

Overview and Scrutiny Committee Agenda

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

5 March 2019

To the Members of the OVERVIEW AND SCRUTINY COMMITTEE

Councillors: B. A. Stead (Chairman),

T. Archer	J. P. King
M. S. Blacker	R. Michalowski
R. W. Coad	D. T. Powell
G. R. Curry	J. M. Stephenson
J. C. S. Essex	Mrs. A. F. Tarrant
J. S. Godden	Mrs. R. S. Turner
N. D. Harrison	J. F. White

Substitutes

Councillors:

Conservatives: Mrs. R. Absalom, R. Biggs, J. M. Ellacott, V. H. Lewanski,

G. Owen and C. Stevens

Residents Group: Mrs. J. S. Bray, R. Harper and M. J. Selby

Green Party: H. Brown and S. McKenna

For a meeting of the **OVERVIEW AND SCRUTINY COMMITTEE** to be held on **THURSDAY, 14 MARCH 2019** at **7.30 pm** in the Town Hall, Reigate.

John Jory
Chief Executive

- 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 any substitute Members in accordance with the Constitution.
- 3. DECLARATIONS OF INTEREST**
To receive any Declarations of Interest (including the existence and nature of any Party Whip).
- 4. INTERNAL AUDIT PLAN 2019/20** (Pages 13 - 42)
To endorse the draft Internal Audit Plan for 2019/20.
- 5. PORTFOLIO HOLDER BRIEFING**
To receive a briefing from Cllr A. Horwood, Executive Member for Neighbourhood Services, and to consider any issues that arise.
- 6. OUTLINE CAPITAL STRATEGY** (Pages 43 - 70)
To consider the first stage of the Council's Capital Investment Strategy, and to offer any comments for consideration by the Executive.
- 7. QUARTERLY PERFORMANCE REPORT (Q3 2018/19)** (Pages 71 - 90)
To consider the performance in the third quarter of 2018/19 of the Council's Service Indicators, Revenue Budget Monitoring, Capital Budget Monitoring, Risk Management and Internal Audit.
- 8. COMPANIES PERFORMANCE UPDATE - MARCH 2019** (Pages 91 - 100)
To consider information on the performance of companies owned or part owned by the Council.
- 9. EXECUTIVE**
To consider any items arising from the Executive which might be subject to the 'call-in' procedure in accordance with the provisions of the Overview and Scrutiny Procedure Rules set out in the Constitution.

10. ANY OTHER URGENT BUSINESS

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

(NOTE: Under the Committee and Sub-Committee Procedure Rules set out in the Constitution, items of urgent business must be submitted in writing but may be supplemented by an oral report.)

11. EXEMPT BUSINESS

RESOLVED 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:

- (i) it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act; and
- (ii) the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

12. COMPANIES PERFORMANCE UPDATE - MARCH 2019 (Pages 101 - 104) (EXEMPT)

To consider exempt information on the performance of companies owned or part owned by the Council.

Additional information to follow.

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Agenda Item 1

Overview and Scrutiny Committee
February 2019

Minutes

BOROUGH OF REIGATE AND BANSTEAD OVERVIEW AND SCRUTINY COMMITTEE

Minutes of a meeting of the Overview and Scrutiny Committee held at the Town Hall, Reigate on Thursday, 14 February 2019 at 7.30 pm.

Present: Councillors B. A. Stead (Chairman), T. Archer, M. S. Blacker, R. W. Coad, G. R. Curry, J. C. S. Essex, N. D. Harrison, J. P. King, R. Michalowski, Mrs. R. S. Turner and J. M. Ellacott (Substitute)

Also present: Councillors M.A. Brunt, G.J. Knight, and T. Schofield

54. MINUTES

RESOLVED that the minutes of the meeting held on 17 January 2019 be approved as a correct record.

55. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Committee Members: Councillors D.T. Powell, J.M Stephenson (substituted for by Cllr J.M. Ellacott), A.F. Tarrant, and J.F. White.

Others: None.

56. DECLARATIONS OF INTEREST

No declarations of interest were made.

57. PORTFOLIO HOLDER BRIEFING

The Committee received a presentation from Councillor G.J. Knight, Deputy Leader and Executive Member for Housing & Benefits, on the Housing & Benefits portfolio, including the work of Housing Services, the Intervention Team, and Revenues, Benefits & Fraud services.

The information on Housing Services included an overview of the service's work to address homeless in the borough, with regard to the expanded requirements of the Homeless Reduction Act 2017. This made reference to levels of demand and supply, a new emergency accommodation unit opened by the Council in September 2018, challenges facing the service, including the demands of universal credit, work with registered housing providers, including Raven Housing Trust, and future objectives and the developing Housing Strategy.

The information on the Intervention Team included an overview of the team's work to support vulnerable residents across four services: Family Support, Refugee

Agenda Item 1

Resettlement, Universal Credit, and Money Support. This made reference to activity levels in these areas, and the objectives and outcomes of the services.

The information on Revenues, Benefits & Fraud services included an overview of the service's work to collect Council Tax and Business Rates, support households through Housing Benefit and Council Tax Support, protect the public purse through fraud and financial investigations, and the provision of services to other councils, housing providers and private companies, thereby generating income for the Council. This made reference to activity levels and performance, and to the potential for future expansion to the service's commercial activities.

