Agenda

Audit Committee

Tuesday, 15 March 2022 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	S. A. Kulka
J. Baker	R. Michalowski
M. S. Blacker	S. T. Walsh
J. Booton	Coyle
G. Buttironi	

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 - Head of Paid Service

For enquiries regarding this agenda;	
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Reigate & Banstead BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

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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 substitues in accordance with the Constitution.

3. **Declaration of Interest**

   To receive any declarations of interest.

4. **Risk management - Quarter 3 2021/22** (Pages 13 - 36)

   To note the Quarter 3 2021/22 update on risk management provided in the report and associated annexes and make any observations to the Executive.

5. **Strategic risks - 2022/23** (Pages 37 - 44)

   To note the identified strategic risks for 2022/23 as detailed in annex 1 and make any observations to the Executive.

6. **Internal audit - Quarter 3 2021/22 progress report** (Pages 45 - 64)

   I. That the Audit Committee note the Q3 2021/22 internal audit progress report available at annex 1; and,

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

7. **Internal audit plan 2022/23 and Charter 2022/23** (Pages 65 - 90)

   I. That the Audit Committee approve the internal audit plan for 2022/23 as set out in annex 1; and,

   II. That the Audit Committee approve the internal audit Charter for 2022/23 as set out in annex 2.

8. Treasury Management Strategy 2022/23 (Pages 91 - 144)

The Committee considers and provides feedback on the following which are to be finalised and submitted for approval by the Executive on 24 March 2022 and Council on 7 April 2022:

I. The Treasury Management Strategy Statement for 2022/23 as set out in this report; and

II. The Treasury Management Prudential Indicators for 2022/23 as set out in this report.

9. Audit Committee Annual Report 2021/22 and Work Programme 2022/23 (Pages 145 - 160)

I. That the Annual Report of the Audit Committee be noted and, subject to any changes agreed at this meeting, recommended to Council; and

II. That the Audit Committee's Forward Plan for 2022/23 be approved.

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

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 25 November 2021 at 7.30 pm.

Present: Councillors J. P. King (Chairman), J. Baker, J. Booton, G. Buttironi, S. A. Kulka, R. Coyle (Co-Opted Member) and A. King (Substitute).

Also present: Councillor Schofield.

24. MINUTES

The minutes from the meeting held on 28 September 2021 were **APPROVED**.

25. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence had been received from Councillors Blacker, Feeney and Walsh. An apology for absence had also been received from Councillor Michalowski, Councillor A King attended as his substitute.

26. DECLARATION OF INTEREST

There were none.

27. TREASURY MANAGEMENT MID-YEAR REPORT 2021/22

The Interim Head of Finance explained that this was the Half-Year Treasury Management Report which updated Members on the current borrowing and investment position, whilst amending prudential indicators and revising policies where necessary.

As requested by Members at the September Committee meeting, Annex 2 to the report included an updated version of the Treasury Management Outturn Report for 2020/21 with a completed version of table 10 at section 6 now that the required information has been received.

This report would be presented to the Executive in December 2021 and to Full Council in February 2022.

A member observed that when considering investment opportunities, the Council could seek out green investments. Members concurred that green investments should be considered alongside balancing the priority to secure a financial return for the benefit of residents.

Table 4 in the report (Total Treasury Investments) reported a forecast balance of £16,478,000 in March 2022, a reduction compared to the actual position in September 2021 of £50,553,000. The Interim Head of Finance explained that this reflected planned capital expenditure over coming months.

The Interim Head of Finance also explained that the forecast movement in company loan values (Table 5) between September 2021 and March 2022 was due to accrued interest.

With regard to Table 4 at pages 21 and Table 10 at page 48, the Interim Head of Finance agreed to provide a further analysis in a written response to explain how they reconciled. The accuracy of the text at paragraph 38 would also be confirmed. The authority's accounts were still being concluded and once the outturn figures were available the figures would align.

It was noted that the Council's investment in Pathway for Care was currently under review.

RESOLVED that:

(i) The Audit Committee notes the report;

(ii) The comments made would be fed back to the Executive; and

(iii) A written response would be sent to Members.

28. EXTERNAL AUDIT CONTRACT AGREEMENTS 2023 - 2023

Members were informed of the recommended approach for appointing the external auditor to the Council for the period from 1 April 2023 to 31 March 2028. The recommendation was to accept the invitation from Public Sector Audit Appointments (PSAA) Limited to participate in their nationwide tendering exercise. It was explained that if the Council was to attempt a bespoke procurement, the costs would be greater than using PSAA's services and there would be a high risk of not being able to appoint a suitable auditor ready for April 2023.

RESOLVED to RECOMMEND to Council that Council accepts the Public Sectors 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.

29. INTERNAL AUDIT - Q2 2021/22 PROGRESS REPORT

Natalie Jerams, Deputy Head of Southern Internal Audit Partnership (SIAP), gave the Committee an overview of the quarter 2 progress report on the internal audit plan, management actions and areas of concern. It was noted that all audits were currently on track for delivery to date.

The report contained two additional tables (Pg. 76-77) setting out some background to overdue high priority management actions. SIAP confirmed that they monitored and followed up all management actions through to completion.

It was confirmed that all actions relating to the review of income management at the Harlequin Theatre were now complete.

Two reviews that were concluded during the quarter that had received a 'limited' assurance opinion (Establishment Control and Environmental Health and Licencing); SIAP's report provided additional information and management's response.

Since the last committee meeting, two further reviews were concluded:

- Annual governance statement – substantial assurance
- Disabled facilities grant – reasonable assurance

One additional review had been added to the audit plan with regard to the 'Cultural Recovery Fund' Covid-19 grant assurance. The audit plan included provision for reviews relating to Covid-19; this review would be resourced from this allocation.

The Committee thanked SIAP for the inclusion of more detail on overdue high priority management actions and observed that it would be useful to also have this detail regarding low and medium rated actions as some had been overdue for some time. The Committee also wanted to be assured regarding with their ranking as low or medium management actions that have been outstanding for some time may warrant a higher priority. It was agreed that this would be considered.

RESOLVED that:

(i) The Audit Committee notes the Q2 2021/22 internal audit progress report available at annex 1; and

(ii) That the Council's Chief Finance Officer notes the comments made.

30. RISK MANAGEMENT - Q2 2021/22

The Committee was apprised that the report provided an update on risk management in Quarter 2 2021/22. No strategic risks were proposed for closure and no new risks were being recommended.

It was explained that only summary risk information had previously been provided to the Committee as the full risk registers were always available to members in the Modern.Gov library. However, having considered comments made at the previous meeting, the full risk registers were now appended to the papers, and some presentational changes had been made.

The suggestion of a stand-alone 'commercial activity' risk had been reflected upon and it was felt that financial sustainability (SR2) covered this risk. Commercial risks would be addressed in the Commercial Strategy Part 2 currently in development. In the quarter 3, all risks would be reviewed and updated for 2022/23, and as part of this consideration would be given as to whether it would be more appropriate to open a specific strategic risk regarding commercial investment and commercial projects (rather than incorporating within the broader 'financial sustainability' risk).

Members questioned the risk around parking receipts over the next couple of years. It was explained that the position shown was that at the end of quarter 2. The draft budget covered parking receipts in detail and the trajectory was smoothing. The current position reflected a £1.3 million loss next year; however, this may be revised within the final budget. There had been a change in behaviour, and this needed to be accounted for. There would be a strategy to consider alternative uses for some car parks and plans would be made accordingly.

Following a comment from a member, it was noted that climate change was a live issue that the Council was actively addressing but that inclusion of climate change as a strategic risk could be considered for 2022/23.

It was confirmed that the scoring (likelihood and impact) related to the residual risk –for example in relation to cyber security (SR7), it was confirmed to the Committee that taking into account the mitigation actions, negative impacts to the organisation from a cyber security attack was considered unlikely, but if they were to occur could be significant.

The Committee considered planning system reform (SR12) and it was noted that the downward trajectory of the scoring reflected the likelihood of impact within the short term (2021/22) and agreed that planning system reform would not be resolved in the short term.

A member felt that some of the terminology within the report could be enhanced and this would be considered by officers. The Risk Management Framework would be shared with the Committee.

RESOLVED that:

(i) The Committee note the Quarter 2 update on risk management provided in the report and associated annexes: and

(ii) The comments made would be fed back to the Executive.

31. UPDATE OF THE CODE OF CORPORATE GOVERNANCE

The Committee was informed that the report recommended updates to the Council's Code of Corporate Governance. Annex 1 to the report was the revised version. Annex 2 listed the proposed changes.

The updates were drafted in consultation with the Monitoring Officer, the Head of Finance and the Head of Legal and Governance and had been considered at meetings of the officer Corporate Governance Group and the Member Governance Task Group.

Overall, the changes were relatively minor, with the addition of new sources of evidence and amending some of the titles of Council policies.

The Audit Committee was responsible for approving any updates each year.

RESOLVED that:

(i) The Code of Corporate Governance be amended to reflect minor updates to the evidence for all six principles and;

(ii) The Committee to reviews the Code annually.

32. WORK PROGRAMME

The Clerk explained that the work programme set out 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.

RESOLVED that the report be noted.

33. ANY OTHER URGENT BUSINESS

There was none.

34. EXEMPT BUSINESS

RESOLVED that members of the Press and public be excluded from the meeting for part of agenda items 6 and 7 (Internal Audit Quarter 2 - 2021/22 progress report and Risk Management – Quarter 2 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 8.36 pm

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Reigate & Banstead
BOROUGH COUNCIL
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SIGNED OFF BY	Head of Corporate Policy
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TO	Audit Committee
DATE	Tuesday, 15 March 2022
EXECUTIVE MEMBER	Portfolio Holder for Corporate Policy and Resources

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards);

SUBJECT	Risk management - Q3 2021/22

RECOMMENDATIONS

That the Audit Committee:

(i) Note the Q3 2021/22 update on risk management provided in the report and associated annexes and make any observations to the Executive.

That the Executive:

(ii) Note the Q3 2021/22 update on risk management provided by the report and associated annexes.

REASONS FOR RECOMMENDATIONS

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

EXECUTIVE SUMMARY

Agenda Item 4

This report provides an update on risk management in Q3 2021/22. Additional detail is provided in the report as well as in 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 this responsibility includes arrangements for managing risk.
4. The Council's Code of Corporate Governance outlines these core governance principles; compliance with the code is reported each year via the Annual Governance Statement.

BACKGROUND

5. Reigate and 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 to long term ambitions and priorities of the Council as set out in the Corporate Plan and Medium-Term Financial Plan (MTFP).
8. Members of the Management Team and Executive Members have shared responsibility for strategic risks. It is the responsibility of the Executive to formally endorse the strategic risks for each financial year.
9. Operational risks are short term risks that are encountered in the course of the day-to-day delivery by services. However, if the 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. Heads of Service have responsibility for operational risks. The Audit Committee and Executive receive updates on any red rated operational risks as part of quarterly risk management reporting.
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
Q3 2021/22 risk management update 11. The full strategic risk register is available at annex 1 of this report. 12. In Q3 there were no new strategic risks identified and there were no strategic risks identified for closure. 13. In Q3 there was one RED rated operational risk, the detail of which is set out in the part 2 exempt annex. 14. The full risk registers, as well as the Council's risk management framework, are made available to all members via the ModernGov document library.
OPTIONS
15. The Audit Committee has two options: • Option 1: note this report and make any observations to the Executive • Option 2: note this report and make no observations to the Executive. 16. The Executive has one option: • Option 1: note this report.
LEGAL IMPLICATIONS
17. There are no legal implications arising from this report.
FINANCIAL IMPLICATIONS
18. Financial risks are taken into account when preparing the Medium-Term Financial Plan, Capital Investment Strategy, Revenue Budget and Capital Programme each year. 19. There are no additional financial implications arising from this report.
EQUALITIES IMPLICATIONS
20. There are no equalities implications arising from this report.
COMMUNICATION IMPLICATIONS
21. There are no communications implications arising from this report.
RISK MANAGEMENT CONSIDERATIONS
22. The Council's risk registers inform the development of the annual risk based internal audit plan. 23. The Council's approach to managing risk is a core component of the Code of Corporate Governance.
OTHER IMPLICATIONS

24. There are no other implications arising from this report.
CONSULTATION
25. The contents of this report have been considered by the Council’s Corporate Governance Group.
POLICY FRAMEWORK
26. The Council’s risk management strategy and methodology provides additional information on how the council manages risk
BACKGROUND PAPERS
None.

Risk management

Strategic risk register

Quarter 3 – October to December 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:

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

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:

RED	Where management should focus attention. Immediate actions should be identified and plans put in place to reduce risk as a priority.
AMBER	Where management should ensure that contingency plans are in place. These may require immediate action and will require monitoring for any changes in the risk or controls. These will be a key area of assurance focus
YELLOW	These should have basic mechanisms in place as part of the normal course of management.
GREEN	Where risk is minimal if does not demand specific attention but should be kept under review.

Risk status

Tolerate	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.
Transfer	Transfer all or part of the risk. For example, to insurance or to other agencies/contractors.
Treat	Proactive action taken to reduce: • The probability of the risk happening by Introducing control measures • The impact of the risk should it occur.
Close	This could involve changing an aspect of the activity or ceasing to provide the service/function/project and thus eliminate the risk.

RISK RATINGS

IMPACT						
Grave	5					
Significant	4		SR7	SR3 SR4 SR9	SR2	SR5
Moderate	3			SR1 SR10 SR12	SR6 SR8	
Minor	2					
Almost none	1					
		1	2	3	4	5
LIKELIHOOD		Rare	Unlikely	Possible	More than likely	Almost certain

<table>
<tr><th colspan="2">SR1</th><th colspan="3">Covid-19 pandemic</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">The Council will continue to respond to the Covid-19 pandemic in supporting residents, businesses as well as other partner public sector organisations.

The effects of the pandemic, coupled with the ongoing response, could result in significant disruption to the delivery of services and the achievement of corporate objectives.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Brunt</td></tr>
<tr><td>Officers</td><td colspan="3">Mari Roberts-Wood and Luci Mould</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">Ongoing planning for disruption caused by the pandemic, including maintaining organisational preparedness via emergency and business continuity planning as well as robust risk assessments.

Resumption of Covid-19 command and control processes and procedures if required.

Liaison with partners and the Surrey Local Resilience Forum.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">Operating within the confines of, and responding to, Covid-19 has now become ‘business as usual’ for the Council. Ongoing disruption is expected and continues to be proactively planned for.

The emergence of the Omicron variant during Q3 2021/22 resulted in the government invoking its Plan B measures to help prevent the NHS from coming under unsustainable pressure. These measures included asking people to work from home wherever possible. The Council was well prepared for this, and so despite the new variant the Council’s services have continued to operate as usual.

During 2021/22 several plans integral to the Council’s preparedness and response to the pandemic have been updated, including the: Pandemic Plan; Emergency Plan and Surge Testing Plan. Service business continuity plans continue to be reviewed and kept up to date as appropriate.

The Council continues to engage with partners in Surrey, including at the Local Resilience Forum and other districts and boroughs. Learning from partners continues to assist preparedness activities.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">Possible</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Moderate</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">27 January 2022</td></tr>
</table>

SR2	Financial sustainability		RED
Description	In the wake of the COVID-19 pandemic and resultant recession, the Council faces a period of unprecedented financial uncertainty. The most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes. If this substantial financial burden is not mitigated through direct Government support, then these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver against its Corporate Plan ambitions. The delivery of corporate plan objectives will similarly be jeopardised if the Council is unable to secure additional income streams. The ongoing financial settlement with the Government also remains uncertain. The Council is therefore increasingly reliant on income derived, and to be derived and generated, from investments, fees and charges and commercial activities – the ability to do so, however, may be further restricted by changes in legislation, regulations, and codes of practice. Commercial activity and investments are similarly not without risk.		
Owner	**Portfolio Holder**	Cllr Schofield	
	Officers	Pat Main	
Controls	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. The Medium-Term Financial Plan (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. The Financial Sustainability Plan is the mechanism used to identify the actions required to address Medium Term Financial Plan budget pressures and ensure they are delivered. The annual budget sets out the budget allocations for the current year and confirms officer accountability for ensuring that expenditure and income are managed within limits approved by Members. In-year budget monitoring reports confirm compliance with these limits and report any action required to manage budget variances. The Treasury Management Strategy helps ensure that investments achieve target returns within approved security and liquidity limits and that borrowing to fund the Capital Programme is affordable. Creation and implementation of the Council's commercial strategy.		
Mitigating actions/progress	The COVID-19 pandemic resulted in material new financial risks, both in the previous and current financial years and over the medium term. The main area of ongoing 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.		

<table>
<tr><th colspan="2">SR2</th><th colspan="3">Financial sustainability</th><th>RED</th></tr>
<tr><td colspan="2"></td><td colspan="4">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.

The Council’s Medium-Term Financial Plan, approved by the Executive in July 2021, sets out the forecast budget challenge over the coming five years and forms the basis for service and financial planning for 2022/23 onwards. Budget setting for 2022/23 is now complete and budget proposals are scheduled to be approved in February 2022.

The Council’s Capital Investment Strategy was approved by the Executive in July 2021. Capital Programme proposals for 2022/23 were scheduled to be approved in February 2022.

Last year the Council adopted Part 1 of its Commercial Strategy and adopted Part 2 in Q3 2021/22. The Commercial Strategy sets out the overarching direction and parameters for the Council’s commercial activity, including guiding principles and the categories of commercial activity that the Council will focus on.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>More than likely</td><td rowspan="2">Direction of travel</td><td rowspan="2" colspan="2">-</td></tr>
<tr><td>Impact</td><td>Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">31 January 2022</td></tr>
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<table>
<tr><th>SR3</th><th colspan="4">Local government reorganisation</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">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.

The uncertainty surrounding, and subsequent results of, any local government reorganisation could adversely affect the Council and the delivery of services for residents.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Brunt</td></tr>
<tr><td>Officers</td><td colspan="3">Mari Roberts-Wood</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">Close working with neighbouring and partner authorities to develop alternative proposals for the future of local government in Surrey.

Lobbying central government where appropriate and necessary.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">Earlier in the year the government confirmed that it will not be pursuing a mandatory, top-down reorganisation of local government.

