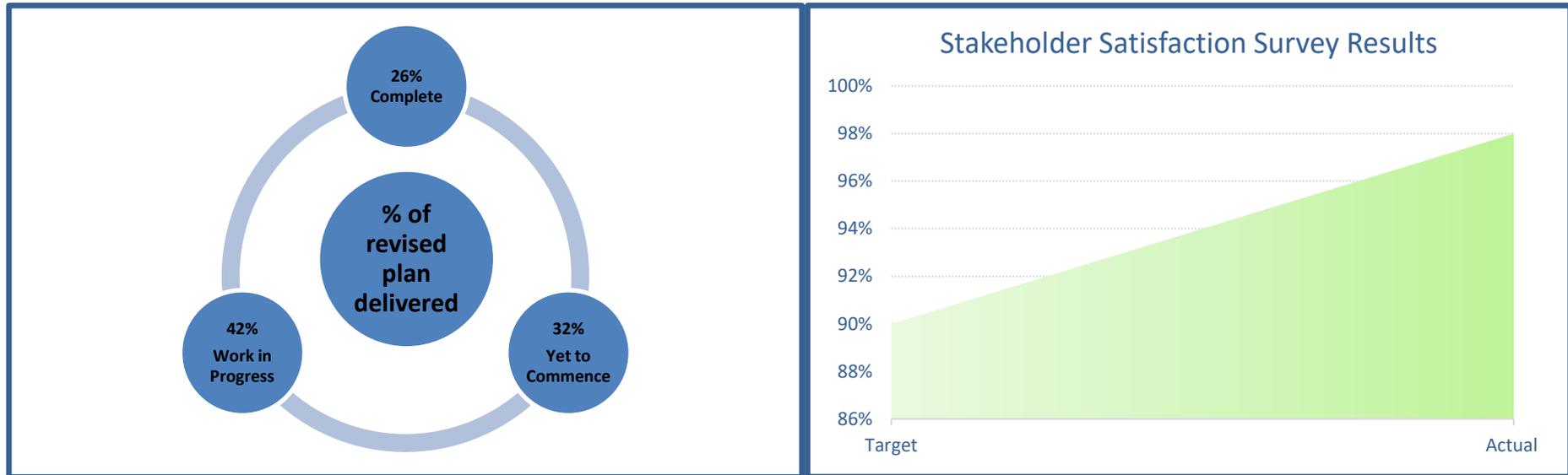
- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

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:

<b>Substantial</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	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.
<b>No</b>	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 3*

3. Performance dashboard



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**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		
Council Tax	05.02.20	HofRB&F	Adequate	6(2)	0(0)	5(2)		1	
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)	1(1)	5(2)			1
Fleet Management	06.04.21	HofNO	Limited	16(3)	1(0)	15(3)			
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)	7(5)	1(1)			
Harlequin Centre, Income Banking and Reconciliation	15.06.21	HofF	Limited	3(3)	1(1)	1(1)			1
Information Security – Data Centre Security	28.06.21	HofIT	Limited	6(2)	1(0)	4(2)		1	
Disabled Facilities Grants	21.10.21	HofNO	Reasonable	6(1)	1(0)	5(1)			
Environmental Health & Licensing	25.10.21	HofNO	Limited	13(1)	13(1)	0(0)			
HR – Establishment Controls	09.11.21	HofF	Limited	6(2)	6(2)	0(0)			
<b>Total</b>				<b>99(27)</b>	<b>42(10)</b>	<b>46(15)</b>	<b>6</b>	<b>3</b>	<b>2</b>

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

**5. Executive Summaries of reports published concluding a ‘Limited’ or ‘No’ assurance opinion**

There have been two new final report published concluding a “Limited” or “No” assurance opinion.

Environmental Health & Licensing		
Audit Sponsor	Assurance opinion	Management Actions
Head of Neighbourhood Operations		<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: green; color: white; padding: 5px; text-align: center;">Low 3</div> <div style="background-color: yellow; padding: 5px; text-align: center;">Medium 9</div> <div style="background-color: red; color: white; padding: 5px; text-align: center;">High 1</div> </div>
<p><b>Summary of key observations:</b></p> <p>This review focussed on the licensing process for premises to ensure annual fees had been issued in accordance with legislation, payment had been collected and reconciled. Debt Recovery action is undertaken outside of Environmental Services and is completed centrally within the Revenues Team.</p> <p>Testing confirmed that invoices were raised accurately and in a timely manner, however, of those sampled, payment for 33% were overdue at the time of testing. It was confirmed that licensing had not been notified and therefore they had not been suspended (in accordance with legislative requirements). Debt recovery was not actively carried out during Covid-19 and may have impacted this.</p> <p>When there is a change of billing/correspondence address on a license, the licensing team are required to update their licensing system (Uniform) and inform finance to ensure invoices are sent to the correct address. Of the invoices sampled 33% found that the address within Uniform did not match the address within Agresso.</p> <p>It was confirmed that access to BWO (Agresso) was available to the licensing team, however, they were unaware of reporting available within the system to determine the status of invoices that would enable them to build efficiencies into their processes.</p> <p>There were no performance indicators in the Environmental Health Business Plan for licensing. An independent review of the Environmental Service in October 2018 highlighted that <i>‘there are few performance indicators in the business plans and can result in a lack of clear focus on priorities’</i>. No action plans are currently in place to address this.</p> <p>The procedures for the licensing and debt recovery process, owned by the Revenues Team were found to be out of date.</p>		

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**RBBC's management response:**

The systems used to record licence details, send invoices and recover fees rely on manual processes rather than automation. In their current form there is no two-way communication between these systems and as such, useful changes in legislation cannot be easily introduced. The report's findings which are very welcome act as a fresh pair of eyes which have enabled an introduction to automation, cross checking of data, training to staff members and documenting the revised process reducing the number of teams involved. It is important to note that the points raised in the report are concerned with time and efficiency rather than a loss of revenue.

While the team concentrated on keeping licensed businesses going, 2020/21 was a particularly challenging year for the licensing team due to the health and wellbeing of key staff and the challenges of working remotely due to COVID 19. This did lead to some data entry omissions and system generated errors which have been urgently cross checked and corrected.

This audit has highlighted areas for improvement in how the Council's procedures for ensuring premises licence fees and subsequent actions are processed. Initial discussions are in progress with the debt recovery team on implementing a completely new compatible and automated system with relevant staff access and training.

This audit also highlights some important areas for improvement in timing and updating systems both within licensing and in updating relevant teams which is being addressed through a new suite of system generated templates.

The proposed management actions will ensure that the weaknesses and areas for improvement that the audit identified are addressed. Procedures are being updated and new systems introduced to automate actions following non-payment of a fee. These will be implemented in other areas and internal indicators created to report on outstanding fees and processing time. Implementation of the management actions will help to continue to ensure the delivery of a robust licensing function.

HR - Establishment Controls		
Audit Sponsor	Assurance opinion	Management Actions
Head of Finance	 Limited	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: green; color: white; padding: 5px; text-align: center;">Low 0</div> <div style="background-color: yellow; padding: 5px; text-align: center;">Medium 4</div> <div style="background-color: red; color: white; padding: 5px; text-align: center;">High 2</div> </div>

**Summary of key observations:**

The audit reviewed the processes in place for agreeing the number of posts within service areas, and how the relevant senior managers ensure that the agreed establishment posts in their areas are adhered to. The review included the use of off payroll resources (agency workers) as increased reliance has been placed on this resource over recent years to support delivery of the Council’s objectives and address skills gaps.

The Council carries out a comprehensive annual service planning and budget process that includes detailed discussions between Finance, HR and Heads of Service to identify areas of growth and/or savings for the forthcoming year. Additional posts or posts that can be deleted as no longer required are identified as part of this process and the associated budget growth and savings are then built into the budget proposals for approval by the Council. Detailed reports on staffing are presented to the Executive and Council as part of the budget planning and approval process. These reports are also subject to detailed review by the Overview and Scrutiny Committee (Budget Scrutiny Panel) prior to being presented to the Executive and Council for approval.

If a Head of Service requires an additional post to be created as part of their establishment, they are required to complete a formal request for this post, and this is considered by a panel of senior management. As part of the request, Finance are required to confirm that there is funding in place for the post requested, however, there is no similar process for hiring agency workers in situations where they are not covering a specific post on the establishment.

Our review found that there is no documented process / procedure for commissioning officers to follow in the appointment of agency workers.

Whilst reported as part of the overall budget monitoring for the Council, any monitoring of the total cost of agency workers is difficult due to the number of different expenditure headings under which payments for agency workers may be recorded and the inconsistency to which payments are attributed to these expenditure codes.

A fixed term contracts report is available from the iTrent HR system, discussions with three Heads of Service identified that 10 out of 19 staff selected from the report were permanent staff, therefore the report is unreliable.

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**RBBC's management response:**

In addition to the Council's permanent workforce and fixed term contracts of employment the Council makes use of agency workers to build in flexibility to resourcing plans. For example: to cover planned absences such as maternity leave; to cover unplanned absences such as long-term sickness; to cover roles that are challenging to recruit on a permanent basis; also to help supplement the baseline establishment, for example where there are significant new service demands, backlogs or service development needs. In particular, a small number of services find it challenging at times to recruit suitably qualified and experienced local authority professionals (e.g. Finance, Planning) therefore use of an agency resource may be the only option while trying to attract permanent candidates. This is all permissible within established Council HR procedures.