The Committee considered and discussed the presentation. There were a number of questions and comments relating to the following topics:

- **Housing Services demand levels and support requirements.** It was queried if the additional demands resulting from the Homelessness Reduction Act (HRA), along with the effects of the roll out of Universal Credit, had led to an increased requirement for officers. It was confirmed that this was the case, with an increase from 15 to 19 officers, the 4 new fixed term contracts currently funded by central government funding to support the implementation of the HRA, with options for permanent funding being considered.
- **Additional emergency accommodation sites.** It was queried if consideration was being given to the council establishing additional emergency accommodation sites in the borough, as the site in Horley appeared to be operating well. It was suggested that a site in a more central or northern location in the borough would be beneficial for those with local connection to these areas and requiring emergency accommodation. It was identified that there were no current plans for additional sites, but that options would be kept under review.
- **Housing Register waiting times.** It was identified that average waiting times for housing register properties varied in line with the size of the property required and specialist requirements, and were estimated to be as follows in cases with no special requirements:
 - 1 Bedroom – 1 Year
 - 2 Bedrooms – 2.5 Years
 - 3 Bedrooms – 3.5 Years
 - 4(+) Bedrooms – Over 3.5 Years

It was identified that these times reflected the limited availability of appropriate property in the borough. It was identified that rental payments for affordable and social rented housing sourced in this way should be covered by the local housing allowance. It was identified that for households in need of 4 bedroom properties, interim measures arrangements for the use of 3 bedroom properties with other rooms which could be repurposed were sometimes possible, depending on the circumstances and rules of associated registered providers. It was identified that options for making additional capacity available were being considered. It was identified that the conclusion of existing fixed term tenancies was not expected to deliver significant increases to available capacity.

- **Housing Register size.** It was identified that prior to the introduction of the HRA, the housing register had stood at approximately 3500 households, as opposed to the current level of approximately 800. It was identified that the HRA had led to an increased focus on local needs, leading to the reduction.

Agenda Item 1

was identified that the housing register had been relatively stable at between 800 and 1000 households in recent years.

- **Housing Register and community contributions.** It was confirmed that following the Localism Act 2011, there continued to be a range of ways for those on the housing register to demonstrate community contributions, including voluntary activities as well as work and training. It was identified that engagement with such activities had been popular with those on the register when introduced, and that there were a number of exceptions to the expectation where appropriate, including for single parents with young children.
- **Target affordable housing proportions in new developments.** It was confirmed that, in addition to the stipulated levels of affordable housing for developments on green sites, options were being considered regarding target levels for developments on more urban sites.
- **Housing delivery options.** It was confirmed that a wide range of options were being considered for future housing delivery, including both development, refurbishment, and working with a range of partners. It was identified that the Council was working with YMCA East Surrey to support the purchase and refurbishment of a property to provide affordable 'move-on' accommodation for 6 single people leaving the supported YMCA hostel in Merstham.
- **Family support activities, outcomes, and timescales.** It was identified that the length of engagement of the family support team with those receiving their support depended on the individual needs of the case, but that it generally ranged between 8 and 24 weeks, with an estimated average of 18 to 19 weeks. It was noted that the work of the team was focussed on supporting independence rather than reliance, and that it therefore aimed to avoid requirements for continuous longer term engagement. It was identified that the identified 65% quantitative improvement was assessed against established criteria. Follow up and monitoring following the conclusion of an engagement period was identified to primarily occur via the Surrey County Council programme which made the original referral to the borough council, but that it was estimated that less than 10% of families engaged with were believed to re-referred.
- **Refugee resettlement.** It was confirmed that there were currently 7 families being supported within the borough, that this number was not expected to increase, and that support for these families was funded by central government.
- **Additional information.** It was requested that additional information on profit secured by the provision of external services by the Revenues, Benefits & Fraud team be made available to committee members. It was also identified that additional information on fraud investigation performance levels could be made available.

The Committee thanked Cllr Knight and the supporting officers for the presentation and answers to questions, and it was:

RESOLVED that the portfolio holder briefing from Cllr G.J. Knight, Deputy Leader and Executive Member for Housing & Benefits be noted.

Agenda Item 1

Overview and Scrutiny Committee
February 2019

Minutes

58. COMMERCIAL GOVERNANCE REVIEW

The Committee considered the report on the Commercial Governance review, as conducted by the Commercial Governance Review Member Task Group, to be considered by the Executive on 18 March 2019.

Councillor Ellacott, chair of the task group, introduced the report and outlined the approach and key aspects of the review. It was noted that the review had sought to be forward facing and to identify lessons learned for the future. It was identified that the task group had undertaken a thorough review of previous commercial activities, including consultation with relevant Members and officers, and with advice from an independent consultant. It was identified that all Members had been updated during the course of the review, and thanks were offered to all those who had contributed to the process.

Attention was drawn to the proposed commercial governance framework, which the task group had recommended form the basis for future consideration of potential commercial activities, and questions and comments from the Committee were invited.