A government White Paper on devolution and 'levelling up', expected in autumn 2021, is now expected in early 2022.

It is anticipated that the White Paper will include proposals for 'county deals', a bespoke devolution of powers to county councils. Earlier in the year 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.

The Council will continue to seek to proactively influence the debate and proposals on the future structure of local government within Surrey.

[Note: in February 2022 – and outside of the Q3 reporting period – the government published its White Paper on Levelling Up. The White Paper provides details on the government's objectives on Levelling Up as well as details of a new devolution framework. Some county areas have been invited by the government to submit a proposal for accessing county deals. Surrey was not one such area. The Council will consider the detail of the White Paper and respond accordingly.]</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">Possible</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">27 January 2022</td></tr>
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<table>
<tr><th>SR4</th><th colspan="3">Organisational capacity and culture</th><th>AMBER</th></tr>
<tr><td>Description</td><td colspan="4">The Council has adopted an ambitious Corporate Plan, supported by a capital investment, housing and Great People strategy.

The COVID-19 pandemic has changed the way the Council operates, the context within which it does so, and will similarly drastically change the organisational culture and ways of working.

The Council will continue to be ambitious and new ways of working will need to be embraced by both members and officers for objectives to be achieved. Key to this is ensuring that staff welfare and wellbeing is maintained, particularly in the challenging circumstances caused by the pandemic.

The failure to remain ambitious and adapt to the ongoing challenges of the pandemic will risk the delivery of corporate objectives.</td></tr>
<tr><td rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Lewanski</td></tr>
<tr><td>Officers</td><td colspan="3">Mari Roberts-Wood and Kate Brown</td></tr>
<tr><td>Controls</td><td colspan="4">The creation and implementation of an Organisational Development strategy.

Development of an embedded Workforce Planning approach for the Council, with service and financial planning to appropriately resource the Council’s staffing requirements.

Recruitment, training and development.

Ongoing consultation and engagement with staff.

Succession planning.</td></tr>
<tr><td>Mitigating actions/progress</td><td colspan="4">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.

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 taken forward by the Organisation Board.

A proposal for the future structure of the senior Management Team was presented to the Employment Committee in November 2021. The Committee accepted the report’s recommendations and implementation has commenced.

HR continue to proactively address staff wellbeing issues. A wider, strategic piece on staff welfare is continuing.

Staff are continuing to be encouraged to take annual leave, especially in teams where significant annual leave balances have accumulated during the pandemic.

HR continues to promote training and development opportunities for staff.</td></tr>
<tr><td rowspan="2">Score — Likelihood</td><td>Possible</td><td colspan="2" rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td></tr>
<tr><td>Status</td><td colspan="4">Treat</td></tr>
<tr><td>Last update</td><td colspan="4">24 January 2022</td></tr>
</table>

<table>
<tr><th colspan="2">SR5</th><th colspan="3">Economic prosperity</th><th>RED</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">A prosperous economy is essential for the wellbeing of the borough, creating employment and wealth that benefits local people and businesses. The COVID-19 pandemic has resulted in significant negative impacts upon the economy, which will continue to be felt for some time.

Prevailing economic conditions have a direct impact on the Council’s financial position and likewise impacts upon the demand for Council services, particularly in terms of income derived from fees and charges and the collection of monies owed. Challenging financial circumstances for residents may also increase their reliance on Council services.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllrs Humphreys and Schofield</td></tr>
<tr><td>Officers</td><td colspan="3">Luci Mould, Mari Roberts-Wood, Pat Main and Simon Bland.</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">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.

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.

Controls relating to the Council’s financial position are summarised in SR2.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">Following encouraging economic growth earlier in the year, Q3 saw the emergence of the Omicron variant of Covid-19. This, coupled with the introduction of the government’s Plan B measures to control it, had a dampening effect on the economy, with adverse effects on the retail, hospitality and leisure sectors. Following increasing inflation as recovery from the pandemic gathers pace, consumer prices are rising which could, in turn, result in further negative economic impacts. An example of the effects of the current negative outlook is that Council Tax and NNDR collection is under target, though in both instances a plan is in place to increase collection levels come the end of the financial year.

During Q3 two new support measures were introduced by the government: (i) the Omicron Hospitality and Leisure Grant and, (ii) the Additional Restrictions Grant. The Council administered these grants on behalf of the government to support eligible businesses.

The ‘R&B Works’ project continues to highlight local employment opportunities for residents.

Following the cessation of the government’s Jobs Retention Scheme (furlough) earlier in the year, the Council has not seen a notable increase in resident unemployment or demand for Council services. This will be closely monitored in the coming quarters, particularly in the context of the rising cost of living.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">Almost certain</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat/Tolerate</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">10 January 2022</td></tr>
</table>

SR6	Reliance on the welfare system		AMBER
Description	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.		
Owner	**Portfolio Holder**	Cllr Neame	
	Officers	Mari Roberts-Wood, Duane Kirkland, Justine Chatfield and Richard Robinson	
Controls	Increased staffing to manage legislative and welfare/benefit changes. Investing in IT packages, improving processes and staff training. The operation of council owned emergency accommodation. Applying for government grants to fund additional support services. Joint working and close collaboration with partners. Increased staff resource through redeployment if required.		
Mitigating actions/progress	Despite challenging economic circumstances, we have not seen a significant increase in residents approaching the Council for support. As the economy has reopened following the ending of Covid-19 restrictions, unemployment in the borough has decreased and the number of residents claiming Universal Credit has remained stable, albeit slightly up compared to before March 2020. Earlier in the year the temporary uplift to universal credit ended. The impacts arising from this 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. The Council continues to apply for government grants to support homeless residents, or those at risk of homelessness. In Q3 a further £140k has been provided by the Department for Levelling Up, Housing and Communities to support private renters and to accommodate and offer vaccinations for rough sleepers. Earlier in the year 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. The trends of increased complex homelessness cases and the increase in larger households placed into temporary emergency accommodation continues. However, the Council's Housing team is continuing to work successfully in preventing and relieving homelessness in the borough. 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 of this. 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 following the end of the Jobs Retention Scheme, Universal Credit uplift and the increase in the cost of living, there may be an increase in referrals. Additional resourcing has been identified to support the service if necessary. In addition to our own service, the Council also		

<table>
<tr><th colspan="2">SR6</th><th colspan="3">Reliance on the welfare system</th><th>AMBER</th></tr>
<tr><td colspan="2"></td><td colspan="4">facilitates closer collaboration between the various other money and debt advice services operating in the borough.

The Council continues to provide a scaled back Covid-19 welfare offer to residents. 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.

The Council continues to closely liaise with voluntary sector partners and to participate in the Surrey wide fuel poverty group, which will look to reduce incidents of and support residents at risk of fuel poverty. The Council administers grants to eligible householders to help them insulate their homes. The Council also provides grants to local voluntary sector organisations to provide utilities top-ups to residents living in fuel poverty.

The Council is supporting those affected by food poverty in the borough by facilitating food club initiatives. Food clubs support residents experiencing financial hardship with access to food and basic supplies. They can help provide a sustainable solution to food poverty and reduce the need to use emergency food banks.

Last year the Council launched the East Surrey Work Local Youth Hub. The Hub supports young residents in receipt of Universal Credit through providing access to a wide range of coaching, mentoring and soft skills development opportunities, tailored to meet their career aspirations. In Q3 the Council was notified by the Department for Work and Pensions that funding for another twelve months has been agreed in principle.

The Council continues to administer the government's household support fund. The fund supports vulnerable households across the country to help them with essentials as the country continues its recovery from the pandemic. Of the £500 million available nationally, approximately £750k has been made available for residents in Reigate and Banstead.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>More than likely</td><td rowspan="2">Direction of travel</td><td colspan="2" rowspan="2">↓</td></tr>
<tr><td>Impact</td><td>Moderate</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">25 January 2022</td></tr>
</table>

<table>
<tr><th colspan="2">SR7</th><th colspan="3">Cyber security</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">Organisations are at an ever-increasing risk of cyber-attack as the use of digital systems and technologies increases, particularly as home working has become the norm in response to the COVID-19 pandemic.

More sophisticated attacks and new variants of malicious software underscore the risk of corporate defences being compromised.

The effects of a cyber-attack are wide and varied though at their worst could result in data destruction and theft, as well as significant disruption to the delivery of services.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Lewanski</td></tr>
<tr><td>Officers</td><td colspan="3">Ann Slavin and Darren Wray</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">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.

Virus patterns are updated on a regular basis. Firewalls are placed at points on the network where external connections join the local network.

Creation and implementation of a new ICT strategy to further enhance the Council's network resilience and cyber security capabilities.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">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.

A proposal for significant enhancements to the Council's cyber security and general ICT capabilities has been approved by the officer Organisation Board and Corporate Governance Group. These improvements will be delivered through the Council's new ICT strategy, due to be presented to the Executive in March 2022 for approval. Assuming approval, implementation of the strategy will commence in Q1 2022/23.

In 2020/21 the Council's internal auditors reviewed the Council's cyber security capabilities. Implementation of two actions arising from the review are ongoing, the detail of which is reported to the Audit Committee as part of the quarterly internal audit progress report. It is expected, however, that one action relating to training will complete by the end of March 2022, with the other addressed as part of the future enhancements to the Council's ICT capabilities.

ICT continues to report data security matters to the Senior Information Risk Officer (SIRO).

Staff are continuing to be kept informed of any specific threats and are continually reminded to be vigilant when opening email or browsing websites.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">Unlikely</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">17 January 2022</td></tr>
</table>

<table>
<tr><th colspan="2">SR8</th><th colspan="3">Fraud</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">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.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Schofield</td></tr>
<tr><td>Officers</td><td colspan="3">Mari Roberts-Wood and Simon Rosser</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">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.

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.

Staff induction also includes fraud awareness training, as well as awareness of established policies and procedures.

Internal audit undertaking reviews into fraud risk areas.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">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.

A staff fraud awareness programme has been implemented, with training of the relevant teams taking place.

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 continues to be closely monitored and actioned where appropriate.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">More than likely</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Moderate</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">12 January 2022</td></tr>
</table>

<table>
<tr><th colspan="2">SR9</th><th colspan="3">Marketfield Way</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">Marketfield Way is a major place delivery project for the Council and is critical to shaping Redhill and ensuring the town’s continued vitality. It will also generate income which can be reinvested in Council services.

The ongoing economic fallout of the COVID-19 pandemic may have negative impacts on this development, particularly with regards to securing commercial tenants and its consequent financial viability.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Biggs</td></tr>
<tr><td>Officers</td><td colspan="3">Luci Mould and Peter Boarder</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">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.

The main build contract with Vinci reduces financial risk by fixing outstanding costs.

Regular meetings with the external development managers. The development managers provide a monthly report highlighting any risks and issues for management attention.

Rigorous change management processes have been put into place.

A flexibility-of-use methodology has been adopted for Marketfield Way’s commercial units.

Grant funding from the Local Enterprise Partnership.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">A cinema operator for the scheme has now been selected, with an agreement for lease being entered into at the close of Q3 2021/22. In Q3 the Council has also exchanged on an agreement for lease with a major retailer.

The Council has instructed a number of changes to the commercial units to enable flexibility in their letting, both now and in the future.

The construction industry is currently experiencing a materials shortage. The Council’s contractors are ensuring that materials are ordered well in advance and storing material both on and off site when required to avoid delays on site.

A study into the development’s market catchment has completed. In response, a planned rebranding of the development has commenced and is expected to conclude before the end of the financial year.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">Possible</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td colspan="2">Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">17 January 2022</td></tr>
</table>

<table>
<tr><th>SR10</th><th colspan="4">Gatwick Airport</th><th>AMBER</th></tr>
<tr><td rowspan="1">Description</td><td colspan="5">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.

As a key local employer the financial position of the airport will affect local employment, which may result in an increased number of residents seeking support from the Council.

Moreover, despite the negative economic outlook, Gatwick Airport have indicated that they will continue to pursue their previously announced expansion plans. An intensification or expansion of Gatwick has attendant local environmental and infrastructural risks.</td></tr>
<tr><td rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="4">Cllr Humphreys</td></tr>
<tr><td>Officers</td><td colspan="4">Luci Mould and Simon Bland</td></tr>
<tr><td>Controls</td><td colspan="5">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.

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.</td></tr>
<tr><td>Mitigating actions/progress</td><td colspan="5">The situation at Gatwick continues to be monitored.

Despite expecting passenger growth in Q3, the emergence of the Omicron variant resulted in a reintroduction of travel restrictions, with a knock-on impact on the airport’s operations and a decrease in flights.

Some British Airways (BA) long-haul flights have recommenced from Gatwick, though short-haul flights largely continue to operate from Heathrow. However, BA has announced plans to resume short-haul flights from Gatwick in 2022 under a new short-haul standalone business, similar to that which operates from London City Airport.

As Covid-19 travel restrictions are lifted it is expected that Gatwick will return to pre-pandemic levels of flight movements, thereby resulting in an increase in economic activity at the airport.

Gatwick continues to pursue its plans for expansion. During Q3 the Council responded to a consultation in advance of the airport’s application for a development consent order, which is expected to be made towards the end of 2022.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>Possible</td><td rowspan="2">Direction of travel</td><td colspan="2" rowspan="2">↓</td></tr>
<tr><td>Impact</td><td>Moderate</td></tr>
<tr><td>Status</td><td colspan="5">Tolerate/Treat</td></tr>
<tr><td>Last update</td><td colspan="5">10 January 2022</td></tr>
</table>

<table>
<tr><th colspan="2">SR11</th><th colspan="3">Reform of the planning system</th><th>CLOSED</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">Following the publication of the ‘Planning for the Future’ white paper, the government is consulting on changes to planning system.

Whilst the proposals are at an early stage, the current White Paper proposes increasing the threshold at which affordable housing is required from developments from 10 units to 40 or 50.

Given the large number of developments in the borough offering 11-40 homes, the increase in the threshold to 40 would reduce RBBC’s delivery of affordable housing by up to approximately 60%.

This change could therefore negatively impact delivery of affordable housing in the borough.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Biggs</td></tr>
<tr><td>Officers</td><td colspan="3">Luci Mould and Andrew Benson</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">Respond to the government’s consultation as it develops and as additional rounds of consultation are issued.

To continue to pursue the delivery of affordable housing as detailed in the Council’s housing strategy.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">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.

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.

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).</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td colspan="2">N/A</td><td rowspan="2">Direction of travel</td><td rowspan="2">N/A</td></tr>
<tr><td>Impact</td><td colspan="2">N/A</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Risk closed</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">16 July 2021</td></tr>
</table>

<table>
<tr><th>SR12</th><th colspan="3">Planning system reform</th><th>AMBER</th></tr>
<tr><td colspan="2">Description</td><td colspan="4">Following the publication of the ‘Planning for the Future’ White Paper, the government is considering changes to the planning system in England.

There is a risk that, if adopted in the form contained in the White Paper, these changes could result in a loss of local democratic control over planning matters.

Moreover, whilst the government have confirmed that they will not be increasing the threshold at which affordable housing is required from developments (which was included in the original consultation document), there is also a risk that the proposed changes could result in a reduction in the delivery of affordable housing in the borough.</td></tr>
<tr><td colspan="2" rowspan="2">Owner</td><td>Portfolio Holder</td><td colspan="3">Cllr Biggs</td></tr>
<tr><td>Officers</td><td colspan="3">Luci Mould and Andrew Benson</td></tr>
<tr><td colspan="2">Controls</td><td colspan="4">Respond to the government’s consultation as it develops and as additional rounds of consultation are issued.

To continue to pursue the delivery of affordable housing as detailed in the Council’s housing strategy.</td></tr>
<tr><td colspan="2">Mitigating actions/progress</td><td colspan="4">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 proposals, principally regarding the potential loss of affordable housing in the borough.

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.

As of the end of Q3 2021/22 there has been no further formal government announcement on the proposals for reforming the planning system.</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>Possible</td><td rowspan="2">Direction of travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td>Moderate</td></tr>
<tr><td colspan="2">Status</td><td colspan="4">Treat</td></tr>
<tr><td colspan="2">Last update</td><td colspan="4">28 January 2022</td></tr>
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Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

SIGNED OFF BY	Head of Corporate Policy
AUTHOR	Luke Harvey, Project & Performance Team Leader
TELEPHONE	Tel: 01737 276519
EMAIL	Luke.Harvey@reigate-banstead.gov.uk
TO	Audit Committee
DATE	Tuesday, 15 March 2022
EXECUTIVE MEMBER	Portfolio Holder for Corporate Policy and Resources

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards);

SUBJECT	Strategic risks - 2022/23

RECOMMENDATIONS

That the Audit Committee:

(i) Note the identified strategic risks for 2022/23 as detailed in annex 1 and make any observations to the Executive.

That the Executive:

(ii) Approve the strategic risks for 2022/23 as detailed in annex 1.

REASONS FOR RECOMMENDATIONS

For appropriate risk management arrangements to be in place for 2022/23.

EXECUTIVE SUMMARY

This report identifies the Council's strategic risks for the 2022/23 financial year.

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

STATUTORY POWERS

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

BACKGROUND

5. Reigate and 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. 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 Medium Term Financial Plan (MTFP), and its ability to deliver against those.
7. Members of the Management Team and Executive Members have shared responsibility for strategic risks.
8. The Audit Committee's constitutional responsibilities regarding risk management require it to receive regular updates on the Council's risk management arrangements, including the identification of the Council's strategic risks for each financial year.
9. It is the responsibility of the Executive to formally endorse the strategic risks for each financial year.

KEY INFORMATION

Strategic risks 2022/23

10. The strategic risks for 2022/23 are available at annex 1.
11. The risks have been reviewed and updated to reflect the anticipated position as of 1 April 2022.
12. The key differences from the 2021/22 strategic risk register that are being recommended are as follows:
    - That the 2021/22 risk on 'Marketfield Way' (current risk reference SR9) is not carried over to 2022/23 due to good progress being made on site and in securing lettings, leaving the residual risk to be managed under business as usual. It is expected that this risk will be formally closed in Q4 reporting.
    - That the 2021/22 risk on 'Reliance on the welfare system' (current risk reference SR6) be combined with the 'Economic Prosperity) risk (current risk reference SR5) and therefore is not carried over to 2022/23. This is due to the close alignment with the risk on economic prosperity, which already incorporates the impact of prevailing economic conditions on residents. Subject to this

recommendation being agreed it is expected that the 'Reliance on the welfare system' risk will be formally closed in Q4 reporting.