2020/21 was a particularly challenging year due to the additional demands on permanent staff capacity as a consequence of the COVID-19 pandemic. A number of staff were seconded from their substantive roles to assist with the Council's pandemic response with inevitable impacts on 'business as usual' capacity as a consequence leading to the requirement to bring in agency workers as 'backfill' resources at times.

All expenditure on agency workers during the year has been reported as part of the quarterly budget monitoring to Management, Overview & Scrutiny and Executive and the costs of these resources have been funded within the approved Revenue Budget; use of agency workers did not result in a budget overspend.

This audit has highlighted areas for improvement in how the Council's procedures for procuring agency workers have been applied in practice. Specifically the lack of consolidated guidance and procedures for hiring managers and scope for mis-alignment with the Contract Procedures Rules in the Constitution with regard to how agency suppliers are appointed. The procedures do exist; the issue is that they are not clearly communicated to managers leading to a risk of non-compliance. The audit also flags a lack of guidance on how managers should maintain records to evidence that the procedures have been complied with.

This audit also highlights some important areas for improvement in how fixed term contracts are recorded in the HR/Payroll system. New controls and reports are being implemented to remedy the errors identified.

The planned Management Actions will ensure that the weaknesses and areas for improvement that the audit identified are addressed. Procedures are being updated and communicated again to hiring managers and new monitoring reports and controls are being added to the HR/Payroll system.

## 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
<b>2020/21 Reviews</b>								
HR - Establishment Controls	HofF	✓	✓	✓	✓	✓	Limited	
Environmental Health & Licensing	HofNO	✓	✓	✓	✓	✓	Limited	
<b>2021/22 Reviews</b>								
<b>Corporate</b>								
Financial Resilience	HofF							Q4
Transformation	HofCPP&BA							Q3 – key contacts to be established and scoping meeting to be arranged
<b>Governance</b>								
Contract Management	HofL&G							Q3 – scoping meeting booked for 02/12/21
HR - Absence Management	HofOD	✓	✓	✓				
Information Governance	HofIT	✓	✓	✓	✓			Awaiting management response
Annual Governance Statement	HofF	✓	✓	✓	✓	✓	Substantial	
Capital Programme	HofF							Q3 – scoping meeting booked for 17/11/21

<b>Audit Review</b>	<b>Sponsor</b>	<b>Scoping</b>	<b>Audit Outline</b>	<b>Fieldwork</b>	<b>Draft Report</b>	<b>Final Report</b>	<b>Assurance Opinion</b>	<b>Comment</b>
<b>IT</b>								
IT Governance	HofIT	✓	✓					
Virtualisation (Networking & Communications)	HofIT	✓	✓	✓				
Payment Card Industry Data Security Standard	HofIT							Q4
<b>Core Financial Reviews</b>								
Accounts Payable	HofF	✓	✓	✓				
Accounts Receivable & Debt Management	HofF	✓	✓	✓	✓			
Harlequin Centre – Income, Banking & Reconciliation	HofF	✓	✓	✓	✓	✓	<b>Limited</b>	
Compliance & Enforcement Grant	HofF	✓	✓	✓	✓	✓	<b>n/a</b>	Grant certification
Local Government Compensation Scheme	HofF	✓	✓	✓	✓	✓	<b>n/a</b>	
Cultural Recovery Fund	HofF	✓						
<b>Organisation</b>								
Property Management & Maintenance	HofF	✓	✓	✓	✓			Awaiting management response
<b>Place</b>								
Parking & Enforcement	HofNO							Q4
Disabled Facility Grants	HofNO	✓	✓	✓	✓	✓	<b>Reasonable</b>	

### 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 have been the following amendments 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 and will make use of an element of the agreed allowance and has consequently been added into the plan.
Cultural Recovery Fund	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.

## Overdue 'High Priority' Management Actions

Cyber Security – Reasonable Assurance			
<b>Observation:</b> Please see separate report.			
Management Action	Original Due Date	Revised Due Date	Latest Service Update
Please see separate report.			

Harlequin Centre, Income Banking and Reconciliation – Limited Assurance			
Management Actions (to address all the observations raised within the report)	Original Due Date	Revised Due Date	Latest Service Update
Train all relevant Finance and Harlequin staff in the updated income management processes and ensure that everyone is aware of their responsibilities.	31.10.21	30.11.21	Delayed due to the project lead having to take unexpected leave at short notice, resulting in rescheduling of planned training dates. On track for completion by the revised date.

## Overdue 'Low &amp; Medium Priority' Management Actions

Audit Review	Report Date	Opinion	Priority	Due Date	Revised Due Date
Human Resources and Organisational Development	03.10.2019	Adequate	Low	30.04.2020	01.12.2021
			Low	30.04.2020	01.12.2021
			Low	30.04.2020	01.12.2021
			Low	30.04.2020	01.12.2021
			Low	30.04.2020	01.12.2021
			Low	30.04.2020	01.12.2021
Council Tax	05.02.2020	Adequate	Medium	01.04.2020	31.03.2022
Health and Safety	04.02.2021	Reasonable	Medium	28.02.2021	30.01.2022
Information Security – Data Centre Security	28.06.2021	Limited	Medium	30.09.2021	31.01.2022

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

<b>Substantial</b>	A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
<b>Adequate</b>	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.
<b>Limited</b>	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.
<b>No</b>	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.

# Agenda Item 7



<b>SIGNED OFF BY</b>	Head of Corporate Policy, Projects & Performance
<b>AUTHOR</b>	Gloria Addai, Performance Officer  Luke Harvey, Project & Performance Team Leader
<b>TELEPHONE</b>	Tel: 01737 276 384  Tel: 01737 276 519
<b>EMAIL</b>	Gloria.Addai@reigate- banstead.gov.uk  Luke.Harvey@reigate- banstead.gov.uk
<b>TO</b>	Audit Committee  Executive
<b>DATE</b>	Audit Committee: 25 November 2021  Executive: 16 December 2021
<b>EXECUTIVE MEMBER</b>	Portfolio Holder for Corporate Policy and Resources

<b>KEY DECISION REQUIRED</b>	N
<b>WARDS AFFECTED</b>	(All Wards);

<b>SUBJECT</b>	Risk management - Q2 2021/22
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<b>RECOMMENDATIONS</b>
<p><b>That the Audit Committee:</b></p> <p>(i) Note the Q2 update on risk management provided in the report and associated annexes and make any observations to the Executive.</p> <p><b>That the Executive:</b></p> <p>(ii) Note the Q2 update on risk management provided by the report and associated annexes.</p>
<b>REASONS FOR RECOMMENDATIONS</b>

# Agenda Item 7

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 Q2 of 2021/22. Additional detail is provided in the report as well as the supporting 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 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 Government 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 Planning (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. 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.
10. The Audit Committee has a constitutional responsibility to provide independent assurance to the Council of the adequacy of the risk management framework and 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.

## KEY INFORMATION

### Q2 2021/22 risk management update:

11. 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.
12. The full strategic risk register is available at Annex 1 of this report. Following feedback at the last Audit Committee, the risk register presentation has been revised and the full risk register is now appended to the agenda item.
13. In Q2 there were no new strategic risks identified and there were no strategic risks identified for closure.
14. At the end of Q2 there was one RED rated operational risk, the detail of which is set out in the Part 2 exempt Annex 2.
15. The full risk registers (including those from previous years) are also made available to all members via the ModernGov document library.

## OPTIONS

16. The Audit Committee has two options:
  - a. Option 1: note this report and make any observations to the Executive.
  - b. Option 2: note this report and make no observations to the Executive.
17. The Executive has one option:
  - a. Option 1: note this report.

## LEGAL IMPLICATIONS

18. There are no legal implication arising from this report.

## FINANCIAL IMPLICATIONS

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

## EQUALITIES IMPLICATIONS

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

## COMMUNICATION IMPLICATIONS

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

# Agenda Item 7

<b>RISK MANAGEMENT CONSIDERATIONS</b>
23. The Council risk registers inform the development of the annual risk based internal audit plan.
24. The Council's approach to managing risk is core component of the Code of Corporate Governance.
<b>OTHER IMPLICATIONS</b>
25. There are no other implications arising from this report.
<b>CONSULTATION</b>
26. The contents of this report and the associated annexes have been considered by the Council's Corporate Governance Group.
<b>POLICY FRAMEWORK</b>
27. The Council's risk management strategy and methodology provides additional information on how the Council manages risk.
<b>BACKGROUND PAPERS</b>
None

## Risk management

### Strategic risk register

#### Quarter 2 – July to September 2021

#### Strategic Risks

Strategic risks are defined as those risks that have an impact on the medium to long term ambitions and priorities of the Council as set out in the Corporate Plan and the Medium-Term Financial Strategy. The Management Team has shared responsibility for strategic risks.