There were a number of questions and comments relating to the following topics:

- **Internal Audit review of the draft Framework.** It was confirmed that the internal audit review of the draft Framework was in progress and was expected to be completed in time for any information arising to be considered by the Executive on 18 March.
- **Live risks.** It was confirmed that the panel was satisfied that appropriate actions were in place in response to any ongoing risks for existing commercial ventures identified as part of the review process.
- **Pathway for Care business case.** It was identified that the finding that the business case for the Pathway for Care company initially established was considered to have been insufficient to persuade a commercial bank to lend funds was made on the basis that the business case would have been expected to provide additional detail in order to do so. It was identified that the requirement for sufficient detail in this area formed part of the proposed future rules for establishment of commercial ventures.
- **Due diligence.** It was confirmed that the previous commercial activities of all key parties involved with the Path had been considered as part of the due diligence process, and that the panel had considered this information as part of their review.
- **Non-Executive Directors.** It was confirmed that the panel supported the use of non-executive directors to Council commercial ventures, and that the framework identified that this should be considered in future on a comply-or-explain basis. It was recommended that the wording in the framework on this topic, particularly point 6.(viii) should be clarified to make clear that appointment of non-executive directors should be considered as part of the establishment of commercial ventures, as part of the associated Executive report, rather than at a later date.
- **Governance and the role of the Overview & Scrutiny Committee.** A number of comments were made regarding the role of the Committee in future governance, and associated matters. Attention was drawn to the importance of ensuring that meetings providing important information to Members supporting

Agenda Item 1

decision making be minuted appropriately, to ensure that a record of the information being provided was maintained. It was identified that where Members wished to register a dissenting opinion to a decision, this should be clearly identified, and that any objections or requested amendments to minutes should be identified prior to the approval of said minutes. Attention was drawn to ensuring that consideration was given to ensuring any future commercial partners were aware of the requirements of working with a local government organisation and associated requirements for availability of information. It was identified that the Committee's work programme should make allowance for work emerging from the review.

- **Task group findings.** It was confirmed that where no initial task group findings were listed in the annexes, this indicated that the task group was content with the information provided in the evidence.
- **Consistency of reporting.** It was identified that reporting around property investment performance should, where possible, be consistent across assets owned directly by the Council and those owned by Greensand Holdings.
- **Executive Sub-Committee.** It was confirmed that reports to the proposed Executive Sub-Committee would be required to be published and made available to Members in the same way as reports to the full Executive, and that they would be eligible for the scrutiny in the same way. It was identified that consideration of all commercial ventures by a single sub-committee was intended to ensure regular reporting and availability of information.
- **Risk consideration.** It was confirmed that the proposed framework required consideration of the risks associated with any commercial ventures, and that this formed part of the requirements laid out in the proposed framework.
- **The constitution.** It was recommended the proposed framework, if agreed by the Executive, then be incorporated into the Council's constitution to ensure its consideration in future governance.
- **Member buy-in.** It was identified that the framework set out the requirement for sufficient Member buy-in to future commercial ventures. It was identified that this assessment would require a degree of judgement, but that where the proposed framework formed part of the Council's governance requirements, the requirements would be supported by the Council's statutory officers in addition to decision-making Members. It was identified that it was hoped that the requirements for availability of information and supporting details would support all Members in considering such matters in future.
- **Further review.** It was identified that the task group had not sought to conduct a forensic review of all previous decision making, but had focussed on lessons learned and how to benefit the Council in future. It was identified that an expanded review of details would be expected to incur significant additional costs of funding and resources, but that any Members supporting such activity could contact the chairman of the task group to discuss their suggestions.

The Committee thanked the members of the task group and supporting Members and officers for their work in conducting the review. It was:

RESOLVED that the report to be considered by the Executive on 18 March 2019 be noted and;

Agenda Item 1

Overview and Scrutiny Committee
February 2019

Minutes

RECOMMENDED that:

- i). The wording of the framework in relation to the appointment of non-executive directors, particularly section 6.(viii), be clarified to make clear that appointment of non-executive directors should be considered as part of the establishment of commercial ventures, as part of the associated Executive report, rather than at a later date and;
- ii). The proposed framework, if agreed by the Executive, then be incorporated into the Council's constitution.

59. DRAFT TREASURY MANAGEMENT STRATEGY 2019/20

The Committee considered the draft Treasury Management Strategy published by the Executive on 24 January 2019. A briefing note providing a summary of key changes in the Draft Treasury Management Strategy Statement (TMSS) was tabled.

Councillor Schofield, Executive Member for Finance, introduced the report, and it was identified that the main changes were to ensure compliance with updated regulatory requirements and that the TMSS would thus be compliant with these requirements. It was identified that the updated TMSS was now presented as a single report covering all relevant sections, which had previously been separated into three reports.

It was identified that the TMSS had been discussed and reviewed by the Treasury Management Panel and that the panel was content with the proposed strategy. It was identified that the strategy would support the Council's forthcoming Capital Investment Strategy and general investment approach, which would in turn support the delivery of the Council's objectives. It was identified that the Council's draft outline Capital Investment Strategy would be scrutinised by the Committee on 14 March 2019.

Attention was drawn to the benefits of the provision of summary of key points when technical matters were being considered by Committees, and it was suggested that this approach be considered for other future technical reports.

The Committee considered and discussed the report. There was one question on the report, relating to the following topic:

- **Remuneration of fund managers.** It was confirmed that external fund managers (where used) would be paid on a fixed fee basis.

RESOLVED that the draft Treasury Management Strategy 2019/20 be noted.

60. OVERVIEW AND SCRUTINY COMMITTEE WORK PROGRAMME 2019/20

The Committee considered the proposed work programme for the Committee for 2019/20. It was identified that the proposed work programme had been discussed by the Chair of the Committee, the Leader of the Council, and the Chief Executive, and that they were all content with the proposed programme.