- Updates to the risk on 'Local government reorganisation' (current risk reference SR3) to make reference to the government's recently published White Paper on Levelling Up.
- Updates to the 'Cyber security' risk (current risk reference SR7) making it broader in scope, factoring in general network resilience and capacity in addition to cyber security.
- Amendments to the 2021/22 'Gatwick Airport' (current risk reference SR10) risk to focus solely on the airport's expansion/intensification (rather than the impact of Covid on airport operations and local employment).
- New strategic risks on:
  i. Commercial investment (SR3 at annex 1).
  ii. 'Cost pressures affecting the viability of Council developments' (SR6 at annex 1).
  iii. Climate change (SR12 at annex 1).

13. Any new strategic risks identified as part of Q4 2021/22 reporting will also transfer over to the risk register for 2022/23.

OPTIONS

14. The Audit Committee has two options:
    - Option 1: note the strategic risks for 2022/23 and make no observations to the Executive
    - Option 2: note the strategic risks for 2022/23 and make any observations to the Executive.
15. The Executive has two options:
    - Option 1: approve the strategic risks for 2022/23. This is the recommended option.
    - Option 2: do not approve the strategic risks for 2022/23. This is not the recommended option as it will result in the Council not having a strategic risk register in place for the start of the 2022/23 financial year.

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

17. Financial risks are taken into account when preparing the Medium Term Financial Plan, Capital Investment Strategy, Revenue Budget and Capital Programme each year.
18. There are no additional financial implications arising from this report.

EQUALITIES IMPLICATIONS
19. There are no equalities implications arising from this report.
COMMUNICATION IMPLICATIONS
20. There are no communications implications arising from this report.
RISK MANAGEMENT CONSIDERATIONS
21. The Council's risk registers inform the development of the annual risk based internal audit plan. 22. The Council's approach to managing risk is a core component of the Code of Corporate Governance.
OTHER IMPLICATIONS
23. There are no other implications arising from this report.
CONSULTATION
24. The contents of this report have been considered by the Council's Corporate Governance Group.
POLICY FRAMEWORK
25. The Council's risk management strategy and methodology provides additional information on how the Council manages risk.
BACKGROUND PAPERS
None.

Annex 1 – Strategic risks 2022/23

Ref.	Description	Portfolio Holder
SR1	**Covid-19 pandemic** The Council will continue to respond to the Covid-19 pandemic in supporting residents, businesses as well as partner voluntary and public sector organisations. However, the effects of, and the ongoing response to, the pandemic could result in significant disruption to the delivery of services and the wider achievement of corporate objectives.	Cllr Brunt
SR2	**Financial sustainability** The effects of the Covid-19 pandemic, coupled with current adverse macroeconomic conditions and the wider local government funding context, have created conditions of unprecedented financial uncertainty and challenge for the Council. The Council is therefore increasingly reliant on generating additional income and identifying savings and efficiencies from existing budgets. If not mitigated, these financial challenges risk an adverse impact on the Council's ability to deliver its Corporate Plan objectives.	Cllr Schofield
SR3	**Commercial investment** The generation of income from commercial investment is key to the Council's financial sustainability. Following several high-profile commercial investment failures by local authorities, the ability to invest for a commercial purpose is being further restricted by changes in legislation, regulations and codes of practice. Moreover, investing for commercial purposes – either in assets or in trading services – is not without risk due to market fluctuations and factors outside of the Council's control. The risks associated with commercial investment range from the non-achievement of budgeted income to significant capital and revenue losses, as well as governance, legal and reputational issues.	Cllrs Archer and Schofield
SR4	**Economic prosperity** A prosperous economy is essential for the wellbeing of the borough, creating employment and wealth that benefits local people and businesses. The Covid-19 pandemic has resulted in significant negative impacts upon the economy – including on sectors particularly impacted by restrictions – the effects of these will continue to be felt for some time. Prevailing economic conditions have a direct impact on the Council's financial position and likewise impacts upon the demand for Council services, particularly in terms of income derived from fees and charges and the collection of monies owed. Challenging financial circumstances for residents may also increase their reliance on Council services which could result in cost pressures on the Council. The risk of the latter is exacerbated by household budgets being stretched by current high levels of inflation and rising consumer prices.	Cllrs Humphreys, Neame, Ashford and Sachdeva
SR5	**Organisational capacity and culture** The Covid-19 pandemic has had a significant impact on the Council, with additional demands and challenges arising alongside the need to continue to deliver on corporate objectives. The pandemic has also drastically changed the way the Council operates, the context within which it does so, with a resultant shift in the organisational culture and ways of working.	Cllr Lewanski

Ref.	Description	Portfolio Holder
	As we increasingly move into recovery, these factors underscore the importance of the Council prioritising its activities and being sustainably and efficiently resourced to meet the challenges ahead. In this new context, the embedding of a robust and resilient organisational culture that successfully supports officers and members and makes the Council an attractive place to work is similarly key. The failure to do will risk the delivery of the Council's objectives.	
SR6	**Cost pressures affecting the viability of Council developments** The UK construction sector has seen an increase in building material and labour costs arising from global supply chain disruption and inflationary pressures. This disruption and increase in costs may impact the Council's ability to deliver economically viable development projects. The effects of this are multifaceted but could result in negative financial implications as well as jeopardising the delivery of strategic corporate objectives.	Cllr Biggs
SR7	**Local government reorganisation, devolution and Levelling Up** 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 and 'Levelling Up' agenda. The uncertainty surrounding, and subsequent results of, any local government reorganisation could adversely affect the Council and the delivery of services for residents.	Cllr Brunt
SR8	**ICT network capacity and resilience** The Covid-19 pandemic has sparked a significant shift in the way that the Council works, with increasing demands placed on technology and the underlying supporting ICT infrastructure. As the reliance and demands placed upon technology continues to increase, there is a risk of significant disruption to service delivery in the event of network disruption and/or outage, particularly following a cyber-attack. It is therefore imperative that the Council continues to invest in robust systems, infrastructure, network security and disaster recovery capabilities to manage this risk and maintain the delivery of services.	Cllr Lewanski
SR9	**Fraud** Due to the wide range of activities undertaken by the Council, there is a risk of fraud being committed. The risk of the latter is exacerbated by the new areas of activity as part of the Council's ongoing response to the Covid-19 pandemic.	Cllr Schofield
SR10	**Gatwick Airport** Despite the impact of the Covid-19 pandemic on international travel, Gatwick Airport is continuing to pursue its plans for expansion. Whilst the airport is a key local employer and its operations and supply chains have a significant bearing on the borough's economy, its expansion risks local environmental and infrastructural issues if not appropriately planned and managed.	Cllr Biggs
SR11	**Planning system reform** The government is considering changes to the planning system in England. There is a risk that, if adopted in the form contained in the consultation White Paper, these changes could result in a loss of local democratic control over planning matters. Although the government have confirmed that they will not be increasing the threshold at which affordable housing is required from developments (which was	Cllr Biggs

Ref.	Description	Portfolio Holder
	included in a past consultation document), there is a risk that the other proposed changes, if adopted into national policy, could result in a reduction in the delivery of affordable housing in the borough.	
SR12	**Climate change** It is widely recognised that the Earth's climate is changing, with this forecast to result in more extreme weather. This could have negative impacts, including on the built and natural environment, with vulnerable residents likely to be most severely impacted. In response, the Council may encounter difficulties in delivering services and may similarly have additional demands placed upon it, particularly as climate change adaptation and mitigation becomes increasingly necessary.	Cllr Lewanski

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Signed off by	Interim Head of Finance
Author	Luke Harvey, Project & Performance Team Leader
Telephone	Tel: 01737 276519
Email	Luke.Harvey@reigate-banstead.gov.uk
To	Audit Committee
Date	Tuesday, 15 March 2022

Reigate & Banstead
BOROUGH COUNCIL
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Key Decision Required	N
Wards Affected	(All Wards);

Subject	Internal audit - Q3 2021/22 progress report

Recommendations

(i) That the Audit Committee note the Q3 2021/22 internal audit progress report available at annex 1; and,

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

Reasons for Recommendations

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

Executive Summary

This report provides an update on the delivery of the 2022/23 internal audit plan as of the end of Q3 2021/22.

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

Statutory Powers

1. The requirement of an internal audit function in local government is detailed within the Accounts and Audit (England) regulations (2015), which state that authorities must: 'undertake an effective internal audit to evaluate the effectiveness of [their] 45 57 Agenda Item 6 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 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'.
6. 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.
7. 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.
8. 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.
9. 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 throughout the year.
10. Under the Council's Constitution the Committee is responsible for reviewing internal audit progress reports and monitoring delivery of the annual audit plan.
11. 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 and update on the delivery of the annual audit plan;
    - Summarises internal audit performance, including assurance opinions gives; and,
    - Summarises any adjustments made to the audit plan.

Key Information

12. 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.
13. SIAP's assurance opinions are categorised as follows:

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

Q3 2021/22 progress update

14. Section 3 of the progress report available at annex 1 details the progress in delivering the 2021/22 internal audit plan, whilst section 7 provides an overview of the work programme for the year.
15. The quarterly report also includes a summary of key findings from any reviews that conclude with a 'limited' or 'no' assurance opinion. In Q3 no reviews concluded with a 'limited' or 'no' assurance opinion.
16. Full copies of internal audit reports are made available to all members via the ModGov document library.
17. At the end of Q3 the following reviews have concluded:

Review	Opinion
Information Governance	Reasonable
Annual Governance Statement	Substantial

IT Governance	Reasonable
Virtualisation (networking and communications)	Reasonable
Accounts Receivable and Debt Management	Substantial
Harlequin Centre – Income, Banking and Reconciliation	Limited
Disabled Facilities Grant	Reasonable
Compliance and Enforcement Grant (Covid-19)	Grant certification
Local Government Compensation Scheme (Covid-19)	Grant certification
Cultural Recovery Fund (Covid-19)	Grant certification

Management actions

18. Section 4 of the report at annex 1 provides a summary of overdue management actions. Following feedback from the Audit Committee, additional information on overdue actions is also provided in SIAP's report, both in annex 1 and in the Part 2 exempt annex 2.
19. Outstanding management actions will continue to be reported to the Audit Committee until their full implementation.

Adjustments to the 2021/22 audit plan

20. Section 8 of the report at annex 1 details the amendments made to the audit plan during the year.

Options

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

Legal Implications

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

Financial Implications

23. There are no financial implications arising from this report.

Equalities Implications

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

Communication Implications

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

Risk Management Considerations

26. An effective internal audit function is an important part of effectively managing risk.
27. The Council's strategic and operational risk registers were utilised in the development of the annual internal audit plan.

Other Implications

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

Consultation

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

Policy Framework

30. Internal audit makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all Corporate Plan Priority areas.

Background Powers

None.

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Internal Audit Progress Report 2021/22

February 2022 (Q3)

Reigate & Banstead Borough Council

Contents:

1. Role of Internal Audit

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

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

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

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

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

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

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

2. Purpose of report

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

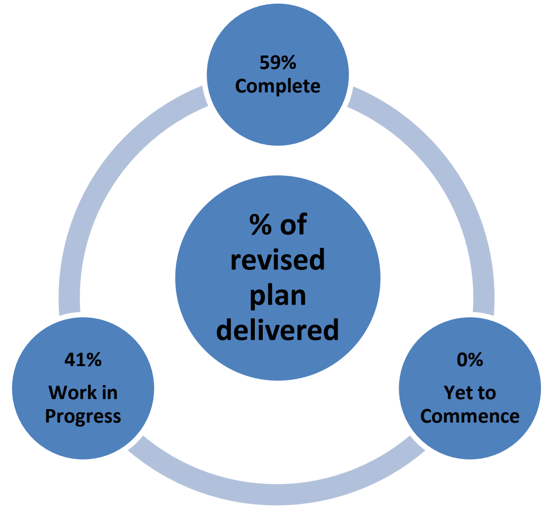
- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

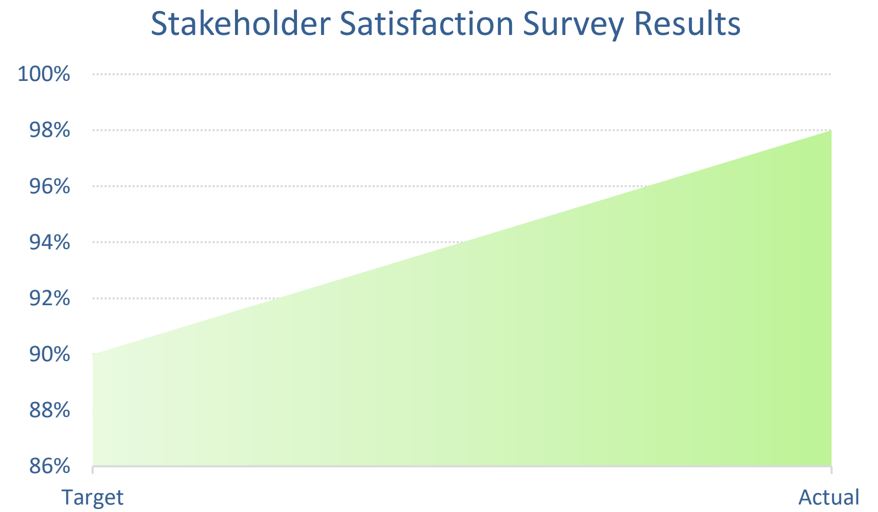
Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as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

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

** Some reports listed within this progress report (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to adoption of the CIPFA standard definitions, reference is provided at Annex 3*

3. Performance dashboard





Compliance with Public Sector Internal Audit Standards

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

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

4. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Actions*	Not Yet Due	Complete	Overdue		
							L	M	H
Human Resources and Organisational Development	03.10.19	HofOD	Adequate	7(0)	0(0)	6(0)	1		
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)			
Cyber Security	04.02.21	HofIT	Reasonable	7(4)	0(0)	5(2)			2
Fleet Management	06.04.21	HofNO	Limited	16(3)	0(0)	15(3)		1	
Procurement	05.05.21	HofF	Limited	8(0)	0(0)	1(0)		7	
IT Disaster Recovery	27.05.21	HofIT	Limited	8(6)	5(5)	1(1)		2	
Environmental Health & Licensing	25.10.21	HofNO	Limited	13(1)	1(0)	10(1)	1	1	
Information Governance	06.12.21	HofIT	Reasonable	3(0)	3(0)	0(0)			
IT Governance – Software Licensing	16.02.22	HofIT	Reasonable	2(1)	2(1)	0(0)			
IT Virtualisation	16.02.22	HofIT	Reasonable	5(4)	4(3)	1(1)			
Total				**78(21)**	**17(9)**	**45(10)**	**2**	**12**	**2**

***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 no new final reports published concluding a "Limited" or "No" assurance opinion since the last progress report in November 2021.

6. Planning & Resourcing

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

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

7. Rolling Work Programme 2021/22

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
2020/21 Reviews								
HR - Establishment Controls	HofF	✓	✓	✓	✓	✓	**Limited**	
Environmental Health & Licensing	HofNO	✓	✓	✓	✓	✓	**Limited**	
2021/22 Reviews								
Corporate								
Financial Resilience	HofF	✓						
Governance								
Contract Management	HofL&G	✓	✓	✓				
HR - Absence Management	HofOD	✓	✓	✓	✓			
Information Governance	HofIT	✓	✓	✓	✓	✓	**Reasonable**	
Annual Governance Statement	HofF	✓	✓	✓	✓	✓	**Substantial**	
Capital Programme	HofF	✓	✓	✓				

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
IT								
IT Governance	HofIT	✓	✓	✓	✓	✓	**Reasonable**	
Virtualisation (Networking & Communications)	HofIT	✓	✓	✓	✓	✓	**Reasonable**	
Core Financial Reviews								
Accounts Payable	HofF	✓	✓	✓				Close of audit meeting held on 21/2/2022. Report pending
Accounts Receivable & Debt Management	HofF	✓	✓	✓	✓	✓	**Substantial**	
Harlequin Centre – Income, Banking & Reconciliation	HofF	✓	✓	✓	✓	✓	**Limited**	
Compliance & Enforcement Grant	HofF	✓	✓	✓	n/a	✓	**n/a**	Grant certification
Local Government Compensation Scheme	HofF	✓	✓	✓	✓	✓	**n/a**	Grant certification
Cultural Recovery Fund	HofF	✓	✓	✓	n/a	✓	**n/a**	Grant certification
Organisation								
Property Management & Maintenance	HofF	✓	✓	✓	✓			Additional evidence provided to SIAP
Place								
Parking & Enforcement	HofNO	✓						
Disabled Facility Grants	HofNO	✓	✓	✓	✓	✓	**Reasonable**	

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 fand 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 fand will make use of an element of the agreed allowance and has consequently been added into the plan.
Removed from the plan	**Reason**
Transformation	To be incorporated in a wider review of Savings Realisation during 2022/23.
Payment Card Industry Data Security Standard	Defer until 2022/23 to take account of system changes due to be implemented and therefore look to provide assurance post implementation.

Annex 1

Overdue 'High Priority' Management Actions

Cyber Security – Reasonable Assurance

Observation: Please see separate report.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Please see separate report.			

Annex 2

Overdue 'Low & 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	TBC
Council Tax	05.02.2020	Adequate	Medium	01.04.2020	31.03.2022
Fleet Management	06.04.2021	Limited	Medium	31.12.2021	31.03.2022
Procurement	05.05.2021	Limited	Medium	31.12.2021	30.06.2022
			Medium	31.12.2021	30.06.2022
			Medium	31.12.2021	30.06.2022
			Medium	31.12.2021	30.06.2022
			Medium	31.12.2021	30.06.2022
			Medium	31.12.2021	30.06.2022
			Medium	31.12.2021	30.06.2022
IT Disaster Recovery	27.05.2021	Limited	Medium	31.12.2021	31.03.2022
			Medium	31.12.2021	31.03.2022
Environmental Health & Licensing	25.10.2021	Limited	Medium	31.01.2022	30.04.2022
			Low	31.12.2021	31.03.2022

Annex 3

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

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

Adequate Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.

Limited Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.

No Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

Agenda Item 7

Reigate & Banstead
BOROUGH COUNCIL
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Signed off by	Interim Head of Finance
Author	Luke Harvey, Project & Performance Team Leader
Telephone	Tel: 01737 276519
Email	Luke.Harvey@reigate-banstead.gov.uk
To	Audit Committee
Date	Tuesday, 15 March 2022

Key Decision Required	N
Wards Affected	(All Wards);

Subject	Internal audit plan and Charter 2022/23

Recommendations

(i) That the Audit Committee approve the internal audit plan for 2022/23 as set out in annex 1; and,

(ii) That the Audit Committee approve the internal audit Charter for 2022/23 as set out in annex 2.

Reasons for Recommendations

The Council has a statutory obligation to undertake an adequate and effective internal audit function. The approval of the audit plan and Charter is integral to this.

Executive Summary

The Audit Committee is responsible for agreeing the Council's internal audit plan and Charter. The audit plan and Charter (attached as annex 1 and 2 respectively) will provide independent and objective assurance that the Council's systems and processes are appropriate, operating effectively and provide sufficient control for the purposes of risk management, internal control and governance.

The Committee has the authority to approve the above recommendations.

Statutory Powers

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

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

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

Background

4. The Council's internal auditors are the Southern Internal Audit Partnership (SIAP). The Partnership is hosted by Hampshire County Council and is comprised of a number of local authorities and other public sector organisations.
5. A professional, independent and objective internal audit service is a key element of ensuring good corporate governance
6. The Public Sector Internal Audit Standards 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. Key to doing this is the setting of an annual risk based internal audit plan.
10. Under the Council's constitution the Audit Committee has responsibility for approving the Council's internal audit plan and Charter, as well as receiving regular progress reports on the plan's delivery.
11. The Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance of the role of the Audit Committee in Local Government provides further background and context to this requirement.

Key Information

The internal audit plan and Charter

12. The Public Sector Internal Audit Standards state that a risk-based internal audit plan should be established on an annual basis in order to determine the priorities of internal audit activity. The plan for 2022/23 is provided at annex 1.
13. In previous years the Committee (and O&S before it) has approved a rolling three-year audit plan. However, given the significant shift in the Council's risk profile

following the Covid-19 pandemic, the internal auditors feel it most appropriate to now present an annual plan instead of a rolling three-year plan.

14. The audit plan provides the mechanism through which the Council's internal auditors are able to ensure the most appropriate use of resources. The eventual culmination of the work as detailed by the plan is a clear statement of assurance on risk management, internal control and governance arrangements, expressed in an annual opinion of the Chief Internal Auditor.
15. The Chief Internal Auditor holds overall responsibility for the delivery of the plan.
16. The audit plan has been developed in consultation with the Council's senior management and with due regard to the Council's strategies, objectives and risks.
17. The plan is kept under constant review in order to ensure that it continues to remain relevant to the Council's risk profile. Any subsequent revisions to the plan are reported to the Committee through the quarterly progress reports.
18. The Charter – updated annually – formally defines the purpose, authority and responsibility of internal audit.

Options

19. The Committee has two options:
    - Option 1: approve the internal audit plan and Charter for 2022/23 as set out in annex 1 and 2 respectively. This is the recommended option as it will allow the swift commencement of the work programme for 2022/23.
    - Option 2: defer approval. This is not the recommended option as it will cause delay and may prove injurious to SIAP's ability to deliver the 2022/23 plan to schedule.

Legal Implications

20. The adoption of the internal audit plan and Charter will fulfil the Council's statutory duty to maintain an independent and effective internal audit function.
21. An effective internal audit function supports good governance which, in turn, reduces the risk of the Council being subject to successful legal challenge.

Financial Implications

22. The cost of funding the Audit Plan is covered within the Council's revenue budget.
23. The cost of any additional work – including, for instance, ad-hoc consultancy – that is not provided for within the audit plan will be funded from the service area that requires the additional support.

Equalities Implications

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

Communication Implications

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

Risk Management Considerations

26. An effective internal audit function is an important part of risk management.
27. The Council's strategic and operational risk registers have influenced the development of the audit plan.

Other Implications

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

Consultation

29. The plan and Charter have been developed alongside the Council's Corporate Governance Group, Heads of Service and Management Team.

Policy Framework

30. 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 Plan

2022/23

Reigate & Banstead Borough Council

Contents

Introduction

The role of internal audit is that of 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 organisation’s objectives.

The aim of internal audit’s work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council’s objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the Senior Management Team and Audit Sponsors, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership’s continued contact and liaison with those responsible for the governance of the Council.

Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Natalie Jerams, Deputy Head of Southern Internal Audit Partnership, supported by Joanne Barrett, Audit Manager.

Conformance with internal auditing standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020, the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

In considering all sources of evidence the external assessment team concluded:

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> *'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.'*

Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

Reigate & Banstead 2025 - 5 Year Plan

Reigate & Banstead Borough Council have adopted a 5-year plan for the 2020-25 period. The plan sets out the Council's priorities and explains how they will focus resources and deliver services to those living, working and spending time in the borough. The plan is based around a vision for the borough, with priorities set around three key themes.

Vision:

To be recognised by our residents, businesses and partners as a great Council. This means: delivering quality services and support; providing value for money; making the borough a great place to live, work in, do business and visit; being proactive about tackling climate change and reducing our environmental impact; and ; being flexible and sustainable, responding to the needs and demands of our borough, residents and businesses.

Commitments:

People

Housing: Secure the delivery of homes that can be afforded by local people and which provide a wider choice of tenure, type and size.

Communities and community safety: Work with partners to create strong, safe and welcoming communities.

Vulnerable residents: Provide targeted and proactive support for our most vulnerable residents.

Leisure and wellbeing: Provide leisure, cultural and wellbeing services that are accessible to, and meet the needs of, communities and visitors.

Place

Towns and villages: With our partners, invest in our town and village centres, so they continue to be places where people choose to live, work, do business and visit.

Economic prosperity: Drive the continued economic prosperity of the borough, facilitate improved business infrastructure, and confirm the borough's reputation as a great place to do business.

Shaping our places: Ensure new development is properly planned, sustainable, and benefits the borough's communities and the wider area.

Clean and green spaces: Provide high quality neighbourhood services to ensure that the borough continues to be clean and attractive and local people have access to the services and facilities they need.

Environmental sustainability: Reduce our own environmental impact, support local residents and businesses to do the same, and make sure our activities increase the borough's resilience to the effects of climate change.

Organisation

Financial sustainability: Be a financially self-sustaining Council. Funding our services: Generate additional income and build our financial resilience, in order to sustain services, through responsible and sustainable commercial activities.

Operational assets: Ensure that our operational assets (things like our estate, equipment, IT and vehicles) are fit for purpose.

Skills and great people: Ensure the Council (councillors and officers) has the right skills to deliver this plan.

Council's Strategic Risks

The strategic risks assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives. We will monitor the strategic risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape.

Ref	Risk Description
SR1	**Covid-19 pandemic -** The Council will continue to respond to the Covid-19 pandemic in supporting residents, businesses as well as partner voluntary and public sector organisations. However, the effects of, and the ongoing response to, the pandemic could result in significant disruption to the delivery of services and the wider achievement of corporate objectives.
SR2	**Financial sustainability -** The effects of the Covid-19 pandemic, coupled with current adverse macroeconomic conditions and the wider local government funding context, have created conditions of unprecedented financial uncertainty and challenge for the Council. The Council is therefore increasingly reliant on generating additional income and identifying savings and efficiencies from existing budgets. If not mitigated, these financial challenges risk an adverse impact on the Council's ability to deliver its Corporate Plan objectives.
SR3	**Commercial investment -** The generation of income from commercial investment is key to the Council's financial sustainability. Following several high-profile commercial investment failures by local authorities, the ability to invest for a commercial purpose is being further restricted by changes in legislation, regulations and codes of practice. Moreover, investing for commercial purposes – either in assets or in trading services – is not without risk due to market fluctuations and factors outside of the Council's control. The risks associated with commercial investment range from the non-achievement of budgeted income to significant capital and revenue losses, as well as governance, legal and reputational issues.
SR4	**Economic prosperity -** A prosperous economy is essential for the wellbeing of the borough, creating employment and wealth that benefits local people and businesses. The Covid-19 pandemic has resulted in significant negative impacts upon the economy – including on sectors particularly impacted by restrictions – the effects of these will continue to be felt for some time. Prevailing economic conditions have a direct impact on the Council's financial position and likewise impacts upon the demand for Council services, particularly in terms of income derived from fees and charges and the collection of monies owed. Challenging financial circumstances for residents may also increase their reliance on Council services which could result in cost pressures on the Council. The risk of the latter is exacerbated by household budgets being stretched by current high levels of inflation and rising consumer prices.
SR5	**Organisational capacity and culture -** The Covid-19 pandemic has had a significant impact on the Council, with additional demands and challenges arising alongside the need to continue to deliver on corporate objectives. The pandemic has also drastically changed the way the Council operates, the context within which it does so, with a resultant shift in the organisational culture and ways of working. As we increasingly move into recovery, these factors underscore the importance of the Council prioritising its activities and being sustainably and efficiently resourced to meet the challenges ahead. In this new context, the embedding of a robust and resilient organisational culture that successfully supports officers and members and makes the Council an attractive place to work is similarly key. The failure to do will risk the delivery of the Council's objectives.
SR6	**Cost pressures affecting the viability of Council developments -** The UK construction sector has seen an increase in building material and labour costs arising from global supply chain disruption and inflationary pressures. This disruption and increase in costs may impact the Council's ability to deliver economically viable development projects. The effects of this are multifaceted but could result in negative financial implications as well as jeopardising the delivery of strategic corporate objectives.

Ref	Risk Description
SR7	**Local government reorganisation, devolution and Levelling Up -** 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 and 'Levelling Up' agenda. The uncertainty surrounding, and subsequent results of, any local government reorganisation could adversely affect the Council and the delivery of services for residents.
SR8	**ICT network capacity and resilience -** The Covid-19 pandemic has sparked a significant shift in the way that the Council works, with increasing demands placed on technology and the underlying supporting ICT infrastructure. As the reliance and demands placed upon technology continues to increase, there is a risk of significant disruption to service delivery in the event of network disruption and/or outage, particularly following a cyber-attack. It is therefore imperative that the Council continues to invest in robust systems, infrastructure, network security and disaster recovery capabilities to manage this risk and maintain the delivery of services.
SR9	**Fraud -** Due to the wide range of activities undertaken by the Council, there is a risk of fraud being committed. The risk of the latter is exacerbated by the new areas of activity as part of the Council's ongoing response to the Covid-19 pandemic.
SR10	**Gatwick Airport -** The COVID-19 pandemic will continue to negatively impact on Gatwick airport. The outbreak has seen a large reduction in air travel which can be expected to continue for the foreseeable future due to the negative economic outlook and ongoing global travel restrictions. As a key local employer the financial position of the airport will affect local employment, which may result in an increased number of residents seeking support from the Council. Moreover, despite the negative economic outlook, Gatwick Airport have indicated that they will continue to pursue their previously announced expansion plans. An intensification or expansion of Gatwick has attendant local environmental and infrastructural risks.
SR11	**Planning system reform -** The government is considering changes to the planning system in England. There is a risk that, if adopted in the form contained in the consultation White Paper, these changes could result in a loss of local democratic control over planning matters. Although the government have confirmed that they will not be increasing the threshold at which affordable housing is required from developments (which was included in a past consultation document), there is a risk that the other proposed changes, if adopted into national policy, could result in a reduction in the delivery of affordable housing in the borough.
SR12	**Climate change -** It is widely recognised that the Earth's climate is changing, with this forecast to result in more extreme weather. This could have negative impacts, including on the built and natural environment, with vulnerable residents likely to be most severely impacted. In response, the Council may encounter difficulties in delivering services and may similarly have additional demands placed upon it, particularly as climate change adaptation and mitigation becomes increasingly necessary.

*Strategic Risks as per the Draft Strategic Risk Register due to be presented to Audit Committee in March 2022

Developing the internal audit plan 2022/23

We have used various sources of information and discussed priorities for internal audit with the following groups:

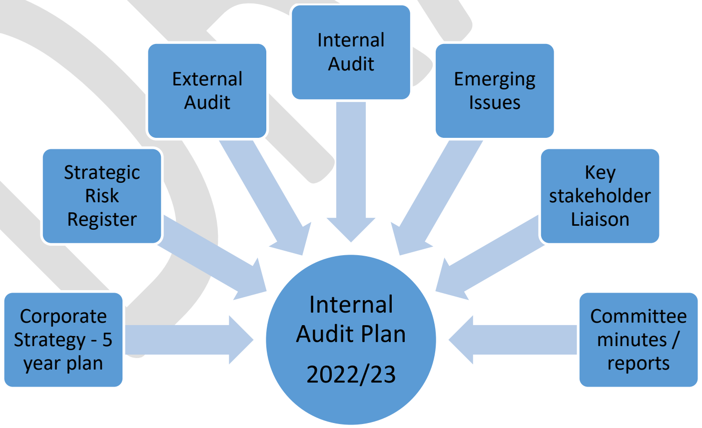
- Corporate Governance Group
- Interim Head of Finance (S151 Officer)
- Directors & Heads of Service
- Audit Committee
- Other key stakeholders

In accordance with the Public Sector Internal Audit Standards there is a requirement that Internal audit establish a risk-based audit plan to determine the resourcing of the internal audit service, consistent with the organisation's goals.

Based on conversations with key stakeholders, review of key corporate documents and our understanding of the organisation, the Southern Internal Audit Partnership have developed an annual audit plan for 2022/23.

The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance is obtained.



Internal Audit Plan

Audit Review	Audit Sponsor	Potential Scope	Strategic Risks	Proposed Timing
Corporate				
Savings Realisation	HofF	To assess realisation of savings target / initiatives as detailed in Financial Sustainability Plan.	SR2, SR3	Q4
Corporate Plan	HofCPP&BA	Assurances over the delivery of the Corporate Plan.	SR1, SR2, SR4, SR5, SR6, SR7	Q2
Payment Card Industry Data Security Standard	HofF	Compliance to meet industry standards.		Q3
Governance				
Decision Making & Accountability	HofL&G	Assurance over the effectiveness and transparency of the decision-making process at officer and Member level. To consider governance, accuracy and timeliness of information including consultation with the public as necessary.	SR5	Q1
Human Resources & Organisational Development	HofOD	Assurances over the audit cycle to cover: • Performance Management • Absence Management • Officer Recruitment • Officer Training & Development • Workforce Strategy / Development *(scope for 2022/23)* • Flexible Working • Use of Volunteers.	SR5	Q4

Audit Review	Audit Sponsor	Potential Scope	Strategic Risks	Proposed Timing
Commissioning & Procurement	HofL&G	Assurance over the effective identification and assessment of organisational needs to maximise value for money and efficiencies through procurement. Assurance over compliance with contract procedure rules and legislative requirements. Analysis of spend both off and on contract. To consider supply chains and third party risks.		Q4
Health & Safety	HofNO	Effective H&S strategy in place and operating effectively with effective governance, accountability and issue resolution.		Q2
Business Continuity	HofCPP&BA	Assurance over planning for extreme events that may lead to delays in responding to situations resulting in increased costs and staff resources.	SR1, SR5	Q1
IT				
Cyber Security - Managed Security Service Platform	HofIT	Management and controls to ensure the effectiveness of the new platform.	SR8	Q4
IT Database Management	HofIT	Secure and effective database management of databases for which IT are responsible.	SR8	Q2
IT Follow Up	HofIT	To follow up on the key observations raised within the "limited assurance" reviews on Information Security and IT Disaster Recovery to ensure actions have been fully implemented and embedded.	SR8	Q3
Core Financial Reviews				
Council Tax	HofRB&F		SR2	Q2
Income Collection	HofF	Programme of cyclical systems reviews	SR2	Q1
NNDR	HofRB&F		SR2	Q3

Audit Review	Audit Sponsor	Potential Scope	Strategic Risks	Proposed Timing
People				
Housing (including Affordable Housing)	HofH	Effective Housing Policy and procedures to achieve desired outcomes. Delivery of the Housing Strategy. Opportunities for development and alternative methods of delivery to meet organisational and national priorities for Affordable Housing.	SR11	Q3
Place				
Parks & Countryside	HofNO	Grounds maintenance of parks, cemetery and open spaces in addition to road verges on behalf of Surrey County Council.		Q4
Economic Prosperity	HofEP	Support to help local businesses start, develop and grow. Includes administering business support grants.	SR4	Q2
Environmental Sustainability	HofCPP&BA	Review of the Environmental Sustainability Strategy and progress against the accompanying action plan. A key priority within the Corporate Plan.	SR12	Q3
Fleet Management – Follow Up	HofNO	To follow up on the key observations raised within the “limited assurance” review in 2020/21 to ensure actions have been fully implemented and embedded.		Q3
Other				
Management and review				Q1-4
Total plan days for 2022/23				200

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

Internal Audit Charter – 2022/23

Introduction

The Public Sector Internal Audit Standards (the Standards) provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes:

- the mission;
- core principles;
- definition of internal audit; and
- Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'.

The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

Authority

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

'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards (updated 2017).

Purpose

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 organisation's objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

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'.

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Reigate & Banstead BC lies with the S151 Officer.

For the Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Deputy Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the *'Mission', 'Core Principles', 'Definition of Internal Auditing'*, the *'Code of Ethics'* and *'the Standards'*.

Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this shall mean the Senior Management Team.

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the S151 Officer who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Monitoring Officer responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The S151 Officer will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

'Senior Management' and *'the Board"* will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to *'senior management'* and *'the Board'*, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to *'senior management'* and *'the Board'*.

If the Chief Internal Auditor, *'the Board'* or *'Senior Management'* consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the S151 Officer accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to *'senior management'* and *'the Board'*;
- reports functionally to *'the Board'*;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team; and
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'Senior Management'* and *'the Board'*. The nature of the disclosure will depend upon the impairment.

Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity, but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the *'Mission', Core Principles', Definition of Internal Auditing'*, the '*Code of Ethics'* and the *'Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported in accordance with the Council's Anti-fraud and Corruption Policy.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The Council assume a Key Stakeholder role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the SIAP. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls.