The Council's strategic risks are detailed in below table:

<a href="#"><u>SR1</u></a>	<a href="#"><u>COVID-19 pandemic</u></a>
<a href="#"><u>SR2</u></a>	<a href="#"><u>Financial sustainability</u></a>
<a href="#"><u>SR3</u></a>	<a href="#"><u>Local government reorganisation</u></a>
<a href="#"><u>SR4</u></a>	<a href="#"><u>Organisational capacity and culture</u></a>
<a href="#"><u>SR5</u></a>	<a href="#"><u>Economic prosperity</u></a>
<a href="#"><u>SR6</u></a>	<a href="#"><u>Reliance on the welfare system</u></a>
<a href="#"><u>SR7</u></a>	<a href="#"><u>Cyber security</u></a>
<a href="#"><u>SR8</u></a>	<a href="#"><u>Fraud</u></a>
<a href="#"><u>SR9</u></a>	<a href="#"><u>Marketfield Way</u></a>
<a href="#"><u>SR10</u></a>	<a href="#"><u>Gatwick Airport</u></a>
<a href="#"><u>SR11</u></a>	<a href="#"><u>Reform of the planning system (closed in Q1 2021/22)</u></a>
<a href="#"><u>SR12</u></a>	<a href="#"><u>Planning system reform</u></a>

#### Risk rating

Each risk is scored using the potential impact of the risk and the likelihood of the risk happening. The risk score then determines the level of management action required:

<b>RED</b>	Where management should focus attention. Immediate actions should be identified and plans put in place to reduce risk as a priority.
<b>AMBER</b>	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
<b>YELLOW</b>	These should have basic mechanisms in place as part of the normal course of management.
<b>GREEN</b>	Where risk is minimal if does not demand specific attention but should be kept under review.

## Risk status

<b>Tolerate</b>	Decide to accept the risk and take no further measures. This should be a conscious and deliberate decision taken having decided that it is more cost effective to do so than attempt mitigating action.
<b>Transfer</b>	Transfer all or part of the risk. For example, to insurance or to other agencies/contractors.
<b>Treat</b>	Proactive action taken to reduce: <ul style="list-style-type: none"><li>• The probability of the risk happening by Introducing control measures</li><li>• The impact of the risk should it occur.</li></ul>
<b>Close</b>	This could involve changing an aspect of the activity or ceasing to provide the service/function/project and thus eliminate the risk.

## RISK RATINGS

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IMPACT						
Grave	5					
Significant	4		<a href="#"><u>SR7</u></a>	<a href="#"><u>SR3</u></a> <a href="#"><u>SR4</u></a> <a href="#"><u>SR9</u></a>	<a href="#"><u>SR2</u></a> <a href="#"><u>SR6</u></a> <a href="#"><u>SR10</u></a>	<a href="#"><u>SR5</u></a>
Moderate	3			<a href="#"><u>SR1</u></a> <a href="#"><u>SR12</u></a>	<a href="#"><u>SR8</u></a>	
Minor	2					
Almost none	1					
		1	2	3	4	5
LIKELIHOOD		Rare	Unlikely	Possible	More than likely	Almost certain

<b>SR1</b>		<b>Covid-19 pandemic</b>		<b>AMBER</b>
<b>Description</b>		<p>The Council will continue to respond to the Covid-19 pandemic in supporting residents, businesses as well as other partner public sector organisations.</p> <p>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.</p>		
<b>Owner</b>		<b>Portfolio Holder</b>	Cllr Brunt	
		<b>Officers</b>	Mari Roberts-Wood and Luci Mould	
<b>Controls</b>		<p>Ongoing planning for disruption caused by the pandemic, including maintaining organisational preparedness via emergency and business continuity planning.</p> <p>Resumption of COVID-19 command and control processes and procedures if required.</p> <p>Liaison with partners and the Surrey Local Resilience Forum.</p>		
<b>Mitigating actions/progress</b>		<p>Operating within the confines of, and responding to, Covid-19 has now become 'business as usual' for the Council. Ongoing disruption is expected and is being proactively planned for.</p> <p>During Q2 the government's autumn and winter plan for COVID-19 was published. The plan has not ruled out further restrictions to help control the spread of Covid-19. Accordingly, the Council's preparedness activities for winter have begun, including identifying staff for potential redeployment following any need to resume the Council's response activities.</p> <p>During Q2 several plans integral to the Council's response to the COVID-19 pandemic have been updated, including the: Pandemic Plan; Emergency Plan and Surge Testing Plan. Service business continuity plans continue to be kept up to date.</p> <p>The Council continues to engage with partners in Surrey, including the Local Resilience Forum and other districts and boroughs. Learning from partners continues to assist preparedness activities.</p>		
<b>Score</b>	<b>Likelihood</b>	Possible	<b>Direction of travel</b>	-
	<b>Impact</b>	Moderate		
<b>Status</b>		Treat		
<b>Last update</b>		28 October 2021		

SR2	Financial sustainability		RED
Description	<p>In the wake of the COVID-19 pandemic and resultant recession, the Council faces a period of unprecedented financial uncertainty.</p> <p>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.</p> <p>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.</p> <p>The ongoing financial settlement with the Government also remains uncertain.</p> <p>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.</p>		
Owner	Portfolio Holder	Cllr Schofield	
	Officers	Pat Main	
Controls	<p>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 the delivery of the Council's financial and commercial objectives while managing risks.</p> <p>An up-to-date Medium Term Financial Plan and Capital Investment Strategy. The MTFP sets out the forecast budget challenges over the coming five years and forms the basis for service and financial planning, while the Capital Investment Strategy provides an overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of council services and how associated risk is managed.</p> <p>A Treasury Management Strategy (approved in April 2021) that helps ensure that investments achieve target returns within approved security and liquidity limits and that borrowing to fund the Capital Programme is affordable.</p> <p>Creation and implementation of a Commercial Strategy.</p>		
Mitigating actions/progress	<p>The COVID-19 pandemic resulted in material new financial risks, both in the previous and current financial years 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. Nevertheless, after taking account of additional expenditure, income shortfalls, and government funding, the overall budget outturn for 2020/21 was a net underspend for the Council, with reserves remaining healthy.</p> <p>The main area of concern remains the failure of income receipts to return to pre-COVID levels, particularly in relation to parking fees. There is also a risk that increased costs for goods, materials and labour, coupled with supply chain disruption, may impact on our ability to deliver and thereby secure income from development projects.</p> <p>The specific outcomes of the Government's planned Fair Funding Review and Business Rates Reset continue to remain unknown; however, they are expected to result in significantly reduced funding.</p>		

<b>SR2</b>		<b>Financial sustainability</b>		<b>RED</b>
		<p>The Council's updated Medium-Term Financial Plan, approved by the Executive in July 2021, sets out the forecast budget challenge over the coming five years and will form the basis for service and financial planning for 2022/23 onwards. Preparations for budget setting for 2022/23 are now in progress and draft budget proposals will be published for scrutiny in November 2021.</p> <p>The Council's Capital Investment Strategy was approved by the Executive in July 2021. Capital Programme proposals for 2022/23 onwards are now in progress and will be reported in November 2021.</p> <p>The Council adopted Part 1 of its Commercial Strategy during 2020/21 demonstrating the continued importance of: (i) adopting and implementing strategies that support sustainable income generation and (ii) taking forward new income generating projects. As of Q2 2021/22, work is underway on Part 2 of the Strategy which will provide more detail about the implementation of commercial activity, particularly in investment activity and how associated risks will be managed and mitigated.</p>		
<b>Score</b>	<b>Likelihood</b>	More than likely	<b>Direction of travel</b>	-
	<b>Impact</b>	Significant		
<b>Status</b>		Treat		
<b>Last update</b>		12 October 2021		

<b>SR3</b>		<b>Local government reorganisation</b>		<b>AMBER</b>
<b>Description</b>		<p>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 agenda. A White Paper on English devolution and local recovery is expected in the latter part of 2021, delayed from autumn 2020.</p> <p>The uncertainty surrounding, and subsequent results of, any local government reorganisation could adversely affect the Council and the delivery of services for residents.</p>		
<b>Owner</b>		<b>Portfolio Holder</b>	Cllr Brunt	
		<b>Officers</b>	Mari Roberts-Wood	
<b>Controls</b>		<p>Close working with neighbouring and partner authorities to develop alternative proposals for the future of local government in Surrey.</p> <p>Lobbying central government where appropriate and necessary.</p>		
<b>Mitigating actions/progress</b>		<p>Earlier in the year the government confirmed that it will not be pursuing a mandatory, top-down reorganisation of local government.</p> <p>However, a White Paper on devolution and 'levelling up' will be published in autumn 2021. It is anticipated that the White Paper will include proposals for 'county deals', a bespoke devolution of powers to county councils. During Q2 Surrey County Council submitted an expression of interest to the government to be a pilot area for the latter and are understood to be developing a proposal for this.</p> <p>The Council will continue to seek to proactively influence the debate on the future structure of local government within Surrey.</p>		
<b>Score</b>	<b>Likelihood</b>	Possible	<b>Direction of travel</b>	-
	<b>Impact</b>	Significant		
<b>Status</b>		Treat		
<b>Last update</b>		28 October 2021		