It was identified that the work programme contained scope for the inclusion of additional activity in response to outcomes emerging from reviews of the Council's

Agenda Item 1

Overview and Scrutiny Committee
February 2019

Minutes

governance arrangements and developing strategies. It was identified that it was expected that part of this emerging work would be a review of the proposed Commercial Governance Framework approximately 12 months following its adoption.

Attention was drawn to the potential benefits of having an expert panel able to consider specialist and technical matters and then report back to the Committee, and it was suggested that the establishment of such panels be considered for any appropriate emerging areas of work.

RESOLVED that the proposed Overview and Scrutiny Committee Work Programme for 2019/20 be recommended to the Executive and Council.

61. EXECUTIVE

It was reported that there were no items arising from the Executive that might be subject to the 'call-in' procedure in accordance with the provisions of the Overview and Scrutiny Procedure Rules.

62. ANY OTHER URGENT BUSINESS

None.

The Meeting closed at 9.14 pm

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Agenda Item 4



Reigate & Banstead
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SIGNED OFF BY	DIRECTOR OF FINANCE AND ORGANISATION
AUTHOR	Yvonne Parish
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TO	OVERVIEW & SCRUTINY COMMITTEE
DATE	14 MARCH 2019
EXECUTIVE MEMBER	CLLR T. SCHOFIELD

KEY DECISION REQUIRED	YES
WARDS AFFECTED	ALL WARDS

SUBJECT	INTERNAL AUDIT PLAN 2019/20-2021/22 AND INTERNAL AUDIT CHARTER 2019/20
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RECOMMENDATIONS
(i) That the Overview & Scrutiny Committee approve the Internal Audit Plan for 2019/20-2021/22 and Internal Audit Charter as set out in annexes 1 & 2.
REASONS FOR RECOMMENDATIONS
The Council has a statutory requirement to undertake an adequate and effective internal audit function. The approval of the Internal Audit Plan and Charter is conducive to achieving this objective.
EXECUTIVE SUMMARY
Under the Council's Constitution the Overview & Scrutiny Committee fulfils the role of an Audit Committee and is responsible for setting and monitoring the Council's Internal Audit Plan and Charter.
The Internal Audit Plan & Charter (attached as annexe 1 and 2 respectively) will provide independent and objective assurance that the systems and processes identified for review are appropriate, operating effectively and provide sufficient control for the purposes of risk management, internal control and governance.
The Overview & Scrutiny Committee has the authority to approve the above

Agenda Item 4

recommendations.

STATUTORY POWERS

1. The requirement for 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 latter standards are defined in the Public Sector Internal Audit Standards (updated in 2017).
3. The Local Government Act (1972) also requires local authorities maintain an independent internal audit function which ensures that the Council operates within the law and has effective control procedures in place to make certain that public money is spent effectively and efficiently.
4. The Council's Chief Financial Officer holds the statutory responsibility for overall financial administration of the Council's affairs and is therefore responsible for maintaining an adequate and effective internal audit function.

BACKGROUND

5. On 18 October 2018 (agenda item 6), the Executive resolved that the Council will enter into a Partnership Agreement with Southern Internal Audit Partnership (SIAP) for the provision of internal audit services.
6. SIAP will take over from the existing provider, RSM, with effect from 1 April 2019.
7. The Council will join SIAP as a Key Stakeholder Partner and, in so doing, discharge its internal audit function as permitted under section 101 (5) of the Local Government Act (1972).

KEY INFORMATION

Internal audit

8. The internal audit function is a key element in the management and delivery of effective corporate governance.
9. 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'.
10. 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

Agenda Item 4

arrangements are in place and operating effectively.

11. 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 internal audit plan and Charter

12. Under the code of practice that governs how local authorities should undertake their internal audit function, it is recommended best practice that an internal audit plan and Charter are established which set out a programme of audits that will ensure that all areas of key risks are reviewed on a regular basis.
13. The internal audit plan provides the mechanism through which the internal auditors are able to ensure the most appropriate use of resources in order to provide a clear statement of assurance on risk management, internal control and governance arrangements.
14. The Council's Constitution delegates consideration of internal audit matters to the Overview and Scrutiny Committee.
15. The purpose of this report is therefore to seek the Committee's approval of the Internal Audit Charter 2019/20 and the Audit Plan for 2019/20-2021/22.
16. In approving the plan and Charter the Committee is confirming its agreement that these documents are sufficient to monitor the organisation's risk profile and provide assurance that the Council's risk management framework and controls are robust and fit for purpose.

OPTIONS

17. The Overview and Scrutiny Committee has two available options:
18. Option 1: approve the Internal Audit Plan for 2019/20-2021/22 and Charter as set out in annexes 1 and 2 respectively.
19. Option 2: defer the approval and ask for further work to be carried out. This will cause delay and could impact on the ability of SIAP to deliver the 2019/20 programme 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 a successful legal challenge.

Agenda Item 4

22. There are no other legal implications resulting from this report.

FINANCIAL IMPLICATIONS

23. The cost of funding the Audit Plan is covered within the Council's base budget.
24. 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 additional support.

EQUALITIES IMPLICATIONS

25. There are no equality issues arising from this report.

COMMUNICATION IMPLICATIONS

26. There are no communications issues arising from this report.

RISK MANAGEMENT CONSIDERATIONS

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

OTHER IMPLICATIONS

29. There are no other implications resulting from this report.

CONSULTATION

30. The plan and charter has been developed alongside the Council's Corporate Governance Group, Heads of Service and Management Team.