The Council maintain an in-house Fraud & Investigation Team responsible for conducting reactive fraud and irregularity investigations and proactive fraud work. This includes participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

The Fraud & Investigation Team will inform the SIAP of the outcomes of all reactive fraud and irregularity investigations and proactive fraud work on a regular basis. SIAP will monitor the outcomes of this work to contribute to its assessment of the wider control environment and will review the governance arrangement to prevent, detect and investigate fraud and irregularities on a cyclical basis.

Reporting

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Senior Management

As those responsible for the leadership and direction of the Council. It is imperative that the Senior Management Team are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit resource plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to *'Senior Management'* and *'the Board'* for approval.

Southern Internal Audit Partnership – Client Portfolio

Strategic Partners:	Hampshire County Council
Key Stakeholder Partners:	West Sussex County Council Havant Borough Council East Hampshire District Council Winchester City Council New Forest District Council Mole Valley District Council Epsom & Ewell Borough Council Reigate & Banstead Borough Council Tandridge District Council Crawley Borough Council Hampshire Fire & Rescue Authority Office of the Hampshire Police & Crime Commissioner / Hampshire Constabulary Office of the Sussex Police & Crime Commissioner / Sussex Police Force Office of the Surrey Police & Crime Commissioner / Surrey Police Force
External clients:	Waverley Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority Ringwood Town Council Lymington & Pennington Town Council Langstone Harbour Authority Chichester Harbour Authority Isle of Wight College

Assurance Services

- **Risk based audit**: in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

- **Developing systems audit**: in which:

  - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
  - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

- **Compliance audit**: in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.

- **Quality assurance review**: in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy.

- **Advisory / Consultancy services**: in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

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

SIGNED OFF BY	Interim Head of Finance
AUTHOR	Pat Main
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TO	Audit Committee Executive Council
DATE	Tuesday 15 March 2022 Thursday 24 March 2022 Thursday 7 April 2022
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance and Governance

KEY DECISION REQUIRED	Y
WARDS AFFECTED	(All Wards);

SUBJECT	Treasury Management Strategy Statement 2022/2023

RECOMMENDATIONS

Audit Committee:

i) Audit Committee is asked to consider and to provide feedback on the following which are to be finalised and submitted for approval by the Executive on 24 March 2022 and Council on 7 April 2022:

- **The Treasury Management Strategy Statement for 2022/23 as set out in this report; and**
- **The Treasury Management Prudential Indicators for 2022/23 as set out in this report**

Executive:

ii) Executive is asked to consider the following:

- **The Treasury Management Strategy Statement for 2022/23 set out in this report; and**
- **The Treasury Management Prudential Indicators for 2022/23 as set out in this report**

and recommend their approval by Council.

Council:

iii) Council is asked to approve the following for 2022/23:

- **The Treasury Management Strategy Statement for 2022/23 set out in this report; and**
- **The Treasury Management Prudential Indicators for 2022/23 as set out in this report.**

REASONS FOR RECOMMENDATIONS

To enable the adoption of the updated Treasury Management Strategy Statement for the 2022/23 financial year in order to comply with the Chartered Institute of Public Finance Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities. Also with Government (DLUHC) Investment Guidance.

EXECUTIVE SUMMARY

This report sets out the Treasury Management Strategy Statement for 2022/23 including the Treasury Management Indicators, Prudential Indicators and the Minimum Revenue Provision Policy.

CIPFA published new versions of their Codes in December 2021 and this report explains the consequent changes when implemented in 2023/24.

There is also a requirement to comply with guidance issued by the Government in respect of Local Authority Investments and the Minimum Revenue Provision for repayment of debt.

In November 2021 the Government published a consultation document on proposed changes to the capital framework relating to how the Minimum Revenue Provision is calculated. This report highlights the potential impacts of the proposed changes if they go ahead in 2023/24.

Council has authority to approve the Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy and Borrowing Limits.

STATUTORY POWERS

1. The Council is required to approve an annual Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy and Borrowing Limits so that borrowing and investments are prudent, affordable and sustainable.

2. 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 guidance.

3. The Council's Treasury Management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on

Treasury Management, the Prudential Code for Capital Finance in Local Authorities, and the Government's (DLUHC) Investment Guidance.

BACKGROUND

4. The Council is required to approve an annual Treasury Management Strategy Statement ('the Strategy'), Prudential Indicators, Minimum Revenue Provision Policy and Borrowing Limits so that borrowing and investments are prudent, affordable and sustainable.

5. The Treasury Management Strategy for 2022/23 is attached at Annex 1.

6. The Strategy has been prepared in line with the CIPFA Codes and Government guidance. It comprises four sections plus appendices:
   1. Introduction
   2. Capital Prudential Indicators
   3. Borrowing
   4. Investment
   5. Appendices.

7. The Strategy has the following objectives:
   - To consider and effectively address the risks associated with Treasury Management activity;
   - To optimise the flow of cash through the organisation in order to maximise the potential for using it to earn investment income for the Council, and where required limit the borrowing costs;
   - To optimise the returns from investments while meeting the overriding need to protect the capital sum and ensure that the cash is available when required;
   - To align investments in relation to cash flow, within statutory constraints, in order to increase investment returns in future years;
   - To optimise the revenue budget costs of undertaking all treasury activities;
   - To monitor and review significant changes in the pattern of cash movements and interest rate movements and react accordingly; and
   - To incorporate any changes to CIPFA's Treasury Management Code of Practice and the Prudential Code that will affect effective treasury management.

KEY INFORMATION

Capital Investment Strategy and Capital Programme

8. The capital expenditure plans set out in this report are based on the Capital Programme 2022/23 to 2026/27 that was approved by Executive on 27 January and by full Council on 8 February 2022. The Capital Programme is supported by the Capital Investment Strategy that was approved by Executive in July 2021.

Prudential Indicators

9. The statutory Prudential Indicators provide a sound basis for future investment and borrowing decisions. A summary of the key indicators is provided in the table below and they are explained in the Treasury Management Strategy at Annex 1.

Table 1: PRUDENTIAL INDICATORS	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Capital Expenditure	£26.124m	£34.053m	£4.161m	£4.162m
Capital Financing Requirement (CFR)	£62.874m	£68.236m	£70.412m	£72.549m
Cumulative External Debt	£37.000m	£44.000m	£49.000m	£51.000m
Operational Boundary for External Debt	£63.500m	£69.000m	£71.000m	£73.500m
Authorised Limit for External Debt	£73.500m	£79.000m	£81.000m	£83.500m
Affordability – Gross Cost of Borrowing as a % of the Net Budget Requirement	7.9%	8.9%	9.1%	9.2%
Affordability – Net Cost of Borrowing as a % of the Net Budget Requirement	0.9%	3.8%	4.2%	4.4%
Principal sums invested for longer than 365 days (Upper Limit)	£20m	£20m	£20m	£20m
Current investments as at 31.12.21 in excess of 365 days maturing in each year	£nil			
Maturity Structure of Borrowing 2022/23 – Upper Limit	100%			
Maturity Structure of Borrowing 2022/23 – Lower Limit	100%			

Revisions to the CIPFA Codes

10. CIPFA published revised Prudential and Treasury Management Codes on 20th December 2021. The formal reporting requirements of the revised Codes will be implemented in 2023/24.

11. When implemented the revised Treasury Management Code will require investments and investment income to be attributed to one of three purposes:

(i) Treasury management
- Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

(ii) Service delivery
- Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in

cases where the income is '…*either related to the financial viability of the project in question or otherwise incidental to the primary purpose…'*

(iii) Commercial return

- Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

12. The authority's Treasury Investment Strategy will be required to include:
    - Classification of investments for service or commercial purposes:
    - The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;
    - An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (ie. whether losses could be absorbed in budgets or reserves without unmanageable detriment to local services);
    - Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
    - Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
    - Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the overall strategy);
    - Statement of compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

13. The revised Treasury Management code also requires authorities to comply with the following in 2023/24 onwards:
    - Adopting a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
    - Long term treasury investments, (including pooled funds), to be classed as commercial investments unless justified by a cash flow business case;
    - Some pooled funds (longer term instruments, including those with no fixed maturity date) to be included in the indicator for principal sums maturing in years beyond the initial budget year;
    - Amendment to the knowledge and skills register for officers and members involved in the treasury management function - to be proportionate to the

size and complexity of the treasury management conducted by each council;
- Quarterly performance reporting to Members (as part of integrated revenue, capital and balance sheet reports), to include prudential indicators; and
- Environmental, social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices.

14. The main requirements of the revised Prudential Code relating to service and commercial investments are:
    - The risks associated with service and commercial investments should be proportionate to their financial capacity – losses to be absorbed in budgets or reserves without unmanageable detriment to local services;
    - An authority must not borrow to invest for the primary purpose of commercial return. It is not prudent for local authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority (where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose);
    - An annual review is to be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
    - A new Prudential Indicator is being introduced for the net income from commercial and service investments as a proportion of the net revenue stream; and
    - A new requirement for Investment Management Practices which set out how the Council will manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

15. Local authorities were already at an advanced stage with 2022/23 budget setting, including the preparation of their Treasury Management Strategy Statements, when these changes were announced. Therefore CIPFA has acknowledged that they view 2022/23 as a transitional year to embed these new requirements and has stated that there will be a 'soft' introduction of the revised Codes, with local authorities not being expected to have to change their Treasury Management reports for 2022/23; full implementation will be required for 2023/24.

16. The underlying principles, including that an authority must not borrow to invest primarily for financial return, do however apply with immediate effect, and align with the Government's changes to PWLB borrowing terms in 2020.

Proposed Minimum Revenue Provision Changes

17. In November 2021 DLUHC issued a consultation on changes to how the Minimum Revenue Provision (MRP) calculation will be applied in 2023/24 onwards. The consultation covers two main areas:
    - Some authorities use capital receipts in lieu of all or part of the revenue charge for the MRP; and

- Some authorities exclude investment assets from the MRP determination.

The Government's view is that both practices should not be permitted.

18. If implemented the implications for this authority relate to the Council's investment in Greensand Holdings Limited where MRP is not currently provided because the lending to the company is secured on the company's property assets. The authority does however make an assessment in its annual accounts of the risks of non-payment and reduced (impairs) the asset value of the loans.

Environmental, Social and Governance (ESG) Considerations

19. The revised Treasury Management Code now includes specific reference to ESG considerations relating to credit and counterparty risk management: *'…The organisation's credit and counterparty policies should set out its policy and practices relating to ESG investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will include ESG scoring or other real-time ESG criteria at individual investment level…'*

20. CIPFA has indicated that they will be working with the local authority sector during 2022/23 to develop an ESG scoring methodology for treasury management investments. In the meantime CIPFA expect local authorities to have a general regard to their own existing policies for ESG issues, such as climate change, for investment decisions.

21. At this stage, to attempt to overlay this Council's Treasury Management Strategy and policies with ESG considerations which are not supported by tangible or measurable factors could lead to difficulties in making and managing treasury investment decisions. As such ESG considerations are not yet included within the investment criteria outlined in the Strategy attached.

OPTIONS

22. There are the three options:

    (i) For Audit Committee:

    Option 1 – Receive the report and provide any feedback for consideration by Executive
    This is the recommended option.

    Option 2 – To defer the report and ask Officers to provide more information and/or clarification on any specific points
    DLUHC Investment Guidance requires approval of the Treasury Management Strategy Statement prior to the financial year to which it relates.

    Option 3 – To reject the report
    This would also lead to delays in approving the Treasury Management Strategy Statement by the deadline.

    (ii) For Executive and Council:

Option 1 – Approve the report
This is the recommended option.

Option 2 – To defer the report and ask Officers to provide more information and/or clarification on any specific points
DLUHC Investment Guidance requires approval of the Treasury Management Strategy Statement prior to the financial year to which it relates.

Option 3 – To reject the report
This would also lead to delays in approving the Treasury Management Strategy Statement by the deadline.

23. Delays in approving the Treasury Management Strategy Statement by the deadline would mean there is a risk that Officers will not have authority to undertake treasury management activities, which may result in minimal returns on investments and prevent borrowing to fund planned capital investment. It would also mean that the Council is not compliant with DLUHC statutory guidance and the CIPFA Codes of Practice, which is likely to result in criticism from the Council's auditor.

LEGAL IMPLICATIONS

24. There are no further legal implications arising from this report.

FINANCIAL IMPLICATIONS

25. The financial impacts of this Strategy have already been reflected within the Council's approved 2022/23 Budget. There are therefore no additional financial implications that arise from this report.

EQUALITIES IMPLICATIONS

26. There are no equality implications arising from this report.

COMMUNICATION IMPLICATIONS

27. There are no communication implications arising from this report.

RISK MANAGEMENT CONSIDERATIONS

28. These are detailed in Annex 1.

CONSULTATION

29. The Treasury Management Strategy Statement will be reviewed by the Audit Committee on 15 March 2022.

30. The Finance Portfolioholder, the Chair of Overview & Scrutiny and Audit Committee Members also had an opportunity to discuss the Council's approach to treasury management at a briefing with the Council's treasury advisors Link Group and the Council's Finance team in March 2022.

31. Audit Committee's feedback will be considered when preparing the final Treasury Management Strategy Statement that is scheduled to be reported to Executive on 24 March 2022 and Council on 7 April 2022.

POLICY FRAMEWORK

32. The Strategy is part of the Council's Policy Framework as set out in Article 4 of the Constitution.

BACKGROUND PAPERS

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ('the Code')
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ('the Code')
- CIPFA Treasury Management Guidance Notes 2018 and 2021
- DLUHC Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- CIPFA Prudential Code for Capital Finance in Local Authorities (2021) (Prudential Code)
- CIPFA Prudential Code for Capital Finance in Local Authorities (2021) Guidance Notes
- DLUHC Consultation on changes to the capital framework - Minimum Revenue Provision (November 2021)
- Budget and Capital Programme 2022/23, report to Executive, 27 January 2022

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TREASURY MANAGEMENT STRATEGY STATEMENT

Minimum Revenue Provision Policy Statement
Annual Treasury Investment Strategy
January 2022

INDEX

1. INTRODUCTION

1.1 Background

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management function is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested with low risk counterparties or instruments that are commensurate with the authority's risk appetite, providing adequate liquidity before considering investment return.

The second main function of treasury management is funding of the authority's capital investment plans. These capital plans provide a guide to the borrowing need, essentially the longer-term cash flow planning, to ensure that the authority can meet its capital spending obligations. Management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic to do so, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution that treasury management makes to the authority's financial health is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue expenditure or for larger capital projects. The treasury function seeks to balance interest costs on debt and investment income from cash deposits. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

While any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are reported separately from day to day treasury management activities.

Objectives: the Treasury Management Strategy has the following objectives:

- To consider and effectively address the risks associated with Treasury Management activity;
- To optimise the flow of cash through the organisation in order to maximise the potential for using it to earn investment income for the Council, and where required limit the borrowing costs for the Authority;
- To optimise the returns from investments while meeting the overriding need to protect the capital sum and ensure that the cash is available when the Council requires it;

- To align investments in relation to cash flow, within statutory constraints, in order to increase investment returns in future years;
- To optimise the revenue costs of undertaking all treasury activities;
- To monitor and review significant changes in the pattern of cash movements and interest rate movements and react accordingly; and
- To incorporate any changes to the Treasury Management Code of Practice and the Prudential Code that will affect effective treasury management.

1.2 Reporting Requirements

Capital Investment Strategy: The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare, a Capital Investment Strategy, which provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the Capital Investment Strategy is to ensure that all elected Members on the Council fully understand the overall long-term policy objectives and resulting Capital Investment Strategy requirements, governance procedures and risk appetite.

The 2022/23 Capital Investment Strategy was reported to Executive in July 2021; the next update is due to be reported in summer 2022.

Treasury Management Reporting: The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

(i) Treasury Management Strategy and Prudential Indicators (this report) - the first, and most important, report is forward-looking and covers:
   - Capital Plans including the Prudential Indicators and the Capital Financing Requirement (CFR);
   - the Minimum Revenue Provision (MRP) Policy, demonstrating how residual capital expenditure is charged to revenue over time; and
   - the Treasury Investment Strategy, describing the parameters for how investments are to be managed.

(ii) Mid-Year Treasury Management Report – this is primarily a progress report and will update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

(iii) Annual Treasury Outturn Report – this is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy.

1.3 Scrutiny

All Treasury Management reports must be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

1.4 Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

(i) Capital Issues
- the capital expenditure plans and the associated prudential indicators; and
- the MRP policy.

(ii) Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.5 Treasury Management Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. A briefing for members was conducted with the Council’s Treasury Advisors (LINK Group) in March 2022 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed. They take up opportunities to attend training courses and are expected to meet their Continued Professional Development (CPD) requirement.

1.6 Treasury Management Consultants

The authority employs LINK Group, as its external treasury management advisors.

It is important to recognise that responsibility for treasury management decisions remains with the authority at all times and to ensure that undue reliance is not placed upon the services of external service providers. All treasury management decisions are undertaken with regard to all available information, including, but not solely, the external advisers.

It is also important to ensure that the terms of the advisors' appointment and the methods by which their value is assessed are properly agreed and documented and subjected to regular review.

2. CAPITAL PRUDENTIAL INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure Plans

The first **Prudential Indicator** is a summary of the authority's capital expenditure plans which are the key driver of treasury management activity.

The following capital expenditure forecasts were included in the Budget 2022/23 budget report to Executive on 27 January 2022 and Members are asked to approve the capital expenditure forecasts:

Table 1: CAPITAL EXPENDITURE TO BE FINANCED	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
People Services	8.333	5.523	11.875	1.425	1.425
Place Services	15.887	20.039	16.742	0.874	0.991
Organisation Services	1.541	0.562	5.436	1.862	1.746
Total	**25.761**	**26.124**	**34.053**	**4.161**	**4.162**

The Council does not currently have any planned Capital Programme expenditure which is solely for investment purposes.

Other Long-Term Liabilities: the introduction of IFRS16 may change some of the Prudential Indicators due to additional lease liabilities being recognised on the balance sheet. CIPFA is currently consulting on options for delaying implementation of IFRS16 to 2023/24.

Capital Financing: the table below summarises the above capital expenditure plans and how they are to be financed through use of capital or revenue resources. Any shortfall of resources results in a borrowing requirement.