SR4		Organisational capacity and culture		AMBER
<b>Description</b>		<p>The Council has adopted an ambitious Corporate Plan, supported by a capital investment, housing and Great People strategy.</p> <p>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.</p> <p>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.</p> <p>The failure to remain ambitious and adapt to the ongoing challenges of the pandemic will risk the delivery of corporate objectives.</p>		
<b>Owner</b>		<b>Portfolio Holder</b>	Cllr Lewanski	
		<b>Officers</b>	Mari Roberts-Wood and Kate Brown	
<b>Controls</b>		<p>The creation and implementation of an Organisational Development strategy.</p> <p>Development of an embedded Workforce Planning approach for the Council, with service and financial planning to appropriately resource the Council's staffing requirements.</p> <p>Recruitment, training and development.</p> <p>Ongoing consultation and engagement with staff.</p> <p>Succession planning.</p>		
<b>Mitigating actions/progress</b>		<p>Before the COVID-19 pandemic significant work was undertaken on the Council's Great People work programme (formerly known as the Organisation Development strategy). This has formed a solid basis for post COVID planning.</p> <p>The Council is continuing to work differently due to the effects of the Covid-19 pandemic. Projects related to future ways of working, including 'hybrid working', are being driven forward by the Organisation Board.</p> <p>A proposal for the future structure of the senior Management Team will be presented to the Employment Committee in November 2021.</p> <p>HR continue to proactively address staff wellbeing issues. A wider, strategic piece on staff welfare is continuing.</p> <p>Staff are continuing to be encouraged to take annual leave, especially in teams where significant annual leave balances have accumulated during the response to the pandemic.</p> <p>HR continues to promote training and development opportunities for staff.</p>		
<b>Score</b>	<b>Likelihood</b>	Possible	<b>Direction of travel</b>	-
	<b>Impact</b>	Significant		
<b>Status</b>		Treat		
<b>Last update</b>		11 October 2021		

<b>SR5</b>	<b>Economic prosperity</b>		<b>RED</b>
<b>Description</b>	<p>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.</p> <p>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.</p>		
<b>Owner</b>	<b>Portfolio Holder</b>	Cllrs Humphreys and Schofield	
	<b>Officers</b>	Luci Mould, Mari Roberts-Wood, Pat Main and Simon Bland.	
<b>Controls</b>	<p>The UK economy is outside the control and influence of the Council. However, the Council is able to provide support to residents and businesses, both through direct service delivery and the disbursement of grants and other sources of funding.</p> <p>Our Business Engagement Team provides a range of support, advice and networking opportunities for local businesses, allowing the Council to receive feedback on economic performance and conditions.</p> <p>Controls relating to the Council's financial position are summarised in SR2.</p>		
<b>Mitigating actions/progress</b>	<p>Following the ending of most Covid-19 related restrictions, the UK economy has begun to recover from the effects of the pandemic. According to the Office for National Statistics, in Q2 the UK economy grew faster than initial expectations and is now 3.3% below its pre-pandemic peak. However, during the quarter inflationary pressures emerged alongside (and in some instances in consequence of) supply chain disruption which could impact on the wider recovery as well as increasing living costs.</p> <p>The government's Jobs Retention Scheme concluded on 30 September 2021. The scheme supported a large number of jobs in Reigate and Banstead, as well as those of residents working outside of the borough. Whilst the scheme concluded at the end of the quarter, the Council has not seen a notable increase in resident unemployment.</p> <p>The 'R&amp;B Works' project continues to highlight and provide support towards local employment opportunities for residents. The project was recently promoted by the Local Government Association as an example of good practice.</p> <p>Last year the Council launched the East Surrey Work Local Youth Hub. The Hub aims to support young residents claiming Universal Credit in the area, through providing access to a wide range of coaching, mentoring and soft skills development, tailored to meet their career aspirations. The Council has applied to the Department for Work and Pensions for another twelve months funding for the Youth Hub.</p> <p>In Q1 the Council submitted a bid to the Government's 'Levelling Up Fund' for infrastructure funding in Horley. However, the bid was not successful in the first round of funding requests to the fund.</p> <p>The Council continues to engage with the East Surrey Economic Recovery Taskforce, which has been successful in encouraging businesses to apply for support funding to the Coast to Capital Local Enterprise Partnership.</p> <p>The first in-person Council run business engagement events recommenced during the quarter.</p>		

<b>SR5</b>		<b>Economic prosperity</b>		<b>RED</b>
		As reported in SR2 above, the Council is continuing to operate in challenging financial circumstances. The main implication on the Council's finances at present is uncertainty as to whether income levels will return to pre-pandemic levels, particularly in services such as Parking. Reductions in income are being addressed as part of service and financial planning for 2022/23.		
<b>Score</b>	<b>Likelihood</b>	Almost certain	<b>Direction of travel</b>	-
	<b>Impact</b>	Significant		
<b>Status</b>		Treat/Tolerate		
<b>Last update</b>		11 October 2021		

<b>SR6</b>	<b>Reliance on the welfare system</b>		<b>RED</b>
<b>Description</b>	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.		
<b>Owner</b>	<b>Portfolio Holder</b>	Cllr Neame	
	<b>Officers</b>	Mari Roberts-Wood, Duane Kirkland, Justine Chatfield and Richard Robinson	
<b>Controls</b>	<p>Increased staffing to manage legislative and welfare/benefit changes.</p> <p>Investing in IT packages, improving processes and staff training.</p> <p>The operation of council owned emergency accommodation.</p> <p>Applying for government grants to fund additional support services.</p> <p>Joint working and close collaboration with partners.</p> <p>Increased staff resource through redeployment.</p>		
<b>Mitigating actions/progress</b>	<p>During Q2 the temporary uplift to universal credit ended. This took place at the end of the quarter; any impacts arising will be closely monitored, particularly in the context of the wider cost of living increases seen in areas such as fuel and energy price rises.</p> <p>The government's Jobs Retention Scheme also concluded in Q2. Despite the scheme's cessation there has not been a notable increase in unemployment within the borough.</p> <p>The Council continues to apply for government grants to support homeless residents, or those at risk of homelessness. So far in 2021/22 nearly £200k has been secured to help accommodate and support the single homeless cohort, including prison leavers.</p> <p>The Council was part of a successful cross-Surrey bid for an application to the government's Changing Futures Fund. The programme aims to improve outcomes for adults experiencing multiple disadvantage, including combinations of homelessness, substance misuse, mental health issues, domestic abuse and contact with the criminal justice system. The bid was awarded £2.8 million to be spent in Surrey over a three-year period.</p> <p>Despite the ban in bailiff led evictions coming to an end, as of the end of Q2 there has not been an increase in evictions over 'normal' years. However, there has been an increase in the complexity of cases and an increase in larger households placed into temporary emergency accommodation. The Council's Housing team continues to work successfully in preventing and relieving homelessness where possible.</p> <p>Within the borough there is a lack of affordable move on homes for larger households, both in the social and private rented sector. This has resulted in an increase in emergency temporary accommodation spend. This is being closely monitored and options are being considered to mitigate the impacts.</p> <p>Following an increase during the height of the Covid-19 pandemic, the Council's Money Support service has seen referrals return to more 'normal' pre-pandemic levels. It is possible, however, that the end of the Jobs Retention Scheme and the increase in the cost of living, coupled with the end of the Universal Credit uplift, may result in an increase in referrals. Additional resourcing has been identified to support the service, which will be scaled up if required.</p>		

<b>SR6</b>		<b>Reliance on the welfare system</b>		<b>RED</b>
		<p>The Council continues to provide a scaled back Covid-19 welfare offer. Consideration is continuing to be 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.</p> <p>The Council continues to be active in the Surrey wide fuel poverty group, which will look to support residents at risk of fuel poverty.</p> <p>At the end of the quarter the government announced its new household support fund. The fund makes £500 million available to vulnerable households across the country to help them with essentials over the coming months as the country continues its recovery from the pandemic. The Council will be administering these grants on behalf of the government.</p>		
<b>Score</b>	<b>Likelihood</b>	More than likely	<b>Direction of travel</b>	<b>-</b>
	<b>Impact</b>	Significant		
<b>Status</b>		Treat		
<b>Last update</b>		18 October 2021		

SR7		Cyber security		AMBER
<b>Description</b>		<p>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.</p> <p>More sophisticated attacks and new variants of malicious software underscore the risk of corporate defences being compromised.</p> <p>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.</p>		
<b>Owner</b>		<b>Portfolio Holder</b>	Cllr Lewanski	
		<b>Officers</b>	Ann Slavin and Darren Wray	
<b>Controls</b>		<p>ICT has in-place several layers of defences protecting core data and systems from Internet and locally introduced threats. Including email scanning, internet browsing controls; device and server based anti-virus software and whole disk encryption for laptops.</p> <p>Virus patterns are updated on a regular basis. Firewalls are placed at points on the network where external connections join the local network.</p>		
<b>Mitigating actions/progress</b>		<p>The ICT service has recently put in place a service level agreement (SLA) with the NCCGroup, which works on behalf of the Cabinet Office on heightening cyber security across local government. The SLA will provide support and instant access to their expertise in the event of a cyber security incident.</p> <p>ICT has also worked with the National Computer Centre. This work concluded in March 2021 and resulted in a work plan which will inform future improvements to the Council's cyber security.</p> <p>A proposal for significant enhancements to the Council's cyber security capabilities has been approved by Corporate Governance Group and the Organisation Board, with in year funding secured. Procurement activities will commence shortly; work on implementation is expected to start in Q4.</p> <p>In 2021/22 the Council's internal auditors reviewed the Council's cyber security capabilities. All identified management actions aside from one have been completed. The remaining outstanding action related to recruiting new member of staff. Recruitment took place but was unfortunately unsuccessful. However, sufficient cover arrangements and upskilling activities within the existing team are planned.</p> <p>ICT continues to report data security matters to the Senior Information Risk Officer (SIRO).</p> <p>The ICT customer base is continuing to be kept informed of any specific threats and are continually reminded to be vigilant when opening email or browsing websites, particularly those from unknown sources.</p>		
<b>Score</b>	<b>Likelihood</b>	Unlikely	<b>Direction of travel</b>	-
	<b>Impact</b>	Significant		
<b>Status</b>		Treat		
<b>Last update</b>		14 October 2021		