BACKGROUND PAPERS

1. Internal Audit Partnership Agreement, Executive Report, Agenda item 6, 18 October 2018 - <https://reigate-bansteadintranet.moderngov.co.uk/documents/s2228/Part%201%20Report%20-%20Internal%20Audit%20Partnership%20Agreement%20-%20181018%20-%20FINAL.pdf>

Internal Audit Plan

2019-20 / 2021-22

Reigate & Banstead Borough Council



17

Southern Internal
Audit Partnership

Assurance through excellence
and innovation

Contents

Introduction	3
Your Internal Audit Team	4
Conformance with Internal Audit Standards	4
Conflicts of Interest	4
5 Year Plan	5
Council's Strategic Risks	6 - 7
Developing the internal audit plan 2019-20 / 2021 -22	8
Internal Audit Plan 2019-20 / 2021 -22	9 – 15
Appendix 1 – 2019/20 Audit Plan Overview	16

Introduction

The role of internal audit is that of 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'.

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, Assistant Head of Southern Internal Audit Partnership, supported by Iona Bond, 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 2015 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:

20

*'It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of these principles. This performance is within the top decile of EOA reviews we have performed. This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.'*

*There are **no instances** across these standards where we determined a standard below "generally conforms", and 4 instances where the standard is assessed as "not applicable" due to the nature of SIAP's remit.'*

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.

Overall and Scrutiny Committee

14 March 2019

**14 March 2019
5 Year Plan**

Reigate & Banstead Borough Council have adopted a 5 year plan for the 2015-20 period. The plan explains how the Council will prioritise their resources and deliver their services to the people living and working in the borough. The plan is based around a vision for the borough, with priorities set around three themes.

Vision:

"A leading Council recognised by our residents, peers and partners. We will: Deliver quality services and support; Provide value for money; Make the borough a great place to live; Be flexible and sustainable, responding to the needs and demands of our borough, residents and businesses; and Be an increasingly commercial organisation"

Priorities:

People - supporting residents to enjoy healthy and happy lifestyles

- We will support residents into employment – particularly those in vulnerable families and young people
- We will work with and support our partners to provide great services for older people to help them stay independent
- We will encourage healthy lifestyles, particularly through the use of our leisure centres, parks and open spaces
- We will improve safety through joint working with Surrey Police and other partners

Place - A great place to live and work

- Encourage existing businesses to thrive and grow within Reigate & Banstead and attract new businesses to the borough
- To ensure our towns and public spaces are clean and attractive to residents, businesses and visitors
- Establish a Development Management Plan to deliver affordable and other types of housing, employment space and infrastructure, whilst protecting the borough's pleasant environment.

Organisation - a great Council

- We will be financially self-sufficient by 2020, without impacting on residents' priorities
- Communicate and engage with our residents and businesses, to help inform service delivery
- We will increase the value of, and income derived from, the Council's property and assets
- We will maximise the potential of our staff

Council Risk

The Council have a clear framework and approach to risk management. 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	Brexit - There is a high possibility that the UK's exit from the European Union will result in disruption to the borough and Council services. However, there is a high degree of uncertainty surrounding the scale of impact that could be experienced by the Council as a result of Brexit, therefore making this risk difficult for the Council to effectively manage and control.
SR2	Financial sustainability - The Council receives no Revenue Support Grant from Central Government. Whilst council tax and business rates make up a significant portion of the Council's funding, they do not cover the full extent of the Council's expenditure. The Council's ability to generate income from investments may be restricted by changes in regulations and codes of practice. The Council must therefore put in place a capital investment strategy, supported by appropriate governance structures and resources, to generate additional income to sustain service provision. The failure to generate this income will jeopardise the delivery of corporate objectives. Managing this risk well is dependent on Officers and Members remaining ambitious.
SR3	Local Government reorganisation and partner funding decisions - The public sector as a whole is experiencing significant funding pressures. Budgetary decisions made by other public service providers will impact this borough's residents and businesses as well as the Council itself. The Council may need to increase its services, or the support provided, which could have funding and resource implications. In addition, funding pressures could result in the financial failure of partner public sector organisations. A failure of this nature within Surrey may prompt a reorganisation of local government which could have adverse effects on this Council and the delivery of services for residents. These funding and structural pressures, juxtaposed with the outcome of the local government Fair Funding review, could also result in this Council assuming a range of new functions or responsibilities that have traditionally sat with Surrey County Council. This Council's ability to influence such decisions will be limited, however the mitigation of this risk may require the diversion of a disproportionate level of Council resources.
SR4	Organisational capacity and culture - The Council is on the verge of implementing an ambitious Corporate Plan, supported by a capital investment strategy and Housing Strategy. Delivering on the ambitions in these plans – to ensure we remain an efficient and effective Council - will require a continually ambitious organisation and culture, including both Members and Officers.
SR5	Economic prosperity - A prosperous economy is essential for the wellbeing of the borough, creating employment and wealth that benefits local people. Economic prosperity cannot be taken for granted and the current economic outlook is very uncertain. 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 paid for services and the collection of monies owed. Challenging financial circumstances for residents may also increase their reliance on Council services.
SR6	Welfare reform - The borough's residents are being affected by a combination of welfare reforms, increasing housing costs and economic changes. This increases the risk of household budgets being stretched and residents being threatened with homelessness. The latter could result in an increase in cost pressures on the Council as our services are increasingly relied upon.