Table 2: CAPITAL FINANCING PLANS	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Capital Grants / Contributions	1.843	1.660	1.247	1.247	1.247
Capital Receipts	4.403	4.402	26.778	-	-
Revenue	-	-	-	-	-
Capital Reserves	-	7.000	-	-	-
External Funding	**6.246**	**13.062**	**28.025**	**1.247**	**1.247**
Net borrowing need - General Fund (Core)	19.515	13.062	6.028	2.914	2.915
Net financing need for the year	**19.515**	**13.062**	**6.028**	**2.914**	**2.915**

2.2 Borrowing Need (the Capital Financing Requirement)

The second **Prudential Indicator** is the authority's Capital Financing Requirement (CFR).

The CFR is the total of historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of indebtedness and so its underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

Council is recommended to approve the CFR projections below:

Table 3: MOVEMENT IN THE CAPITAL FINANCING REQUIREMENT	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Closing CFR	**50.326**	**62.874**	**68.236**	**70.412**	**72.549**
Movement in CFR	**19.221**	**12.548**	**5.362**	**2.176**	**2.137**
Movement in CFR represented by:					
Net financing need for the year (above)	19.515	13.062	6.028	2.914	2.915
Less MRP/VRP and other financing movements	(0.294)	(0.514)	(0.666)	(0.738)	(0.778)
Movement in CFR	**19.221**	**12.548**	**5.362**	**2.176**	**2.137**

2.3 Core Funds and Expected Investment Balances

Expected Investment Balances: The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 4: EXPECTED BALANCES TO INVEST OR FUND CAPITAL	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
General Fund Balance	3.246	3.000	3.000	3.000	3.000
Earmarked Reserves	36.044	33.767	30.000	30.000	30.000
Capital Receipts/Grants	15.698	15.698	15.000	15.000	15.000
Provisions	181	181	181	181	181

Table 4: EXPECTED BALANCES TO INVEST OR FUND CAPITAL	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Revenue Grants	-	-	-	-	-
Total Core funds - General Fund	**55.169**	**52.646**	**48.181**	**48.181**	**48.181**
Working Capital[1]	7.000	7.000	7.000	7.000	7.000
Under / (Over) Borrowing[2]	41.326	25.874	24.236	21.412	21.549
Expected Investments	**6.843**	**19.772**	**16.945**	**19.769**	**19.632**

1. Working capital balances shown are estimated year-end; these may be higher mid-year
2. This table has been prepared on the basis that the current level of under borrowing is sustained across the period.

2.4 Liability Benchmark

A new requirement under the Treasury Management Code 2021 is to publish a liability benchmark for a minimum of 10 years in chart format, with material differences between the liability benchmark and actual loans explained. This will be developed for inclusion in the 2023/24 Strategy.

2.5 Minimum Revenue Provision (MRP) Policy Statement

Local Authorities have a duty to *“determine for the current financial year an amount of MRP which it considers prudent”.* In principle councils must arrange for debt liabilities to be repaid over a period commensurate with asset lives.

The authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP). It is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

DLUHC guidance require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

Council is recommended to approve the following MRP Statement for 2022/23:

> From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the Minimum Revenue Policy will be the Asset life method – MRP will be based on the estimated life of the assets, in accordance with the guidance and will be set aside in the year after the asset becomes operational. This will be a combination of the annuity method and straight line method:
>
> - Operational land and buildings - 50 years annuity method;
> - Investment Properties - 50 years annuity method;
> - General Fund Housing - 50 years annuity method;
> - Infrastructure - 50 years straight line method;
> - Plant and Equipment- 30 years straight line method;

- Investment in share capital – 20 years straight line method;
- ICT- 5 years straight line method; and
- Vehicles - 8 years straight line method.

MRP on Capital Loans and Share Capital: Under local authority capital accounting regulations loans to third parties for capital purposes and share capital are deemed to be capital expenditure of the authority. The authority has made loans to its companies (Greensand Holdings Limited and Horley Business Park Development LLP).

The CFR includes the value of the loans and investments (share capital). Funds repaid by the companies are classed as capital receipts and offset against the CFR.

A recently-published Government consultation document on MRP is proposing a requirement that MRP is set aside to repay the debt liability for this type of loan in the interim period. Depending on the outcome of the consultation the policy on MRP may have to be revised for 2023/24 if these proposals go ahead. They are not expected to be retrospective.

MRP Overpayments: DLUHC Guidance includes the provision that any MRP charges made over the statutory minimum may be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed, the MRP policy must disclose the cumulative overpayment made each year. At 31 March 2022 the cumulative voluntary overpayments by this authority were forecast to be £nil.

3. BORROWING

3.1 External Debt

Borrowing Strategy: the capital expenditure plans at Section 2 provide a summary of the service activity of the Council.

The treasury management function ensures that the authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to fund service activity and the Capital Investment Strategy. This will involve both the organisation of cash flows and, where capital plans require, the organisation of appropriate borrowing facilities. The Treasury Management Strategy covers the relevant treasury/prudential indicators, current and projected debt positions and the annual Treasury Investment Strategy.

3.2 Current Portfolio Position

The treasury management portfolio position at 31 March and at 31 December is set out below:

Table 5: INVESTMENT PORTFOLIO	Actual 31/03/2021 £m	%	Actual 31/12/2021 £m	%
Treasury Investments				
Cash at Bank	12.469	25.7%	22.559	42.1%
Building Societies - unrated	13.000	26.8%	10.000	18.7%
Building Societies - rated	-	-	-	-
Local Authorities	-	-	-	-
DMADF (HM Treasury)	-	-	-	-
Money Market Funds	23.000	47.5%	21.000	39.2%
Certificates of Deposit	-	-	-	-
Total Managed In-House	48.469	100%	53.559	100%
Bond Funds	-	-	-	-
Property Funds	-	-	-	-
Total Managed Externally	0	0%	0	0%
Total Treasury Investments	**48.469**	**100%**	**53.559**	**100%**
Treasury External Borrowing				
Local Authorities	9.000	100%	-	-
PWLB	-	-	-	-
Total External Borrowing	**9.000**	**100%**	**0**	**0%**
Net Treasury Investments / (Borrowing)	**39.469**	**-**	**53.559**	**-**

The total CFR at the table below is based upon the total approved capital programme expenditure as reported to Executive and Council as part of budget setting. The authority has no external borrowing at present.

The table below sets out the **Prudential Indicator** for gross debt compared to the underlying capital borrowing need (the CFR), highlighting any over- or under-borrowing. Borrowing is forecast based on the approved capital programme rather than the capital expenditure forecast and will be revised at the year-end in line with the actual expenditure outturn.

Table 6: CUMULATIVE EXTERNAL DEBT	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt at 1 April	14.000	9.000	37.000	44.000	49.000
Expected Change in Debt	(5.000)	28.000	7.000	5.000	2.000
Other Long-Term Liabilities	-	-	-	-	-
Expected Change in Other Long-Term Liabilities	-	-	-	-	-
Gross Debt at 31 March	**9.000**	**37.000**	**44.000**	**49.000**	**51.000**
The Capital Financing Requirement (CFR)	50.326	62.874	68.236	70.412	72.549
Under/ (Over) Borrowing	**41.326**	**25.874**	**24.236**	**21.412**	**21.549**

3.3 Treasury Indicators: Limits to Borrowing Activity

Within the range of prudential indicators there are a number of key indicators to ensure that the authority operates within well-defined limits.

One of these is that the authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimate for any additional CFR for the current and following two years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative reasons.

The Chief Financial Officer reports that the authority complied with this prudential indicator in the current year and does not envisage difficulties in future. This opinion takes into account current commitments, existing plans and the approved budget.

The Operational Boundary for External Debt: 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.

The recommended **Operational Boundary** is based on the forecast maximum CFR over the Capital Programme period 2022/23 to 2026/27 (details above) plus the forecast value of leases under IFRS16.

Council is recommended to approve the following Operational Boundary for 2022/23:

Table 7: OPERATIONAL BOUNDARY	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Estimate £m	**Estimate £m**	**Estimate £m**	**Estimate £m**
Borrowing - General	63.000	68.500	70.500	73.000
Other long term liabilities	500	500	500	500
Operational Boundary	**63.500**	**69.000**	**71.000**	**73.500**

The Authorised Limit for External Debt: is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The recommended **Authorised Limit** is set £10M above the Operational Boundary to provide sufficient headroom to allow borrowing for any unforeseen circumstances.

Council is recommended to approve the following Authorised Limit for 2022/23:

Table 8: AUTHORISED LIMIT	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Estimate £m	**Estimate £m**	**Estimate £m**	**Estimate £m**
Borrowing - General	73.000	78.500	80.500	83.000
Other long term liabilities	500	500	500	500
Authorised Limit	**73.500**	**79.000**	**81.000**	**83.500**

3.4 Prospects for Interest Rates

Part of LINK Group's service as the authority's treasury advisor is to assist the in-house treasury team in formulating a view on interest rates. LINK Group provided the following forecasts on 7 February 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 7.2.22	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Further commentary from LINK Group is provided at Appendix 5.2.

3.5 Borrowing Strategy

The authority continues to maintain an under-borrowed position. This means that the capital borrowing need (the CFR), has not been funded with loan debt because cash supporting the authority's reserves, balances and cash flow has been used as a temporary measure.

This strategy is prudent as investment returns on balances are low and counterparty risk is a factor that needs to be considered.

Against this background, and the risks within the economic forecast, caution will continue to be exercised for treasury management operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration 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 borrowing position will be re-appraised. Most likely, fixed rate funding will be drawn while interest rates are lower than they are projected to be in the next few years.

Any decisions on borrowing will be reported to the appropriate decision making body at the next available opportunity as part of regular in-year treasury management reporting.

3.6 Policy on Borrowing in Advance of Need

The authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the authority can ensure the security of such funds.

3.7 Approved Sources of Long- and Short-term Borrowing

Access may be limited due to the authority's quantum of borrowing relative to the minimum loan required by some of these instruments.

On Balance Sheet	Fixed	Variable
PWLB	●	●

Municipal Bonds Agency	●	●
Other local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	-	-
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	-
Local authority bills	●	●
Overdraft	-	●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	-
Medium Term Notes	●	-
Finance leases	●	●

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

The revised Prudential Code states (at paragraph 51) that in order to comply with the Code, an authority must not borrow to invest primarily for financial return. Paragraph 53confirms that ‘…*Authorities with existing commercial investments (including property) are not required by this Code to sell these investments. Such authorities may carry out prudent active management and rebalancing of their portfolios. However, authorities that have an expected need to borrow should review options for exiting their financial investments for commercial purposes and summarise the review in their annual treasury management or investment strategies. The reviews should evaluate whether to meet expected borrowing needs by taking new borrowing or by repaying investments, based on a financial appraisal that takes account of financial implications and risk reduction benefits. Authorities with commercial land and property may also invest in maximising its value, including repair, renewal and updating of the properties….’.*

The authority is not planning to purchase any new investment assets primarily for yield within the next three years so has full access to PWLB borrowing.

The PWLB has also recently increased the settlement period for taking up new loans from 3 to 5 working days to provide more time to check borrowing applications made by local authorities for compliance with their arrangements. Additionally, in a move to protect the PWLB from negative interest rates, the minimum interest rate for PWLB loans has been set at 0.01%. These changes are not expected to have any material impact on this authority's borrowing plans.

4. INVESTMENT

4.1 Annual Treasury Investment Strategy

The Government (DLUHC) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Investment Strategy (a separate report).

The authority’s investment policy has regard to the following:

- DLUHC’s Guidance on Local Government Investments (‘the Guidance’)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (‘the Code’)
- CIPFA Treasury Management Guidance Notes 2018

The authority’s investment priorities remain security first, portfolio liquidity second and then yield (return). The aim is to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity and with the authority’s risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the authority will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

4.2 Investment Policy – Management of Risk

The guidance from DLUHC and CIPFA places a high priority on the management of risk.

DLUHC and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the in-house treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Investment Strategy (a separate report).

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political

environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the authority will engage with its treasury advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use:

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if they were originally classified as being non-specified investments solely due to the maturity period exceeding one year; and

   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The authority has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 40%.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set.

7. **Transaction limits** are set for each type of investment.

8. This authority will set a limit for its investments which are invested for **longer than 365 days**.

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

10. This authority has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and

resultant charges at the end of the year to the General Fund. In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending March 2023.

This authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy: the primary principle governing the authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the authority's prudential indicators covering the maximum principal sums invested.

The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the authority may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by LINK Group, the authority's treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating 'Watches' (notification of a likely change), rating 'Outlooks' (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for achieving a pool of high-quality investment counterparties, (for both specified and non-specified investments) are set out below. The authority uses credit ratings and other market intelligence to access the credit quality of any potential counterparty.

The authority sets limits as to the minimum level of credit rating that it will accept for any individual counterparty. The current minimum levels are set out at Appendix 5.3.

Use of additional information, other than credit ratings: additional requirements under the Code require the authority to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments: the authority sets a maximum exposure level, expressed in '£' that can be invested with any one organisation. The current limits are set out at Appendix 5.3.

UK banks – ring-fencing: the largest UK banks, (those with more than £25bn of retail and/or Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019; known as 'ring-fencing'. Ring-fencing mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and 'riskier' activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The authority continues to assess the newly-formed entities in the same way that it does others. Those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Other Limits

Due care will be taken to consider the exposure of the total investment portfolio to non-specified investments, countries, groups and sectors.

Non-specified investment limit: the authority has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio.

Country limit: the authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other limits. In addition:

- no more than 10% will be placed with any non-UK country at any time; and

- limits in place above will apply to a group of companies.

4.4 Treasury Investment Strategy

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations: LINK Group's current forecast includes a forecast for Bank Rate to reach 1.25% by December 2022. The budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year are as follows:

Table 9: AVERAGE EARNINGS IN EACH YEAR	Now	Previously
2022/23	0.20%	0.10%
2023/24	0.20%	0.10%
2024/25	0.20%	0.10%
2025/26	0.20%	0.10%
Years 6 to 10	0.20%	0.10%
Years 10+	0.20%	0.10%

For its cash flow-generated balances, the authority will seek to utilise business reserve, instant access and notice accounts, pooled investments (such as money market funds) and short-dated deposits (overnight to 100 days), in order to benefit from the compounding of interest.

Investment treasury indicator and limit: total principal funds invested for greater than 1 year. These limits are set with regard to the authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Council is recommended to approve the following **Prudential Indicator and Limit**:

Table 10: UPPER LIMIT FOR PRINCIPAL SUMS INVESTED FOR LONGER THAN 365 DAYS	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Principal sums invested for longer than 365 days	20.0	20.0	20.0	20.0

Table 10: UPPER LIMIT FOR PRINCIPAL SUMS INVESTED FOR LONGER THAN 365 DAYS	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Current investments as at 31.12.21 in excess of 365 days maturing in each year	£nil			

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

The authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the authority is exposed to.

Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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

Investment Performance/Risk Benchmarking: To date the authority has used the 7-Day LIBID (London Inter Bank Bid Rate) as an investment benchmark to assess the performance of its investment portfolio.

Publication of LIBOR (London Inter Bank Bid Rate) figures (and related LIBID calculations) ceased at the close of 2021 and the replacement is SONIA (Sterling Overnight Index Average) the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

End of Year Investment Report: At the end of the financial year, the authority will report on its investment activity as part of its Annual Treasury Report.

External Fund Managers: External fund managers (where employed) will comply with the Annual Treasury Investment Strategy. The agreement(s) between the authority and the fund manager(s) will stipulate guidelines and duration and other limits in order to contain and control risk. The authority does not currently employ external fund managers.

5. APPENDICES

5.1 Capital, Prudential and Treasury Indicators

5.2 Interest Rate Forecasts & Economic Background – LINK Group

5.3 Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

5.4 Investment Portfolio at 31.12.21

5.5 Approved Countries for Investment

5.6 Treasury Management Scheme of Delegation

5.7 Treasury Management Role of the Section 151 Officer

5.8 Treasury Management Risk Assessment

Appendix 5.1

Capital, Prudential and Treasury Indicators

The authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure
Council is asked to approve the **Prudential Indicator** for Capital Expenditure:

Table 11: CAPITAL EXPENDITURE TO BE FINANCED	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
People Services	8.333	5.523	11.875	1.425	1.425
Place Services	15.887	20.039	16.742	0.874	0.991
Organisation Services	1.541	0.562	5.436	1.862	1.746
Total	**25.761**	**26.124**	**34.053**	**4.161**	**4.162**

Affordability Prudential Indicators: The previous section covers the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the authority's overall finances.

Ratio of financing costs to net revenue stream: this indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

The financing costs are the interest payable on borrowing, finance lease or other long-term liabilities and the amount defined by statute which needs to be charged to revenue to reflect the repayment of the principal element of borrowing. Any additional payments in excess of the statutory amount or the cost of early repayment or rescheduling of debt would be included within the financing cost. Financing costs are expressed net of investment income.

The Medium Term Financial Plan has already been adopted and within it the Chief Financial Officer has highlighted that there are funding gaps in future years. The investment in corporate initiatives and regeneration is intended to make up part of that gap.

The table below highlights the risk to the net budget requirement of not achieving any planned income streams – the top line represents the increasing percentage of net budget requirement which would be needed to service debt if none of the existing investment income were received. The lower line represents the percentage of net budget requirement which would be needed to service debt even if existing investment income streams deliver as currently planned.

Council is asked to approve the affordability **Prudential Indicator**:

Table 12: RATIO OF FINANCING COSTS TO NET REVENUE BUDGET	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Gross cost of borrowing as % of net budget requirement	2.4%	7.9%	8.9%	9.1%	9.2%
Net cost of borrowing including investment income as % of net budget requirement	(3.5%)	0.9%	3.8%	4.2%	4.4%

The estimates of financing costs include current commitments and the proposals in the 2022/23 Budget Report.

Maturity Structure Of Borrowing: these gross limits are set to reduce the authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Council is required to approve the following **Treasury Indicators and Limits**:

Table 13: MATURITY STRUCTURE OF BORROWING 2022/23		
Fixed & Variable Rate Borrowing	**Lower**	**Upper**
Under 12 months		
12 months to 2 years		
2 years to 5 years		
5 years to 10 years		
10 years to 20 years	100%	
20 years to 30 years		
30 years to 40 years		
40 years to 50 years		

The authority does not currently have any external borrowing; the limit will be reviewed and refined as borrowing takes place.