<b>SR8</b>		<b>Fraud</b>		<b>AMBER</b>
<b>Description</b>		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.		
<b>Owner</b>		<b>Portfolio Holder</b>	Cllr Schofield	
		<b>Officers</b>	Mari Roberts-Wood and Simon Rosser	
<b>Controls</b>		<p>The Whistleblowing and Anti-Fraud and Corruption policy.</p> <p>The Council has a Fraud and Financial Investigations Team that are proactive and reactive. Investigations can be external and internal and cover all areas of corporate fraud.</p> <p>Staff induction also includes fraud awareness training, as well as awareness of established policies and procedures.</p> <p>Internal audit undertaking reviews into fraud risk areas.</p> <p>The Council maintains robust control measures to protect public funds from fraudulent activity. This includes the Counter Fraud, Corruption and Bribery Policy, Whistleblowing Policy and Prosecution Policies.</p>		
<b>Mitigating actions/progress</b>		<p>The Council's internal auditors have audited systems and processes related to the new COVID-19 activity areas. Both reviews resulted in a 'substantial assurance' opinion, with no management actions recommended.</p> <p>A staff fraud awareness programme has been implemented, with training of the relevant teams taking place.</p> <p>With the end of the ban on bailiff evictions, there is an increased potential for fraudulent applications for joining the Council's housing register. This will be closely monitored in the coming months.</p>		
<b>Score</b>	<b>Likelihood</b>	More than likely	<b>Direction of travel</b>	-
	<b>Impact</b>	Moderate		
<b>Status</b>		Treat		
<b>Last update</b>		13 October 2021		

<b>SR9</b>		<b>Marketfield Way</b>		<b>AMBER</b>
<b>Description</b>		<p>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.</p> <p>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.</p>		
<b>Owner</b>		<b>Portfolio Holder</b>	Cllr Biggs	
		<b>Officers</b>	Luci Mould and Peter Boarder	
<b>Controls</b>		<p>The terms within the building contract includes measures to minimise financial risks, including those related to COVID-19, to the Council. Similar protection provisions have been included in key contracts associated with the development to minimise risk.</p> <p>The main build contract with Vinci reduces financial risk by fixing outstanding costs.</p> <p>Regular meetings with the external development managers. The development managers provide a monthly report highlighting any risks and issues for management attention.</p> <p>Rigorous change management processes have been put into place.</p> <p>A flexibility-of-use methodology has been adopted for Marketfield Way's commercial units.</p> <p>Grant funding from the Local Enterprise Partnership.</p>		
<b>Mitigating actions/progress</b>		<p>A cinema operator for the scheme has now been selected. The lease has been drafted and exchange of contracts is expected in Q3 2021/22.</p> <p>The Council is currently in advanced negotiations with a major retailer regarding a key anchor unit. The lease is expected to be signed in Q3 2021/22.</p> <p>The Council has instructed a number of changes to the commercial units to enable flexibility in their letting, both now and in the future.</p> <p>The construction industry is currently experiencing a materials shortage. The Council's contractors are ensuring that materials are ordered well in advance of when they are required to as to avoid delays on site.</p> <p>A study has been commissioned to understand the market catchment of the development. This will inform the preparation of the marketing and lettings strategy planned for Q3 2021/22.</p>		
<b>Score</b>	<b>Likelihood</b>	Possible	<b>Direction of travel</b>	-
	<b>Impact</b>	Significant		
<b>Status</b>		Treat		
<b>Last update</b>		14 October 2021		

<b>SR10</b>		<b>Gatwick Airport</b>		<b>RED</b>
<b>Description</b>		<p>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 economic outlook and ongoing global travel restrictions.</p> <p>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.</p> <p>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.</p>		
<b>Owner</b>		<b>Portfolio Holder</b>	Cllr Humphreys	
		<b>Officers</b>	Luci Mould and Simon Bland	
<b>Controls</b>		<p>This risk is largely outside of the Council's control and is dependent on any possible support provided by the government to the aviation sector and the commercial decisions made by private companies.</p> <p>However, where possible the Council will regularly liaise with relevant parties to understand any possible upcoming impacts, both in relation to the ongoing impacts of Covid-19 and expansion.</p>		
<b>Mitigating actions/progress</b>		<p>The situation at Gatwick is continuing to be monitored. The government's Jobs Retention Scheme ended on 30 September. Despite this, there has not been a significant number of redundancies at Gatwick Airport.</p> <p>As travel restrictions are lifted and the roll-out of the vaccination programme continues, British Airways is therefore expecting significant passenger growth.</p> <p>Indeed, the latest data published by Gatwick shows that in September 2021 aircraft movements have almost returned to levels seen in February 2020, just before the first Covid-19 restrictions were implemented.</p> <p>Last year some long-haul flights recommenced from Gatwick, though short haul flights continue to operate from Heathrow. However, British Airways are currently consulting with unions on returning running short haul flights to and from Gatwick.</p> <p>Gatwick is continuing to pursue its plans for expansion and is currently consulting on the impacts of the proposal in advance of submitting a Development Consent Order for an additional runway. The Council is active in this consultation which will conclude in December 2021.</p>		
<b>Score</b>	<b>Likelihood</b>	More than likely	<b>Direction of travel</b>	-
	<b>Impact</b>	Significant		
<b>Status</b>		Tolerate/Treat		
<b>Last update</b>		11 October 2021		

<b>SR11</b>		<b>Reform of the planning system</b>		<b>CLOSED</b>
<b>Description</b>		<p>Following the publication of the 'Planning for the Future' white paper, the government is consulting on changes to planning system.</p> <p>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.</p> <p>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%.</p> <p>This change could therefore negatively impact delivery of affordable housing in the borough.</p>		
<b>Owner</b>		<b>Portfolio Holder</b>	Cllr Biggs	
		<b>Officers</b>	Luci Mould and Andrew Benson	
<b>Controls</b>		<p>Respond to the government's consultation as it develops and as additional rounds of consultation are issued.</p> <p>To continue to pursue the delivery of affordable housing as detailed in the Council's housing strategy.</p>		
<b>Mitigating actions/progress</b>		<p>In Q2 2020/21 the Council responded to the consultation by central government 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.</p> <p>In Q1 2021/22 the government confirmed that the plan to reduce the threshold for affordable homes from developments of 11 homes to 40 or 50 was being abandoned, meaning that medium sized developments will still be required to provide affordable housing.</p> <p>With the plan to reduce the threshold for the provision of affordable homes dropped by the government, the impact of this risk has changed. As such, in Q1 2021/22 reporting this risk was closed, with a new strategic risk raised to reflect the current implications of the risk (see SR12).</p>		
<b>Score</b>	<b>Likelihood</b>	N/A		<b>N/A</b>
	<b>Impact</b>	N/A		
<b>Status</b>		Risk closed		
<b>Last update</b>		16 July 2021		

<b>SR12</b>		<b>Planning system reform</b>		<b>AMBER</b>
<b>Description</b>		<p>Following the publication of the 'Planning for the Future' White Paper, the government is considering changes to the planning system in England.</p> <p>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.</p> <p>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 proposed changes could result in a reduction in the delivery of affordable housing in the borough.</p>		
<b>Owner</b>		<b>Portfolio Holder</b>	Cllr Biggs	
		<b>Officers</b>	Luci Mould and Andrew Benson	
<b>Controls</b>		<p>Respond to the government's consultation as it develops and as additional rounds of consultation are issued.</p> <p>To continue to pursue the delivery of affordable housing as detailed in the Council's housing strategy.</p>		
<b>Mitigating actions/progress</b>		<p>On 6 August 2020, the government published a consultation document on proposed changes to the planning system. The Council responded to this consultation and lodged its opposition to the white paper's proposals as it was then defined, principally regarding the potential loss of affordable housing in the borough.</p> <p>The government's response to the consultation was published in December 2020. This was followed up with second response in April 2021 which confirmed that a more immediate plan to reduce the threshold for affordable homes from developments of 11 homes to 40 or 50 was being abandoned.</p> <p>As of the end of Q2 2021/22, and despite ministerial changes, there has been no further formal government announcement on the proposals for reforming the planning system, thereby reducing the likelihood that any changes will come into effect during financial year 2021/22.</p>		
<b>Score</b>	<b>Likelihood</b>	Possible	<b>Direction of travel</b>	↓
	<b>Impact</b>	Moderate		
<b>Status</b>		Treat		
<b>Last update</b>		15 October 2021		