22

Overview and Scrutiny Committee

14 March 2019

Ref	Risk Description
14 March 2019 SR7	Cyber security - Organisations are at an ever increasing risk of cyber attack as the use of digital systems and technologies increases. 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, disruption to the delivery of services and data theft.
SR8	Fraud - Due to the wide range of activities being undertaken by the Council, there is a risk of fraud being committed which therefore requires robust systems and processes to be in place.
SR9	Local Plan - The Council's existing Core Strategy will become out of date in July 2019 and a new local plan must therefore be prepared to give certainty over housing need and other strategic planning matters. Failure to have an up to date strategic plan risks the Council losing the ability to control its planning decisions including where development is located.
SR10	Marketfield Way - Marketfield Way is a major place project for the Council and is critical to shaping Redhill and ensuring the town's continued vitality and viability. It will also generate income which can be reinvested in Council services. Delays to this project would have an impact on the delivery of Redhill's regeneration as well as a financial impact on the Council.

*Strategic Risks as per the Draft Strategic Risk Register – Quarter 3 (due to be presented to the Executive meeting on 18/3/2019)

Developing the internal audit plan 2019-20 / 2021-22

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

- Corporate Governance Group
- Director of Finance & Organisation (S151)
- Directors
- Overview & Scrutiny Committee
- Other key stakeholders

Based on these 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 strategy for 2019-20 / 2021-22.

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.

24



Audit and Scrutiny Committee	Risk / Scope	Strategic / Operational Risk	Previous IA Coverage	2019-20	2020-21	2021-22
Corporate Compliance and Scrutiny Committee	Programme & Project Management	Assurance over project management framework and compliance in relation to delivery on live / ongoing projects (introduction of PMO during 18/19).	SR10	Q3		
	Alternative Delivery Models	Unique methods of service delivery with the potential for loss of control / ownership over. Assurance over governance, rights of access, third party assurance, contingencies, exist strategies, hosting arrangements, accountability.	SR3, OR8		✓	
	Financial Resilience	Assurance over budgetary control, efficiency Plans, financial risks relating to assumptions made for medium term financial projections.	SR2	2017/18	✓	
	Working in Partnership	Working alongside different cultures. Potential for some loss of control / ownership of service delivery. Assurance over governance, rights of access, third party assurance, contingency arrangements, exit strategy, hosting arrangements (accountabilities), benefit realisation.	SR3		✓	
	Corporate Plan	RBBC are in the process of developing a new Corporate Plan to support their future direction of travel and aspirations of the authority. Assurances over development, approval and outcomes etc. Include a review of communications/engagement as one of the priority areas within the plan in 2021/22.	SR1, SR2, SR3, SR4, SR5, SR9	2016/17	Q1	✓
	Transformation	To meet future financial challenges and enable improved and more efficient services. To include digitalisation (new ways of working, CRM, AI, robotics etc.)	SR2, SR3	2017/18		✓

Audit	Risk / Scope	Strategic / Operational Risk	Previous IA Coverage	2019-20	2020-21	2021-22
Use of Volunteers	Assurance over the practices and arrangements in place regarding the use of volunteers across the organisation.	SR4			✓	
Governance						
Decision Making & Accountability	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.			Q1		
Risk Management	Assurance over the risk management framework including governance, transparency and maturity.		2018/19 2017/18 2016/17		✓	
Fraud & Irregularities	Cyclical assurance over the governance arrangements to prevent, detect and investigate fraud and irregularities.	SR8			✓	
Human Resources & Organisational Development	Weak or ineffective internal control leading to financial loss resulting in damage to the Council's reputation and adverse publicity. Assurances over the audit cycle to cover: <ul style="list-style-type: none"> • Performance Management • Absence Management • Officer Recruitment • Officer Training & Development • Workforce Strategy / Development • Flexible Working • Volunteers. 	SR4	2015/16	Q2		✓
Contract Management	Review of contract management arrangements and compliance across a selection of contracts in place.	OR7	2018/19 2015/16		✓	

		Risk / Scope	Strategic / Operational Risk	Previous IA Coverage	2019-20	2020-21	2021-22
	Commissioning & Procurement	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.	OR7	2018/19 2015/16		✓	
	Health & Safety	Effective H&S strategy in place and operating effectively with effective governance, accountability and issue resolution.	OR6	2016/17		✓	
	Information Governance	Assurance over information governance arrangements to include FOI, SAR, Transparency and General Data Protection Regulation (GDPR).	OR9	2018/19	Q4		
27	Ethical Governance	Evaluation of the design, implementation and effectiveness of RBBC's ethics-related objectives, programmes and activities (Officers & Members Code of Conduct).			Q3		
	Business Continuity & Emergency Planning	Assurance over planning for extreme events that may lead to delays in responding to situations resulting in increased costs and staff resources including: <ul style="list-style-type: none">• Business Continuity Plan• Emergency Plan.		2016/17		✓	
	Annual Governance Statement	Cyclical assurance over the governance arrangements to compile, contribute and deliver the AGS.				✓	
IT	IT Governance	Review of IT strategy, policies, standards and procedures. Other potential areas for consideration to include IT asset management, change management and software licensing.				✓	