Appendix 5.2:

Interest Rate Forecasts & Economic Background – LINK Group

INTEREST RATE FORECASTS

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021 and then to 0.50% at its meeting of 4th February 2022.

As shown in the forecast table above, the forecast for Bank Rate now includes a further three increases of 0.25% in March, May and November 2022 to end at 1.25%.

Significant risks to the forecasts

- ***Mutations*** *of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns.*
- ***Labour and supply shortages*** *prove more enduring and disruptive and depress economic activity.*
- ***The Monetary Policy Committee*** *acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.*
- ***The Monetary Policy Committee*** *tightens monetary policy too late to ward off building inflationary pressures.*
- ***The Government*** *acts too quickly to cut expenditure to balance the national budget.*
- ***UK / EU trade arrangements*** *– if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.*
- ***Longer term US treasury yields*** *rise strongly and pull gilt yields up higher than forecast.*
- ***Major stock markets*** *e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.*
- ***Geopolitical risks,*** *for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.*

The balance of risks to the UK economy: -

- *The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.*

Forecasts for Bank Rate

The Monetary Policy Committee is now very concerned at the way that forecasts for inflation have had to be repeatedly increased within a matter of just a few months. Combating this rising tide of inflation is now its number one priority and the 5-4 vote marginally approving only a 0.25% increase on 4th February rather than a 0.50% increase, indicates it is now determined to push up Bank Rate quickly. A further increase of 0.25% is therefore probable for March, and again in May, followed possibly by a final one in November. However, data between now and November could shift these timings or add to or subtract from the number of increases.

However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- *We do not know whether there will be further mutations of Covid and how severe they may be, nor how rapidly scientific advances may be made in combating them.*
- *The economy was running out of steam during the second half of 2021 and Omicron will mean that economic growth in quarter 1 of 2022 is likely to be flat, though on the rise towards the end of the quarter as the economy recovers. However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.*
- *Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held*

by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.

- *These increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.*
- *The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?*
- *If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.*
- *If the UK were to invoke article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this would have the potential to end up in a no-deal Brexit.*

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

Forecasts for PWLB rates and gilt and treasury yields

Gilt yields. *Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.*

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields. ***As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for medium to longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.***

US treasury yields. *During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. This was in addition to the $900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -*

1. *A fast vaccination programme roll-out had enabled a rapid opening up of the economy during 2021.*
2. *The economy was growing strongly during the first half of 2021 although it has weakened during the second half.*
3. *It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.*
4. *And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.*

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- ***At its 3rd November Fed meeting****, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its* ***15th December meeting*** *it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.*
- *It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.*
- *At its* ***26th January meeting****, the Fed became even more hawkish following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions,*

particularly in the US where long rates are a key driver of household and corporate borrowing costs.

*There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.*

*There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -*

- *How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising higher in the US than in the UK; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.*
- *Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?*
- *Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?*
- *How strong and enduring will inflationary pressures turn out to be in both the US and the UK, and so impact treasury and gilt yields?*
- ***Will the major western central banks implement their previously stated new average or sustainable level inflation monetary policies when inflation has now burst through all previous forecasts and far exceeded their target levels? Or are they going to effectively revert to their previous approach of prioritising focusing on pushing inflation back down and accepting that economic growth will be very much a secondary priority - until inflation is back down to target levels or below?***
- *How well will central banks manage the running down of their stock of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?*
- *Will exceptional volatility be focused on the short or long-end of the yield curve, or both?*
- *If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.*

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -

- *There is a balance of upside risks to forecasts for medium to long term PWLB rates.*

A new era for local authority investing
– a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going <u>above</u> a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- *The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that* *inflation averages out the dips down and surges above the target rate, over an unspecified period of time.*

- *The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.*
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- *Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures once economies recover from the various disruptions caused by the pandemic.*
- *Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.*

Investment and borrowing rates

- ***Investment returns*** *have started improving in the second half of 21/22 and are expected to improve further during 22/23 as the MPC progressively increases Bank Rate.*
- ***Borrowing interest rates*** *fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.*
- *On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows:-*
  - ***PWLB Standard Rate*** *is gilt plus 100 basis points (G+100bps)*
  - ***PWLB Certainty Rate*** *is gilt plus 80 basis points (G+80bps)*
  - ***PWLB HRA Standard Rate*** *is gilt plus 100 basis points (G+100bps)*
  - ***PWLB HRA Certainty Rate*** *is gilt plus 80bps (G+80bps)*
  - ***Local Infrastructure Rate*** *is gilt plus 60bps (G+60bps)*
- ***Borrowing for capital expenditure.*** *Our long-term (beyond 10 years) forecast for Bank Rate is 2.00%. As nearly all PWLB certainty rates are now above this level, borrowing strategy will need to be reviewed, especially as the maturity curve has flattened out considerably. Better value can be obtained at the very short and at the longer end of the curve and longer-term rates are still at historically low levels. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if a client is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk.*

ECONOMIC *BACKGROUND*

COVID-19 and vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This dashed such hopes and raised major concerns that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that although this mutation is very fast spreading, it does not cause severe illness in fully vaccinated people. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time focused on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection., It also placed restrictions on large indoor gatherings and hospitality venues over Christmas and into January and requested workers to work from home. This hit sectors like restaurants, travel, tourism and hotels hard which had already been hit hard during 2021.Economic growth will also have been lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds in early 2022 although some sectors have learned how to cope well with Covid. The big question still remains as to whether any further mutations of this virus could *develop which render all 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 until tweaked vaccines become widely available.*

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- *The threat from Omicron was a wild card causing huge national concern at the time of December's MPC meeting; now it is seen as a vanquished foe disappearing in the rear-view mirror.*
- *The MPC shifted up a gear last week in raising Bank Rate by another 0.25% and narrowly avoiding making it a 0.50% increase by a 5-4 voting margin.*
- *Our forecast now expects the MPC to deliver another 0.25% increase in March; their position appears to be to go for sharp increases to get the job done and dusted.*
- *The March increase is likely to be followed by an increase to 1.0% in May and then to 1.25% in November.*
- *The MPC is currently much more heavily focused on combating inflation than on protecting economic growth.*
- *However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.*
- *Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.*
- *The increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.*
- *The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?*
- *If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.*

PWLB RATES

- *The yield curve has flattened out considerably.*
- *We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate.*
- *It is difficult to say currently what effect the Bank of England starting to sell gilts will have on gilt yields once Bank Rate rises to 1%: it is likely to act cautiously as it has already started on not refinancing maturing debt. A passive process of not refinancing maturing debt could begin in March when the 4% 2022 gilt matures; the Bank owns £25bn of this issuance. A pure roll-off of the £875bn gilt portfolio by not refinancing bonds as they mature, would see the holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding. Last August, the Bank said it would not actively sell gilts until the "Bank Rate had risen to at least 1%" and, "depending on economic circumstances at the time."*
- *It is possible that Bank Rate will not rise above 1% as the MPC could shift to relying on quantitative tightening (QT) to do the further work of taking steam out of the economy and reducing inflationary pressures.*
- *Increases in US treasury yields over the next few years could add upside pressure on gilt yields though, more recently, gilts have been much more correlated to movements in bund yields than treasury yields.*

MPC MEETING 4TH FEBRUARY 2022

- *After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by another 0.25% rise to 0.50%, in the second of what is very likely to be a series of increases during 2022.*
- *The Monetary Policy Committee voted by a majority of 5-4 to increase Bank Rate by 25bps to 0.5% with the minority preferring to increase Bank Rate by 50bps to 0.75%. The Committee also voted unanimously for the following: -*
    - *to reduce the £875n stock of UK government bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets.*

- *to begin to reduce the £20bn stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023.*

- *The Bank again sharply increased its forecast for inflation – to now reach a peak of 7.25% in April, well above its 2% target.*
- *The Bank estimated that UK GDP rose by 1.1% in quarter 4 of 2021 but, because of the effect of Omicron, GDP would be flat in quarter 1, but with the economy recovering during February and March. Due to the hit to households' real incomes from higher inflation, it revised down its GDP growth forecast for 2022 from 3.75% to 3.25%.*
- *The Bank is concerned at how tight the labour market is with vacancies at near record levels and a general shortage of workers - who are in a very favourable position to increase earnings by changing job.*
- *As in the December 2021 MPC meeting, the MPC was more concerned with combating inflation over the medium term than supporting economic growth in the short term. However, what was notable was the Bank's forecast for inflation: based on the markets' expectations that Bank Rate will rise to 1.50% by mid-2023, it forecast inflation to be only 1.6% in three years' time. In addition, if energy prices beyond the next six months fell as the futures market suggests, the Bank said CPI inflation in three years' time would be even lower at 1.25%. With calculations of inflation, the key point to keep in mind is that it is the rate of change in prices – not the level – that matters. Accordingly, even if oil and natural gas prices remain flat at their current elevated level, energy's contribution to headline inflation will drop back over the course of this year. That means the current energy contribution to CPI inflation, of 2% to 3%, will gradually fade over the next year.*
- *So the message to take away from the Bank's forecast is that they do not expect Bank Rate to rise to 1.5% in order to hit their target of CPI inflation of 2%. The immediate issue is with four members having voted for a 0.50% increase in February, it would only take one member more for there to be another 0.25% increase at the March meeting.*
- ***The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative tightening) holdings of bonds is as follows: -*
    1. *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.*

OUR FORECASTS

a. Bank Rate

- *Covid remains a major potential downside threat as we are most likely to get further mutations. However, their severity and impact could vary widely, depending on vaccine effectiveness and how broadly it is administered.*
- *If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.*

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

b. PWLB rates and gilt and treasury yields

Gilt yields. *Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period*
While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields. ***As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for medium to longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.***
US treasury yields. *During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. This was in addition to the $900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -*

1. *A fast vaccination programme roll-out had enabled a rapid opening up of the economy during 2021.*
2. *The economy was growing strongly during the first half of 2021 although it has weakened during the second half.*
3. *It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.*
4. *And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.*

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- ***At its 3rd November Fed meeting**, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.*
- *It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.*
- *At its **26th January meeting**, the Fed became even more hawkish following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the US where long rates are a key driver of household and corporate borrowing costs.*

*There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.*

Globally, our views are as follows: -

- ***EU.** The ECB joined with the Fed by announcing on **16th December** that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases during the first half of 2022. The ECB did not change its rate at its **3rd February** meeting, but it was clearly shocked by the increase in inflation to 5.1% in January. The President of the ECB, Christine Lagarde, hinted in the press conference after the meeting that the ECB may accelerate monetary tightening before long and she hinted that asset purchases could be reduced more quickly than implied by the previous guidance. She also refused to reaffirm officials' previous assessment that interest rate hikes in 2022 are "very unlikely". It, therefore, now looks likely that all three major western central banks will be raising rates this year in the face of sharp increases in inflation - which is looking increasingly likely to be stubbornly high and for much longer than the previous oft repeated 'transitory' descriptions implied.*
- ***China.** The pace of economic growth has now fallen back after the initial surge of recovery from the **pandemic** and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China, and being much more easily transmissible, lockdown strategies may not prove so successful in future. To boost flagging economic growth, The People's Bank of China cut its key interest rate in December 2021.*

- ***Japan.*** *2021 was a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated, and new virus* ***cases*** *have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back towards its target of 2% any time soon.*
- ***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, followed by a major surge in demand after lockdowns ended, have* ***been*** *highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution 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. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. 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 available to purchase.*

The balance of risks to the UK economy: -

- *The overall balance of risks to economic growth in the UK is now to the downside.*

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- ***Mutations*** *of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed or unable to be administered fast enough to stop the NHS being overwhelmed.*
- ***Labour and supply shortages*** *prove more enduring and disruptive and depress economic activity.*
- ***Bank of England*** *acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.*
- ***The Government*** *acts too quickly to increase taxes and/or cut expenditure to balance the national budget.*
- ***UK / EU trade arrangements*** *– if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.*
- ***Geopolitical risks,*** *for example in Ukraine/Russia, Iran, China, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows. If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.*

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- *The* ***Bank of England is too slow*** *in its pace and strength of increases in Bank Rate and, therefore, allows* ***inflationary*** *pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.*
- *Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast.*

LINK Group
February 2022

Appendix 5.3:

Treasury Management Practice (TMP1)
Credit and Counterparty Risk Management

DLUHC issued Investment Guidance in 2018, and this forms the structure of the authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the code on 9 April 2020 and will apply its principles to all investment activity. In accordance with the Code, the Chief Financial Officer has produced treasury management practices (TMPs). This part, TMP 1(1), covering Investment Counterparty Policy requires approval each year.

Annual Treasury Investment Strategy: the key requirements of both the Code and the investment guidance are to set an annual Treasury Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Authority will use. These are high security (i.e. high credit rating, although this is defined by the Authority, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year; and
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall value/categories that can be held at any time.

Strategy Guidelines: the main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments: DLUHC Investment Guidance states that an investment is a specified investment if all of the following apply:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling;

- The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a nonconditional option;

- The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended];

- The investment is made with a body or in an investment scheme described as high quality or with one of the following bodies:

  (i) The United Kingdom Government;

  (ii) A local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; or

  (iii) A parish council or community council.

This Authority defines high credit quality as counterparties having a minimum credit rating of:

- Short term: F1/A-1/P-1 (which equates to the long term ratings of A/A/A2)
- Building Societies regulated by the Prudential Regulation Authority and has a minimum of a £1billion asset base
- MMFs rated AAA

The Authority will operate to the following limits in relation to specified investments, where:

- Short Term – less than or equal to 12 months
- Medium Term – More than 12 months and up to and including 3 years
- Long Term – over 3 years and up to 5 years

Table 14: COUNTERPARTY LIST			**Credit Rating & Duration**			
			Fitch	**Standard & Poor**	**Moody's**	**Comments**
The Council's own banker for day to day banking transactional purposes.	If the main bank maintains the following criteria	Short-Term	F1	A-1	P-1	• £20M with the bank or counterparties within their group
The Council's own banker for day to day banking transactional purposes.	If the main bank falls below the following criteria, in this case balances will be minimised in both monetary size and time invested.	Short-Term	F1	A-1	P-1	• £7m
UK Banks	Covers UK Retail & Clearing Banks	Short-Term	F1	A-1	P-1	• £10m with any individual counterparty

Table 14: COUNTERPARTY LIST			Credit Rating & Duration			
			Fitch	**Standard & Poor**	**Moody's**	**Comments**
UK Banks	Covers UK Retail & Clearing Banks	Medium-Term	A+	A+	A1	• £10m with any individual counterparty
UK Banks	Covers UK Retail & Clearing Banks	Long-Term	AA-	AA-	Aa3	• £10m with any individual counterparty
Non-UK domiciled Banks	Non-UK Banks must be domiciled in a country which has a minimum sovereign long-Term rating of 'AA-'	Short-Term	F1	A-1	P-1	• £5m with any individual counterparty
		Medium - Term	A+	A+	A1	• £10m
		Long-Term	AA-	AA-	Aa3	• £10m
Building societies	The Council will use all societies which meet the following criteria	Regulated by the Prudential Regulation Authority ***and*** has a minimum of a £1billion asset base				• £10m with any individual counterparty • Up to and incl. 3 years.
Money Market Funds (MMFs)	Constant Net Asset Value (CNAV)	Short-Term	AAA	AAA	Aaa	• £10m with any individual counterparty
Money Market Funds (MMFs)	Low-Volatility Net Asset Value (LVNAV)	Short-Term	AAA	AAA	Aaa	• £10m with any individual counterparty
Money Market Funds (MMFs)	Variable Net Asset value (VNAV)	Short-Term	AAA	AAA	Aaa	• £10m with any individual counterparty
UK Government (including gilts, Treasury Bills and the DMADF)	No credit rating - UK Government guarantee	N/A	N/A	N/A		• Unlimited • To maturity
Local authorities, parish councils etc.	No credit rating - UK government guarantee	N/A	N/A	N/A		• £10m with any individual counterparty • Up to and incl. 5 years
Supranational institutions (e.g. European Investment Bank or World Bank)	The Council will use supranational institutions which meet the following criteria:	Short-Term	F1	A-1	P-1	• £10m with any individual counterparty

Non-Specified Investments: these are any other type of investment (i.e. not defined as specified above) over 365 days or those outside the criteria above where additional due diligence would be required.

Monitoring of Investment Counterparties: the credit rating of counterparties will be monitored regularly. The Authority receives credit rating information (changes, rating watches and rating outlooks) from LINK Group as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Financial Officer, and if required new counterparties which meet the criteria will be added to the list.

Accounting treatment of investments: the accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, the treasury team will review the accounting implications of new transactions before they are undertaken.

Appendix 5.4

Investment Portfolio at 31.12.21

Table 15: INVESTMENT PORTFOLIO - DETAILS	Actual 31/03/2021 £m	%	Current 31/12/2021 £m	%
Treasury Investments				
Cash at Bank – Lloyds Bank	12.469	25.7%	11.759	22.0%
Cash at Bank - Bank of Scotland	-	-	0.800	1.5%
Cash at Bank - Santander	-	-	10.000	18.7%
Building Societies - unrated - Principality Building Society	13.000	26.8%	10.000	18.7%
Building Societies - rated	-	-	-	-
Local Authorities	-	-	-	-
DMADF (HM Treasury)	-	-	-	-
Money Market Funds - Aberdeen Liquidity Fund	5.000	10.3%	10.000	18.7%
Money Market Funds - Black Rock ICS GBP LVNAV Heritage	5.000	10.3%	1.000	1.9%
Money Market Funds - Federated Hermes Short-Term GBP Prime Class 3	5.000	10.3%	-	-
Money Market Funds - GS Sterling Liquid Reserve	5.000	10.3%	-	-
Money Market Funds - LGIM Sterling Liquidity 4	3.000	6.2%	-	-
Money Market Funds - Morgan Stanley GBP Liquidity Institutional	-	-	10.000	18.7%
Certificates of Deposit	-	-	-	-
Total Managed In-House	**48.469**	**100.0%**	**53.559**	**100.0%**
Bond Funds	-	-	-	-
Property Funds	-	-	-	-
Total Managed Externally	-	-	-	-
Total Treasury Investments	**48.469**	**100.0%**	**53.559**	**100.0%**
Treasury External Borrowing				
Local Authorities - Portsmouth City Council	5.000	56%	-	-
Local Authorities - Elmbridge Borough Council	4.000	44%	-	-
PWLB	0	0%	-	-
Total External Borrowing	**9.000**	**100.0%**	**-**	**-**
Net Treasury Investments / (Borrowing)	**39.469**	**-**	**53.559**	**-**

Appendix 5.5

Approved Countries for Investment

This list is based on those countries which have sovereign ratings of AAA or higher (based on the lowest rating from Fitch, Moody's and S&P) and also [except - at the time of writing - for Norway and Luxembourg] have banks operating in sterling markets which have credit ratings of green or above in LINK Group's credit worthiness reports.