# Agenda Item 8



<b>Signed off by</b>	Head of Legal and Governance
<b>Author</b>	Alex Berry, Deputy Democratic Services Manager
<b>Telephone</b>	01737 276815
<b>Email</b>	alex.berry@reigate-banstead.gov.uk
<b>To</b>	Audit Committee
<b>Date</b>	Thursday, 25 November 2021
<b>Executive Member</b>	Deputy Leader and Executive Member for Finance and Governance

<b>Key Decision Required</b>	N
<b>Wards Affected</b>	(All Wards);

<b>Subject</b>	Update of the Code of Corporate Governance
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<b>Recommendation</b>
<b>That the Code of Corporate Governance be amended to reflect minor updates to the evidence for all six principles and to reflect the need for the Committee to review the Code annually.</b>
<b>Reasons for Recommendations</b>
Each local authority is required to develop and maintain a Code of Corporate Governance. The Code of Corporate Governance sets out the principles of good governance and the arrangements in place to ensure that the Council conducts its business in accordance with the law and proper standards. It provides assurance that the Council is meeting best practice in protecting its assets and serving the community.
<b>Executive Summary</b>
The Code of Corporate Governance has been drafted in accordance with the principles set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) guidance entitled 'Delivering Good Governance in Local Government'. In this guidance, seven core principles that should underpin the governance framework of a local authority are defined.

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The Committee agreed to adopt an updated Code in November 2020. The Code is to be reviewed annually. During this year's review, a number of minor changes were put forward at the Governance Task Group. The code is therefore recommended for update by the Committee. The updated draft Code is attached at annex 1 with the updates listed in annex 2.

**The Audit Committee has authority to approve the above recommendations.**

## Statutory Powers

1. The Council has statutory duties under section 5 of the Local Government and Housing Act 1989 ensuring lawfulness and fairness of decision making (the responsibility of the Monitoring Officer). Also, the proper administration of the Council's affairs under section 151 of the Local Government Act 1972 (the responsibility of the Section 151 officer).

## Background

2. Each local authority is required to develop and maintain a Code of Corporate Governance. The Committee agreed to adopt the current Code of Corporate Governance at its meeting on 26 November 2020.
3. The Council is committed to reviewing the Code annually to ensure it is maintained.
4. The Council is required to prepare an Annual Governance Statement each year to report publicly on compliance with the Code and how the Council has met the requirements of the Accounts and Audit Regulations 2015. The annual review of governance will assess the level of compliance with the Code's governance principles.
5. The information set out in the framework within the Code demonstrates that the Council continually seeks to ensure it remains well governed. The Code confirms the Council's recognition that to deliver good governance it must always seek to achieve its objectives whilst acting in the public interest.

## Key Information

### Review Process

6. The Code was reviewed by officers at the Corporate Governance Group on 7 September 2021. Several minor changes were recommended.
7. The Governance Task Group considered the amended Code at its meeting on 14 September 2021. The Group recommended several changes and updates to ensure all relevant evidence had been captured and that the Audit Committee would review the Code annually. The Group agreed to recommend the amended Code for adoption to the Audit Committee.

### Options

8. **Option 1:** To approve the adoption of the updated Code of Corporate Governance as attached in annex 1. This is the recommended option.

9. **Option 2:** To consider the updated Code of Corporate Governance and suggest changes prior to approving the Code for adoption. This is not recommended as there may be a delay in the adoption of the Code if the suggested changes are such that the Committee needs to consider the adoption of a newly drafted Code at a future meeting.
10. **Option 3:** To reject the adoption of the updated Code of Corporate Governance. This is not recommended as the Code would not be up to date and would not properly reflect the work the Council does to ensure good governance.

## **Legal Implications**

11. Corporate governance is the way in which the council directs and controls its arrangements to ensure that the intended outcomes for stakeholders are defined and achieved. A robust governance code provides assurance that the Council is meeting best practice in protecting its assets and serving the community.
12. Corporate governance is how the Council ensures it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
13. The Council has statutory duties to ensure proper governance of its members, officers, assets, services and decision making. Failure of the Council's corporate governance framework could result in unlawful decisions and conduct.

## **Financial Implications**

14. There are no financial implications.

## **Equalities Implications**

15. There are no equalities implications.

## **Communication Implications**

16. There are no communication implications.

## **Environmental Sustainability Implications**

17. There are no environmental sustainability implications.

## **Risk Management Considerations**

18. The Council has statutory duties to ensure proper governance. A breakdown in governance creates a range of serious risks, including legal, financial and reputational.

# Agenda Item 8

<b>Other Implications</b>
19. There are no other implications.
<b>Consultation</b>
20. The draft Code of Corporate Governance has been drawn up in consultation with the Monitoring Officer, the Head of Finance and the Head of Organisational Development and considered at a meeting of the Corporate Governance Group. Following that, the Governance Task Group has reviewed the draft updated Code and suggested changes which have been incorporated into the attached Code.
<b>Background Powers</b>
There are none.



## Reigate and Banstead Borough Council Code of Corporate Governance

### Document History

Version	Date	Author	Change Description	Reviewed and approved by
1	17/03/20	Alex Berry	First draft	Corporate Governance Group
2	07/09/20	Alex Berry	Confirming updates	
3	11/09/20	Alex Berry	Updates following GTG on 10/09/20	Governance Task Group Audit Committee
4	23/09/21	Alex Berry	Updated after review by CGG and GTG	
Next review date: September 2022				

### Introduction

Corporate Governance is about how the Council ensures that it is doing things right, in the right way, for the right people. It enables the Council to define and pursue its visions effectively in a timely, inclusive, open, honest and accountable manner.

Each local authority is required to develop and maintain an up to date Code of Corporate Governance and to prepare an Annual Governance Statement in order to report publicly on its compliance with the Code.

The council's Code of Corporate Governance has been developed in accordance with the seven core principles that should underpin the governance framework of a local authority, as outlined in the CIPFA/SOLACE guidance "Delivering Good Governance in Local Government: Framework 2016 Edition."

### The seven principles of good governance are:

1. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes.
5. Developing the Council's capacity, including the capability of its leadership and the individuals within it.
6. Managing risks and performance through robust internal control and strong public financial management

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7. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

### **Code of Corporation Governance**

The information set out in the framework within this code demonstrates that the Council continually seeks to ensure it remains well governed and that to deliver good governance the Council must always seek to achieve its objectives whilst acting in the public interest.

### **Monitoring**

The Code of Corporate Governance is reviewed annually by:

- Corporate Governance Group (Officer group)
- Governance Task Group (Member group)
- Audit Committee

as part of the preparation of the Annual Governance Statement.

<b>Principle 1 - Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law.</b>	
Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.	
<b>Supporting Principles</b>	<b>To achieve this, the Council will:</b>
Behaving with integrity	<ul style="list-style-type: none"> <li>• Ensure Members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation</li> <li>• Ensure members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. Meetings of Standard Committee to promote and maintain high standards of conduct within the Council and monitor effectiveness of the Code of Conduct. The operating principles and values should build on the Seven Principles of Public Life (<a href="#">the Nolan Principles</a>): Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.</li> <li>• Lead by example and use the above standard operating principles or values as a framework for decision making and other actions</li> <li>• Demonstrate, communicate and embed the standard operating principles or values through appropriate policies and processes which are to be reviewed on a regular basis to ensure that they are operating effectively</li> </ul>
Demonstrating strong commitment to ethical values	<ul style="list-style-type: none"> <li>• Seek to establish, monitor and maintain the organisation's ethical standards and performance</li> <li>• Underpin personal behaviour with ethical values and ensure they permeate all aspects of the organisation's culture and operation</li> <li>• Develop and maintain robust policies and procedures which place emphasis on agreed ethical values</li> <li>• Ensure that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation</li> </ul>
Respecting the rule of law	<ul style="list-style-type: none"> <li>• Ensure members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations</li> </ul>

- Create the conditions to ensure that the statutory officers, other key postholders, and Members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements
- Strive to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders
- Deal with breaches of legal and regulatory provisions effectively
- Ensure corruption and misuse of power are dealt with effectively

**Principle 1 is evidenced by:**

- [Constitution](#)
- [Corporate Plan](#)
- [Member Code of Conduct](#)
- Member Learning and Development Plan (Internal)
- Employee Code of Conduct (Internal)
- [Annual Governance Statement](#)
- Governance Task Group
- [Register of Interests](#) (shown on each members' respective page)
- [Schemes of delegation / decision making protocols](#)
- Statutory officers' roles:- Chief Executive, Chief Financial Officer, Monitoring Officer
- [Internal Audit Plan](#)
- [Complaints Procedure](#)
- [Working in Partnership](#)
- Commercial Governance Framework (Internal)
- [Whistle Blowing Policy](#) (Internal)
- [Anti-Fraud & Corruption Policy](#) (Internal)
- [Anti-Money Laundering Policy](#) (Internal)
- Equality Policy (Internal)
- Grievance Policy (Internal)
- Hospitality Protocol (Internal)
- ICT Policies (Internal)
- Financial Procedure Rules – Procedure Rule 7 of the [Constitution](#)
- Contract Procedure Rules – Procedure Rule 8 of the [Constitution](#)