Audit	Risk / Scope	Strategic / Operational Risk	Previous IA Coverage	2019-20	2020-21	2021-22
Data Management	Review of data centre facilities and security including storage and back-up. To also consider database management.					✓
Information Security	Review of cyber security arrangements, security controls (including remote access) and cloud storage. To also consider network security and infrastructure management	SR7	2016/17			✓
System Development & Implementation	Systems Life Cycle, Project Management and Application Management.		2016/17	Q3		
IT Business Continuity	Disaster recovery, system resilience			Q4		
Networking & Communications	Virtualisation, operating system management					✓
Payment Card Industry Data Security Standard	Compliance to meet industry standards		2018/19	Q2		
Mobile Working	Initiatives to promote agile working. Security (physical, environmental and technical) of data and hardware.					✓

28

Core Financial Reviews

Housing Benefits		2017/18	Q3
Council Tax		2017/18	Q3
Accounts Payable		2018/19	✓
		2017/18	
Accounts Receivable / Debt Management	Programme of cyclical systems reviews	2018/19	✓
Main Accounting		2016/17	
Treasury Management		2018/19	✓
Income Collection		2016/17	
Capital Accounting		Q2	
NDR		2017/18	✓
		2017/18	Q3

Audit Payroll 14 March 2019	Risk / Scope	Strategic / Operational Risk	Previous IA Coverage	2019-20	2020-21	2021-22
				2018/19	2017/18	✓
Organisation						
Property Management & Maintenance	Assurance over effectiveness and delivery repairs and maintenance to non-housing assets (planned & reactive).		2018/19			✓
Investments	Assurance over the governance, development, accountabilities, viability and outcomes of Investment Strategy. Significant financial expectations through the successful delivery of the IS to meet savings targets (incl. review of Asset Management Plan).	SR2		Q1		
Income Generation & Commercialisation	Effectiveness of income generation / maximisation (rental income and leases, optimal use of subsidies, fees and charges). Review of relevant strategies. Setup and future deliverables of investment companies.	SR2			✓	
People						
Affordable Housing	Opportunities for development and alternative methods of delivery to meet organisational and national priorities.	SR6, SR9				✓
Homelessness	Assurance over management and prevention of homelessness. Working in partnership with housing associations and purchase of property to provide temporary / emergency accommodation.	SR6, OR1	2017/18		✓	
Housing	Effective Housing Policy and procedures to achieve desired outcomes. Development of Housing Strategy (project management.)	SR2	2017/18	Q3		

Audit	Risk / Scope	Strategic / Operational Risk	Previous IA Coverage	2019-20	2020-21	2021-22
Community Safety	Response to community safety and anti-social behaviour. To include PREVENT, East Surrey Community Safety Partnership, and community funding and grants.					✓
Health & Leisure Facilities	Thematic reviews based on areas of significant risk. To include contract management of leisure centres (x3); community centres (x3). The Harlequin Theatre & Cinema is run in-house inherent risks cash handling, procurement, H&S, safeguarding.	OR8	2018/19			✓
Community Development	Assurances over services designed to help residents retain their independence and reduce social isolation. Inherent risks include funding, demand, safeguarding.					✓
Supporting Families	Part of the national Troubled Families agenda. Devolved from SCC and provided on behalf of Tandridge and Mole Valley. To review the revised assurance arrangements in place with SCC from March 2020 onwards.				Q4	
Place						
Refuse, Recycling & Street Cleansing	In-house responsibilities for household, clinical waste and recycling collection in addition to recycling sites / banks. Some commercial activity through garden / bulky / trade waste collection. Future risks include reduced recycling credits.	OR2		Q1		
JET Overhead and Property Committee	The JET provides a visible presence & neighbourhood services. Inherent risks of H&S, safeguarding etc.					✓
Environmental Health & Licensing	In-house delivery with some opportunities to provide services / advice to other LA's. Legislative changes could increase licensing and enforcement activity (i.e. HMO's).					✓
Development Management & Planning Policy	Development Management (planning applications, appeals, enforcement); Planning Policy (local plan, CIL, S106).	SR9	2018/19 2017/18 2016/17	Q4		

Audit Overview 14 March 2019	Risk / Scope	Strategic / Operational Risk	Previous IA Coverage	2019-20	2020-21	2021-22
Building Control	Partnership initiated in 2017 hosted by Tandridge DC across three partners MVDC, R&BBC and TDC. Agreement through IAA. To consider governance, deliverables and outcomes.		2017/18		✓	
Parks & Countryside	Grounds maintenance of parks, cemetery and open spaces in addition to road verges on behalf of Surrey County Council. Risk of reduced income in some services areas i.e. bereavement services.				✓	
Regeneration	Programme management, governance and reporting of key projects against desired outcomes.				✓	
Economic Prosperity	Support to help local businesses start, develop and grow. Includes administering business support grants.	SR5			✓	
Parking & Enforcement	Assurance over service delivery in addition to existing agreements with other authorities (i.e. SCC, Tandridge on-street parking). Inherent risk of cash handling and contract management.	OR4	2017/18 2016/17		✓	
Disabled Facility Grants	Administration and compliance with local / legislative requirements.		2015/16		✓	
Fleet Management	To cover the council's management of its fleet including procurement, maintenance and renewal. Existing fleet coming towards the end of its service life. Significant volume of MOT's through the workshop (licensed taxi's)	OR3	2015/16		✓	
Other						
Management	To include annual planning, reporting and attendance at SMT, Corporate Governance Group and Overview & Scrutiny Committee, action tracking, liaison with key stakeholders and annual report and opinion.			✓	✓	✓
Total days				180	180	180

Appendix 1

2019/20 Audit Plan Overview

Audit	2019-20
Corporate	
Corporate Plan	Q1
Programme & Project Management	Q3
Governance	
Decision Making & Accountability	Q1
Human Resources & Organisational Development	Q2
Ethical Governance	Q3
Information Governance	Q4
IT	
Payment Card Industry Data Security Standard	Q2
System Development & Implementation	Q3
IT Business Continuity	Q4
Core Financials	
Income Collection	Q2
Housing Benefits	Q3
Council Tax	Q3
NNDR	Q3
Organisation	
Investments	Q1
People	
Refuse, Recycling & Street Cleansing	Q1
Housing	Q3
Supporting Families	Q4
Development Management & Planning Policy	Q4
Other	
Management	On-going
Total Days	180

Internal Audit Charter - 2019/20

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 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'.