Based on lowest available rating

AAA

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

This list may change during the year

Appendix 5.6

Treasury Management Scheme of Delegation

Council
- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual Strategy.

Executive
- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

Audit Committee
- scrutinising treasury reports and making recommendations to the Executive.

Appendix 5.7

Treasury Management Role of the Section 151 Officer

The Section 151 Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a Capital Investment Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the Capital Investment Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:

    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Appendix 5.8

Treasury Management Risk Assessment

Table 16: TREASURY MANAGEMENT RISK ASSESSMENT			
Risk	**Impact**	**Likelihood**	**Mitigation actions/controls included within the Treasury Management Strategy**
Interest Rate Risk Rates varying significantly compared to forecast.	High	Medium	With a forecast increasing borrowing requirement rising interest rates would be detrimental. The Council would need to consider taking out fixed borrowing to help mitigate this risk and/or use further internal borrowing if resources are available. Falling interest rates would be broadly beneficial given the increasing borrowing requirement.
Market Risk Adverse market fluctuations affect value of investment capital.	Medium	Low	Limits are placed on the value of principal sums that are invested.
Credit Risk Risk to repayment of capital	High	Medium	The Council's investment policy restricts counterparties to those of the highest quality and security.
Liquidity Risk Risk that cash will not be available when needed.	Medium	Medium	The Council's investment portfolio is structured to reflect future liquidity needs. Temporary borrowing is available to meet short term liquidity issues.
Liquidity Risk Changes to Capital Programme forecasts and/or revenue streams	High	Medium	Cash flows are calculated weekly and regular projections are made to identify changes to the Council's funding requirements. Prudential borrowing to support capital expenditure can be used for schemes expected to provide a financial benefit to the Council. There may be some slippage in capital expenditure between years and the impacts are monitored.

Signed off by	Head of Legal and Governance
Author	Liane Dell, Democratic Services Officer
Telephone	Tel: 01737 276865
Email	Liane.Dell@reigate-banstead.gov.uk
To	Audit Committee
Date	Tuesday, 15 March 2022
Member	Councillor James King, Audit Committee Chair

Key Decision Required	N
Wards Affected	(All Wards);

Subject	Audit Committee Annual Report 2021/22

Recommendations

(i) That the Annual Report of the Audit Committee be noted and, subject to any changes agreed at this meeting, recommended to Council.

(ii) That the Audit Committee's Forward Plan for 2022/23 be approved.

Reasons for Recommendations

The purpose of the Audit Committee is to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment. The Annual Report of the Committee provides a summary of its work during 2021/22. It also confirms the scope of the Committee's work programme for 2022/23.

Executive Summary

The Audit Committee provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and strong public financial standards and management. It scrutinises the Council's governance, risk management and control frameworks and oversees the integrity of financial reporting and annual governance processes. It oversees the work of treasury management, internal audit and external audit, helping to ensure efficient and effective independent assurance arrangements are in place.

During 2021/22 strong risk management arrangements have remained in place and the Audit Committee received three reports on treasury management and quarterly reports on internal audit and risk management.

The roles and responsibilities of the Audit Committee are set out in its written terms of reference, which include the requirement to provide an annual report to the Council which presents a summary of work undertaken over the previous year and its plans for the coming year.

The above recommendations are subject to approval by the Committee.

Statutory Powers

1. The functions of the Audit Committee are set out in the Council's Constitution, in line with the Local Government Act 2000 as amended by the Localism Act 2011 and the Local Audit and Accountability Act 2014 and the Local Audit and Accounts Regulation 2015

Background

2. The Annual Report 2021/22 sets out the work of the Audit Committee in 2021/22 and considers its forward work programme for 2022/23.

Key Information

Introduction

3. The Accounts & Audit (England) Regulations 2015 require:

   [The] authority must ensure that it has a sound system of internal control which –
   (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
   (b) ensures that the financial and operational management of the authority is effective; and
   (c) includes effective arrangements for the management of risk.

4. The Chartered Institute of Public Finance & Accountancy (CIPFA) sets out further detail on the role of Audit Committees in their Practical Guidance for Local Authorities 2018. It states that *"…the purpose of the Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes…"*

Audit Committee Overview

5. The Audit Committee was established in the 2020/21 municipal year, having taken over the audit function from the Overview and Scrutiny Committee for 2020/21 onwards. These arrangements are in accordance with best practice guidance from CIPFA.

6. The Committee, which is now in its second year, has continued to work well and has an established forward work programme which is examined periodically by the Chair, Officers and the Committee as a whole. The programme is amended when new requirements and issues are identified which ensures the Committee remains dynamic and focussed on its functions.

7. There were nine Council members appointed to the Committee for 2021/22; Councillor James King was elected as Chair and Councillor Feeney was elected as Vice-Chair.

8. During the year, in line with CIPFA guidance, it was agreed by Council that an Independent Member be appointed to the Audit Committee to help provide increased expertise and confidence that the Audit Committee continued to follow best practice.

9. At the Full Council meeting held on 23 September 2021, Robert Coyle was formally appointed as the Committee's Independent Member and was welcomed to the Committee at its meeting on 28 September 2021, making him the tenth member of the Committee.

10. There have been four scheduled meetings this Municipal year.

11. Members of the Committee were invited to attend the training courses listed below. Seven of the ten current members that were appointed to the Committee attended at least one course.

    - Councillor's Guide to Understanding Your Council's Financial Reporting Requirements – 10 August 2021 – CIPFA
    - Introduction to The Knowledge and Skills of the Audit Committee – 8 September 2021 – CIPFA
    - Introduction to Internal Audit at RBBC training – 20 September 2021 – SIAP
    - The Effective Audit Committee – 23 September 2021 – SIAP & CIPFA

Programme of Work 2020/21

12. The Audit Committee has considered the following during 2020/21:
    - Internal Audit Plan and Charter and progress reports from the Southern Internal Audit Partnership (SIAP)
    - Strategic Risks
    - External Audit Plan
    - Risk Management
      Code of Corporate GovernanceTreasury Management

- External Audit Contract Arrangements 2023 – 2028
- External Auditor's Report (ISA260) and audited Statement of Accounts 2020/21 (At the time of writing this report, a date to consider these items was yet to be confirmed).

13. This year the Audit Committee took over scrutiny of the Council's Treasury Management arrangements from the Overview and Scrutiny Committee.

14. The Committee considered three reports and was consulted on development of the Treasury Management Strategy for 2022/23.

15. At its meeting held on 28 September 2021, the Committee considered the Treasury Management Outturn report and the performance of the Council's treasury management activities for the previous financial year (2020/21). This was part of the formal reporting requirements under the CIPFA Code of Practice. It was confirmed 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.

Internal Audit 2020/21 and Internal Audit Opinion

16. At its meeting held on 10 June 2021, the Committee considered the Council's internal audit opinion for 2020/21. The Southern Internal Audit Partnership (SIAP) was able to give an overall opinion of "reasonable" on the Council's framework of risk management, governance and control.

17. The Committee will consider the internal audit opinion given for 2021/22 at the first meeting of the Audit Committee of 2022/23 (currently scheduled for the 27 July 2022).

18. Throughout the audit cycle overdue management actions outstanding from previous audits were reported, along with revised target dates. SIAP continued to work with Officers on these overdue actions and followed all overdue management actions until completion.

19. At its meeting on 28 September 2021, the Committee requested the inclusion of more detail on overdue high priority management actions and this was provided. At the subsequent meeting held on 25 November 2021 the Committee also requested further detail on low and medium priority management actions. Where necessary this information can be provided to the Committee upon request.

Risk Management

20. The Audit Committee receives a quarterly update on risk management as part of its constitutional responsibility. As per the Council's risk management methodology, the risk management report provides an update on all strategic risks as well as any red rated operational risks. Through this, the Committee has oversight and ensures robustness of strategic risk setting and assessment of the adequacy of the risk management process. Furthermore, the Committee feeds back to the Executive in respect of the risk register.

21. 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 Medium-Term Financial Plan (MTFP). Part of the Committee's remit is to consider these risks as part of risk management.

22. 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. The Council's Risk Management Strategy requires that operational risks are reported by exception to the Audit Committee (and Executive) when RAG rated 'red'.

Corporate Governance

23. 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.

24. This is reported to the Audit Committee on an annual basis. For 2021/22, the changes were relatively minor, with the addition of new sources of evidence and amending some of the titles of Council policies.

External Audit Opinion and Statement of Accounts

25. At the time of preparing this report the authority was still awaiting confirmation of the external auditor's ISA260 report on the Statement of Accounts for 2020/21. An additional meeting of the Committee will be arranged to consider the auditor's report and the statement of accounts as soon as the ISA260 is finalised.

Acknowledgement

26. Once again it was it is acknowledged that 2021/22 has been a productive year and thanks were offered to the SIAP, Deloitte LLP, the Finance Team and the Projects and Business Assurance Team for their contributions in enabling the work of the Committee in 2021/22.

Future Work Programme 2022/23

27. A Forward Plan for the Committee has been compiled and can be found at Appendix A. This is likely to be subject to change as required by the Committee during the year.

Conclusions

28. The Committee provides independent assurance to the Council of the adequacy of the risk management framework, the internal control environment and financial reporting.

29.	The Committee's work programme continues to be dynamic to reflect emerging information and will continue to be reviewed to ensure the Committee maximises its contribution to governance and the control framework.
30.	The work programme for 2021/22 has been delivered in line with the Committee's remit.
31.	In accordance with the Audit Committee's Terms of Reference, the Committee is requested to consider and recommend this Annual Report to Council.

Options

32. The Committee has two options:
    1. To approve the Annual Report of the Audit Committee 2020/21 as written and recommend it to Council; or
    2. To suggest amendments to the Annual Report of the Audit Committee 2020/21 prior to its recommendation to Council.

Legal Implications

33. Audit Committee terms of reference are based upon CIPFA Guidance and meet the requirements of the Accounts & Audit (England) Regulations 2015 which require the Audit Committee to consider the work of internal and external audit to give assurance to give assurance to elected members and the public about the governance, financial reporting and performance of the Council.

34. In approving the above recommendations, the Audit Committee is promoting sound robust risk management in accordance with its statutory responsibilities.

Financial Implications

35. There are no direct financial implications arising from the annual report.

Equalities Implications

36. The Council has a Public Sector Equality Duty under the Equality Act (2010) to have due regard to the need to:

- Eliminate discrimination harassment and victimisation and any other conduct
- prohibited under the Act.
- Advance equality of opportunity between people who share those protected
- characteristics and people who do not;
- Foster good relations between people who share those characteristics and people who do not.

37. The three parts of the duty applies to the following protected characteristics: age; disability; gender reassignment; pregnancy/maternity; race; religion/faith; sex and sexual orientation. In addition, marriage and civil partnership status applies to the first part of the duty.

38. The Committee should ensure that it has regard for these duties by considering them through the course of its work. This should include considering:

- How policy issues impact on different groups within the community,
- Particularly those that share the nine protected characteristics;
- Whether the impact on particular groups is fair and proportionate;
- Whether there is equality of access to service and fair representation of all
- groups within the Borough;
- Whether any positive opportunities to advance equality of opportunity and/or good relations between people, are being realised.

Communication Implications

39. There are no significant communications implications arising from this report.

Environmental Sustainability Implications

40. There are no direct environmental sustainability implications arising from this report.

Risk Management Considerations

41. Oversight of the Council's risk management arrangements is a key responsibility of this Committee and is considered throughout the wider audit process.

Consultation

42. In accordance with the Audit arrangements contained in the Council's Constitution, the Committee's Annual Report was drafted in consultation with the Chair and Vice-Chair of the Audit Committee.

Annex

43. Annex A – Audit Committee Forward Plan 2022/23.

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REIGATE AND BANSTEAD BOROUGH COUNCIL:

AUDIT COMMITTEE

Date of issue: 04 March 2022

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
14 June 2022								
Pat Main, Interim Head of Finance	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Draft Annual Governance Statement 2021/22** To review the Draft Annual Governance Statement				Open	
Luke Harvey, Project & Performance Team Leader	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Annual Internal audit report and opinion 2021/22** To consider the audit report opinion for 2021/22.				Open	
Luke Harvey, Project & Performance Team Leader	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Internal audit 2021/22 – Quarter 4 progress report** To consider progress in Q4 against delivery of the 2021/22 internal audit plan.				Open	
Luke Harvey, Project &	Portfolio Holder for Corporate	Head of Projects and Performance	**Risk Management – Quarter 4 2021/22**				Open	

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Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
Performance Team Leader	Policy and Resources		To note the Quarter 4 2021/22 update on risk management provided by the report and associated annexes and make any observations to the Executive.					
Pat Main, Interim Head of Finance	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**External Audit Plan 2022/23** To note the External Audit Plan for 2022/23.				Open	
6 September 2022								
Pat Main, Interim Head of Finance and Assets	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance Interim Head of Finance	**Treasury Management Outturn 2021/22** To report to members the performance of the Treasury function in the financial year 2020/21		16 Sep 2021		Open	
Luke Harvey, Project & Performance Team Leader	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Internal audit 2022/23 – Quarter 1 progress report** To consider progress in Q1 against delivery of the 2022/23 internal audit plan.				Open	
Luke Harvey,	Portfolio Holder	Head of Projects	**Risk Management – Quarter 1**				Open	

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
Project & Performance Team Leader	for Corporate Policy and Resources	and Performance	**2022/23** To note the Quarter 1 2022/23 update on risk management provided by the report and associated annexes and make any observations to the Executive.					
6 December 2022								
Pat Main, Interim Head of Finance and Assets, Nicola Pettett, Group Accountant	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Treasury Management Mid-Year Report 2022/23** To consider the Treasury Management Mid-Year Report 2021/22.				Open	KEY
Luke Harvey, Project & Performance Team Leader	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Internal audit 2022/23 – Quarter 2 progress report** To consider progress in Q2 against delivery of the 2022/23 internal audit plan.				Open	
Luke Harvey, Project & Performance Team Leader	Portfolio Holder for Corporate Policy and Resources	Head of Projects and Performance	**Risk Management – Quarter 2 2022/23** To note the Quarter 2 2022/23 update on risk management provided by the report and associated annexes and make any				Open	

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
			observations to the Executive.					
Alex Vine Electoral and Democratic Services Manager	Portfolio Holder for Corporate Governance	Commercial and Investment Director	**Update of the Code of Corporate Governance** To adopt the updated Code of Corporate Governance.					
14 March 2023								
Luke Harvey, Project & Performance Team Leader	Portfolio Holder for Corporate Policy and Resources	Head of Corporate Policy	**Risk Management – Quarter 3 2022/23** To note the Quarter 3 2022/23 update on risk management provided by the report and associated annexes and make any observations to the Executive.				Open	
Luke Harvey, Project & Performance Team Leader	Portfolio Holder for Corporate Policy and Resources	Head of Corporate Policy	**Strategic Risks – 2023/24** To consider the strategic risks for the Council in 2022/23.				Open	
Luke Harvey, Project & Performance Team Leader	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Internal audit 2022/23 – Quarter 3 progress report** To consider progress in Q3 against delivery of the 2022/23 internal audit plan.				Open	

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
Luke Harvey, Project & Performance Team Leader	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Internal audit plan 2023/24- and Charter 2023/24** To approve the internal audit plan for 2023/24 and Charter 2023/24.				Open	
Pat Main, Interim Head of Finance and Assets	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Treasury Management Strategy 2023/24** To consider the Treasury Management Strategy 2023/24.				Open	KEY
Liane Dell - Democratic Services Officers	Portfolio Holder for Corporate Policy and Resources	Head of Legal and Governance	**Audit Committee Annual report 2022/23 and Forward Work Programme 2023/24** To consider the Audit Committee's Annual Report and forward work programme for 2023/24				Open	
June 2023 – note other items will be added to this meeting								
Pat Main, Interim Head of Finance	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Annual Governance Statement 2022/23 – draft** To review the final Annual Governance Statement.				Open	
Meeting Date TBC for 2020/21 reports								
Pat Main, Interim	Deputy Leader	Interim Head of	**Final Annual Governance**				Open	

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
Head of Finance and Assets	and Portfolio Holder for Finance and Governance	Finance	**Statement 2020/21** To consider the Final Annual Governance Statement 2020/21					
Pat Main, Interim Head of Finance and Assets	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Audited Statement of Accounts 2020/21** To consider the Audited Statement of Accounts 2020/21				Open	
Pat Main, Interim Head of Finance and Assets	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**External Auditor Report (ISA 260) 2020/21** This report, from the Council's external auditors, summarises conclusions and significant issues arising from the audit of the 2020/21 Annual Financial Report.					
Meeting Date TBC for 2021/22 reports								
Pat Main, Interim Head of Finance and Assets	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Final Annual Governance Statement 2021/22** To consider the Final Annual Governance Statement 2021/22				Open	
Pat Main, Interim Head of Finance and Assets	Deputy Leader and Portfolio Holder for Finance and Governance	Interim Head of Finance	**Audited Statement of Accounts 2021/22** To consider the Audited Statement of Accounts 2021/22				Open	
Pat Main, Interim Head of Finance	Deputy Leader and Portfolio	Interim Head of Finance	**External Auditor Report (ISA 260) 2021/22**					

Report Author(s)	Lead Member(s)	Officer sign off	Subject	O&S	Executive	Council	Open / Exempt	Key
and Assets	Holder for Finance and Governance		This report, from the Council's external auditors, summarises conclusions and significant issues arising from the audit of the 2021/22 Annual Financial Report.					

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