<b>Principle 2 - Ensuring openness and comprehensive stakeholder engagement.</b>	
Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.	
<b>Supporting Principles</b>	<b>To achieve this, the Council will:</b>
Openness	<ul style="list-style-type: none"> <li>• Ensure an open culture through demonstrating, documenting and communicating the organisation's commitment to openness</li> <li>• Make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided</li> <li>• Provide clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear</li> <li>• Use formal and informal consultation and engagement to determine the most appropriate and effective interventions/courses of action</li> </ul>
Engaging comprehensively with institutional stakeholders (for example, commercial partners and suppliers, other public or third sector organisations)	<ul style="list-style-type: none"> <li>• Effective engagement with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably</li> <li>• Develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively</li> <li>• Ensure that partnerships are based on, trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit</li> </ul>
Engaging stakeholders effectively, including citizens and service users	<ul style="list-style-type: none"> <li>• Establish a clear policy on the type of issues that the Council will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes</li> <li>• Ensure that communication methods are effective and that members and officers are clear about their roles with regard to community engagement</li> </ul>

	<ul style="list-style-type: none"> <li>• Encourage, collect and evaluate the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs</li> <li>• Implement effective feedback mechanisms in order to demonstrate how views have been taken into account</li> <li>• Balance feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity</li> <li>• Take account of the impact of decisions on future generations of taxpayers and service users</li> </ul>
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**Principle 2 is evidenced by:**

- [Constitution](#)
- [Corporate Plan](#)
- [Public attendance at Council meetings/Webcasting of Council meetings](#)
- [Publication of Committee Reports and Papers](#)
- [Freedom of Information](#)
- [Complaints](#)
- LGA Workshop for Members: Chairing Skills (internal)
- [Reigate and Banstead Borough Council Website](#)
- Medium Term Financial Plan, Annual Budget and Capital Investment Strategy
- Treasury Management Strategy
- [Annual Statement of Accounts](#)
- [Working in Partnership](#)
- Social media channels (Facebook, Twitter, LinkedIn, Instagram)
- [Borough News residents' magazine](#)
- [Monthly newsletter to local businesses](#)
- Media engagement
- Events (Community Development, Harlequin Theatre, Leisure, Mayoral, Economic Prosperity)
- Consultation and Engagement activities
- Targeted Communications (where appropriate)

<b>Principle 3 - Defining outcomes in terms of sustainable economic, social and environmental benefits.</b>	
The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.	
<b>Supporting Principles</b>	<b>To achieve this, the Council will:</b>
Defining outcomes	<ul style="list-style-type: none"> <li>• Have a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions</li> <li>• Specify the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer</li> <li>• Deliver defined outcomes on a sustainable basis within the resources that will be available</li> <li>• Identify and manage risks to the achievement of outcomes</li> <li>• Manage service users' expectations effectively with regard to determining priorities and making the best use of the resources available</li> </ul>
Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> <li>• Consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision</li> <li>• Take a longer-term view with regard to decision making, take account of risk and act transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints</li> <li>• Determine the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs</li> <li>• Ensure fair access to services</li> </ul>
<b>Principle 3 is evidenced by:</b>	
<ul style="list-style-type: none"> <li>• <a href="#">Corporate Plan</a></li> <li>• Commercial Strategy</li> <li>• Housing Delivery Strategy</li> </ul>	

- Medium Term Financial Plan, Annual Budget and Capital Investment Strategy
- [Annual Statement of Accounts](#)
- Treasury Management Strategy
- [Monitoring of Performance Indicators](#)
- [Risk Management Strategy](#)

**Principle 4 - Determining the interventions necessary to optimise the achievement of the intended outcomes.**

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.

<b>Supporting Principles</b>	<b>To achieve this, the Council will:</b>
Determining interventions	<ul style="list-style-type: none"> <li>• Ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended long-term outcomes would be achieved and associated risks. Therefore, ensuring best value is achieved however services are provided</li> <li>• Consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts</li> </ul>
Planning interventions	<ul style="list-style-type: none"> <li>• Establishing and implementing robust planning and control cycles that cover long-term strategic and operational plans, priorities and targets</li> <li>• Engage with internal and external stakeholders in determining how services, service improvements and other courses of action should be planned and delivered</li> <li>• Consider and monitor risks facing each partner when working collaboratively, including shared risks</li> <li>• Ensure arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances</li> </ul>

	<ul style="list-style-type: none"> <li>• Establish appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured</li> <li>• Ensure capacity exists to generate the information required to review service quality regularly</li> <li>• Prepare budgets in accordance with objectives, strategies and the medium-term financial plan</li> <li>• Inform medium and long-term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy</li> </ul>
Optimising achievement of intended outcomes	<ul style="list-style-type: none"> <li>• Ensure the medium-term financial plan integrates and balances service priorities, affordability and other resource constraints</li> <li>• Ensure the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term</li> <li>• Ensure the medium-term financial plan sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage</li> <li>• Ensure the achievement of 'social value' through service planning and commissioning</li> </ul>
<b>Principle 4 is evidenced by:</b>	
<ul style="list-style-type: none"> <li>• <a href="#">Corporate Plan</a></li> <li>• <a href="#">Overview and Scrutiny Committee</a></li> <li>• <a href="#">Executive Forward Plan</a></li> <li>• <a href="#">Medium Term Financial Plan, Annual Budget and Capital Investment Strategy</a></li> <li>• <a href="#">Annual Statement of Accounts</a></li> <li>• <a href="#">Treasury Management Strategy</a></li> <li>• <a href="#">Working in Partnership</a></li> <li>• <a href="#">Risk Management Strategy</a></li> <li>• <a href="#">Commercial Governance Framework (Internal)</a></li> <li>• <a href="#">Commercial Strategy</a></li> <li>• <a href="#">Housing Delivery Strategy</a></li> <li>• <a href="#">Process for Developing Policy Framework – Procedure Rule 6 of the Constitution.</a></li> </ul>	

<b>Principle 5 - Developing the Council's capacity, including the capability of its leadership and the individuals within it.</b>	
Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.	
<b>Supporting Principles</b>	<b>To achieve this, the Council will:</b>
Developing the Council's capacity	<ul style="list-style-type: none"> <li>• Review operations, performance and use of assets on a regular basis to ensure their continuing effectiveness</li> <li>• Improve resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently</li> <li>• Recognise the benefits of partnerships and collaborative working where added value can be achieved</li> <li>• Agree an approach to employee engagement with the Employment Committee and Council's Management Team</li> <li>• Review and agree exact priorities for this approach.</li> <li>• Scope individual projects to meet the will flow from the priority work, include priorities around Leadership and Management Development, the Wellbeing of our staff, employee voice and improving our two way internal communication, concluding our review on how we attract talent to the organisation and also our organisation revisioning.</li> </ul>

	<ul style="list-style-type: none"> <li>• Undertake the annual Service and Financial Planning process to agree resources. Including work between Finance and HR colleagues with Heads of Services and team managers to review Business Plans and the HR plans required to deliver team/organisational objectives. Produce Business Plans for each service area and the corresponding Council's establishment (agreed positions) managed by HR, with the help of Finance colleagues.</li> </ul>
Developing the capability of the Council's leadership and other individuals	<ul style="list-style-type: none"> <li>• Develop protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained</li> <li>• Publish a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the Council.</li> <li>• Ensure the Leader and the Head of Paid Service/Directors have clearly defined and distinctive leadership roles within a structure whereby the Head of Paid Service/Directors lead in implementing strategy and managing the delivery of services and other outputs set by Members and each provides a check and a balance for each other's authority</li> <li>• Develop the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: <ul style="list-style-type: none"> <li>○ ensuring Members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged</li> <li>○ ensuring Members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis</li> <li>○ ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external</li> </ul> </li> <li>• Ensure that there are structures in place to encourage public participation</li> <li>• Take steps to consider the leadership's own effectiveness and ensure leaders are open to constructive feedback from peer review and inspections</li> <li>• Hold staff to account through regular performance reviews which take account of training or development needs</li> <li>• Ensure our people are healthy and supporting their wellbeing remains a priority for us. To do this we:</li> </ul>

	<ul style="list-style-type: none"> <li>○ have access to an employee assistance programme (EAP) that offers employees and their families counselling support if required</li> <li>○ Provide numerous tools online to support wellbeing (physical and mental health)</li> <li>○ Have occupational health support when required</li> <li>○ Run specific wellbeing events throughout the year to focus on physical and/or mental health.</li> <li>○ Encourage managers and staff to have regular 121s when managers can check in about a person's wellbeing on an individual level and any necessary interventions made to help support a person (potentially helped by the HR team). 121s also form part of our performance appraisal process when regular check ins take place with managers throughout the year and pay is reviewed annually</li> </ul> <p>The recognised Trade Unions also support a number of wellbeing events through the year and open these up to members and non-members.</p> <ul style="list-style-type: none"> <li>● We will continue to work on understanding individual wellbeing needs and how the organisation can support individuals</li> </ul>
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<b>Principle 5 is evidenced by:</b>	
<ul style="list-style-type: none"> <li>● <a href="#">Constitution</a> including Scheme of Delegation for Members and Officers</li> <li>● Personal Development Appraisals (Internal)</li> <li>● Induction Programme (Internal)</li> <li>● Member and Officer training (Internal)</li> <li>● Asset Management Plan</li> <li>● <a href="#">Pay policy statement</a></li> <li>● Great People Strategy (our Employee Engagement Strategy, being reviewed for post pandemic changes required)</li> </ul>	

<b>Principle 6 - Managing risks and performance through robust internal control and strong public financial management.</b>	
<p>Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision-making activities.</p> <p>A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>	
<b>Supporting Principles</b>	<b>To achieve this, the Council will:</b>
Managing risk	<ul style="list-style-type: none"> <li>• Recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making</li> <li>• Implement robust and integrated risk management arrangements and ensure that they are working effectively</li> <li>• Ensure that responsibilities for managing individual risks are clearly allocated</li> </ul>
Managing performance	<ul style="list-style-type: none"> <li>• Monitor service delivery effectively including planning, specification, execution and independent post implementation review</li> <li>• Make decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook</li> <li>• Ensure an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible</li> <li>• Provide members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</li> </ul>

	<ul style="list-style-type: none"> <li>• Ensure there is consistency between specification stages (such as budgets) and post implementation reporting (for example financial statements)</li> </ul>
Robust internal control	<ul style="list-style-type: none"> <li>• Align the risk management strategy and policies on internal control with achieving objectives</li> <li>• Evaluate and monitor risk management and internal control on a regular basis</li> <li>• Ensure effective counter fraud and anti-corruption arrangements are in place</li> <li>• Ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor</li> <li>• Ensure an audit committee or equivalent group/ function, which is independent of the executive and accountable to the Council: <ul style="list-style-type: none"> <li>○ provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment</li> <li>○ that its recommendations are listened to and acted upon</li> </ul> </li> </ul>
Managing data	<ul style="list-style-type: none"> <li>• Ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data</li> <li>• Ensure effective arrangements are in place and operating effectively when sharing data with other bodies</li> <li>• Review and audit regularly the quality and accuracy of data used in decision making and performance monitoring</li> </ul>
Strong public financial management	<ul style="list-style-type: none"> <li>• Ensure financial management supports both long term achievement of outcomes and short term financial and operational performance</li> <li>• Ensure well developed financial management is integrated at all levels of planning and control including management of financial risks and controls</li> </ul>
<b>Principle 6 is evidenced by:</b>	
<ul style="list-style-type: none"> <li>• <a href="#">Corporate Plan</a></li> <li>• <a href="#">Overview and Scrutiny Committee</a></li> <li>• <a href="#">Standards Committee</a></li> <li>• <a href="#">Committee Terms of Reference, including Commercial Ventures Executive Sub-Committee in relation to commercial projects</a></li> <li>• <a href="#">Register of Interests</a></li> <li>• <a href="#">Commercial Governance Framework (Internal)</a></li> <li>• Register of Gifts and Hospitality (Internal)</li> </ul>	

- [Annual Governance Statement](#)
- [Risk Management Strategy](#)
- Medium Term Financial Plan, Annual Budget and Capital Investment Strategy
- [Annual Statement of Accounts](#)
- Treasury Management Strategy
- Quarterly Performance Reports to Executive, Audit and Overview and Scrutiny
- [Complaints Procedure](#)
- [Internal Audit Plan](#)
- [Anti-Fraud & Corruption Policy](#) (Internal)
- [Anti-Money Laundering Policy](#) (Internal)
- ICT Policies (Internal)
- Health and Safety Policy (Internal)
- Business Continuity Plans (Internal)

**Principle 7 - Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.**

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

<b>Supporting Principles</b>	<b>To achieve this, the Council will:</b>
Implementing good practice in transparency	<ul style="list-style-type: none"> <li>• Write and communicate reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensure that they are easy to access and interrogate</li> <li>• Strike a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand</li> </ul>
Implementing good practices in reporting	<ul style="list-style-type: none"> <li>• Report at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way</li> <li>• Ensure members and senior management own the results reported</li> </ul>

	<ul style="list-style-type: none"> <li>• Ensure robust arrangements for assessing the extent to which the principles contained in this framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)</li> <li>• Ensure that this framework is applied to jointly managed or shared service organisations as appropriate</li> <li>• Ensure the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations</li> </ul>
Assurance and effective accountability	<ul style="list-style-type: none"> <li>• Ensure that recommendations for corrective action made by external audit are acted upon</li> <li>• Ensure an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon</li> <li>• Welcome peer challenge, reviews and inspections from regulatory bodies and implementing recommendations</li> <li>• Gain assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement</li> <li>• Ensure that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met</li> </ul>
<b>Principle 7 is evidenced by:</b>	
<ul style="list-style-type: none"> <li>• <a href="#">Corporate Plan</a></li> <li>• <a href="#">Constitution</a></li> <li>• <a href="#">Publication of Committee Reports and Papers</a></li> <li>• <a href="#">Forthcoming Decisions List</a></li> <li>• <a href="#">Overview and Scrutiny Committee</a></li> <li>• <a href="#">Commercial Ventures Executive Sub-Committee</a></li> <li>• <a href="#">Annual Governance Statement</a></li> <li>• <a href="#">Complaints Procedure</a></li> <li>• Medium Term Financial Plan, Annual Budget and Capital Investment Strategy</li> <li>• <a href="#">Annual Statement of Accounts</a></li> <li>• <a href="#">Treasury Management Strategy</a></li> <li>• <a href="#">Internal Audit Plan</a></li> <li>• Quarterly Performance Reports to Executive, Audit and Overview and Scrutiny</li> <li>• <a href="#">Commercial Governance Framework (Internal)</a></li> </ul>	

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## Annex 2

### Code of Corporate Governance

#### Updates to the Code following review by Corporate Governance Group and the Governance Task Group

##### **Monitoring**

Altered text in order to reflect the need for Audit Committee to review the Code annually

##### **Principle 1**

Addition of hyperlink to the Nolan Principles

Update names of Whistle Blowing Policy, Anti-Fraud & Corruption Policy, Anti-Money Laundering Policy in evidence

##### **Principle 2**

Addition of Complaints to evidence

##### **Principle 3**

Addition of Commercial Strategy and Housing Delivery Strategy to evidence

##### **Principle 4**

Addition of Commercial Strategy and Housing Delivery Strategy to evidence

##### **Principle 5**

Amend text from Chief Executive to Head of Paid Services/Directors

Amend text relating to the Employee Engagement Strategy

##### **Principle 6**

Added text to refer to the Commercial Ventures Executive Sub-Committee in relation to commercial projects in evidence

Added Quarterly Performance Reports in evidence

Update names of Anti-Fraud & Corruption Policy and Anti-Money Laundering Policy in evidence

##### **Principle 7**

Added Commercial Ventures Executive Sub-Committee and Quarterly Performance Reports in evidence.

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# Reigate and Banstead Borough Council Audit Committee Work Programme

November 2021



Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
<b>15 March 2022</b>								
<i>Pat Main, Interim Head of Finance and Assets, Tony McGuinness, Interim Financial and Corporate Lead</i>	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	<b>Treasury Management Strategy 2022/23</b>  Treasury Management Strategy 2022/23		24 Mar 2022	7 Apr 2022	Open	KEY
<i>Luke Harvey, Project &amp; Performance Team Leader</i>	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	<b>Internal audit - Q3 2021/22 progress report</b>  To receive the Q3 2021/22 internal audit progress report.				Open	
<i>Luke Harvey, Project &amp; Performance Team Leader</i>	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	<b>Internal audit plan 2022/23-2024/25 and Charter 2022/23</b>  To approve the internal audit plan for 2022/23-2024/25 and Charter for 2022/23.				Open	
<i>Luke Harvey, Project &amp; Performance Team Leader</i>	Portfolio Holder for Corporate Policy and Resources	Head of Corporate Policy	<b>Strategic risks - 2022/23</b>  To consider the strategic risks for 2022/23		24 Mar 2022		Open	

Agenda Item 9

<i>Luke Harvey, Project &amp; Performance Team Leader</i>	Portfolio Holder for Corporate Policy and Resources	Head of Corporate Policy	<b>Risk management - Q3 2021/22</b>  To receive an update on risk management for Q3 2021/22.		24 Mar 2022		Open	
<i>Liane Dell, Democratic Services Officer</i>	Portfolio Holder for Corporate Policy and Resources	Head of Legal and Governance	<b>Audit Committee Annual Report 2021/22</b>  To consider and note the Audit Committee's Annual Report and forward work programme for 2022/23.				Open	
<b>Meeting Date TBC</b>								
<i>Pat Main, Interim Head of Finance and Assets</i>	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	<b>Final Annual Governance Statement 2020/21</b>  To consider the Final Annual Governance Statement 2020/21				Open	
<i>Pat Main, Interim Head of Finance and Assets</i>	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	<b>Statement of Accounts 2020/21</b>  To consider the Audited Statement of Accounts 2020/21.				Open	
<i>Pat Main, Interim Head of Finance and Assets</i>	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	<b>External Auditor Report (ISA 260) 2020/21</b>  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	

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