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Reigate & Banstead BC lies with the Director of Finance & Organisation as the authority's Chief Finance Officer (S151 Officer).

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

The Chief Internal Auditor (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 Overview & Scrutiny 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 Overview & Scrutiny Committee, and organisationally to the Director of Finance & Organisation 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 Overview & Scrutiny 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 Director of Finance & Organisation 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 Overview & Scrutiny Committee’ 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 Overview & Scrutiny Committee’, 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 Overview & Scrutiny Committee’.

If the Chief Internal Auditor, ‘the Overview & Scrutiny Committee’ 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 Director of Finance & Organisation 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 Overview & Scrutiny Committee’;
- reports functionally to ‘the Overview & Scrutiny Committee’;
- 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 Overview & Scrutiny Committee'. 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 Overview & Scrutiny Committee

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Overview & Scrutiny Committee. 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;
- agreement of the scope and form of the external assessment as part of the quality management and improvement plan;
- 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 Overview & Scrutiny Committee' 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
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

Higher Education Institutions

University of Winchester

Further Education Institutions

Eastleigh;
Highbury;
Isle of Wight College;
Itchen; and
Portsmouth

Third Sector

VTCT

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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Agenda Item 6



REPORT OF:	DIRECTOR OF FINANCE & ORGANISATION (CFO)
AUTHOR:	Pat Main
TELEPHONE:	01737 276063
E-MAIL:	pat.main@reigate-banstead.gov.uk
TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	14 MARCH 2019

WARD (S) AFFECTED:	ALL
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SUBJECT:	OUTLINE CAPITAL INVESTMENT STRATEGY 2019/20
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RECOMMENDATIONS:

- (i) **that the Committee note the Outline Capital Strategy;**
- (ii) **That the Committee make any observations and/or recommendations to the Leader of the Council and Chief Executive.**

SUMMARY:

The Capital Investment Strategy sets out the Council's approach to capital investment for the next five years. It forms a key part of the Council's governance arrangements and provides a mechanism by which investment and financing plans can be prioritised, ensuring that capital decisions take account of stewardship, value for money, prudence, sustainability and affordability.

It is intended to be read in combination with the Treasury Management Strategy.

The Outline Strategy covers:

- How the Council's capital investment plans will support delivery of corporate priorities and key strategies – including (in due course) the new Corporate Plan and Housing Strategy
- How capital investment options are evaluated – to demonstrate effective governance, robust decision-making and compliance with new regulations and guidance
- How the Council plans to achieve a balance between capital investment to support service delivery and investments that deliver a financial return to support the budget
- How the capital programme will be funded and how the Council will ensure it is affordable over the medium term
- How capital investment risks are managed
- How the Council plans to extend capital investment planning timescales from short/medium-term to longer-term (10+ years)

Agenda Item 6

Subject to agreement of this Outline Strategy, going forward the priority areas for further work to develop the final Strategy include:

- Refreshing the Council's 5-year Medium Term Financial Plan in order to confirm scale of the Council's future financial challenge and investment ambitions
- Evaluating the performance and risk profile of existing and planned capital investments – covering investment in operational assets, commercial properties, company loans and other treasury investments
- Further development of the supporting Governance and decision-making frameworks

This initial Outline Strategy will develop further over coming months as priorities in the new Corporate Plan and Housing Strategy are confirmed. Further updates to the Strategy will be reported during 2019/20 as these plans are confirmed. Thereafter the intention is to update the Strategy on an annual basis.

STATUTORY POWERS

1. Set out in the Executive report attached

ISSUES

2. Set out in the Executive report attached

OPTIONS

3. The Committee has two options open to it:

- Option 1: Note the report and make any appropriate observations and comments to the Leader of the Council and Chief Executive.
- Option 2: Note the report and make no observations.

LEGAL IMPLICATIONS

4. Set out in the Executive report attached

FINANCIAL IMPLICATIONS

5. Set out in the Executive report attached

EQUALITIES IMPLICATIONS

6. Set out in the Executive report attached

COMMUNICATION IMPLICATIONS

7. Set out in the Executive report attached

RISK MANAGEMENT CONSIDERATIONS

8. Set out in the Executive report attached

OTHER IMPLICATIONS

9. Set out in the Executive report attached

Agenda Item 6

CONSULTATION

10. Set out in the Executive report attached

POLICY FRAMEWORK

11. Set out in the Executive report attached

Background Papers:

12. None

Agenda Item 6



REPORT OF:	DIRECTOR OF FINANCE & ORGANISATION (CFO)
AUTHOR:	Pat Main
TELEPHONE:	01737 276063
E-MAIL:	pat.main@reigate-banstead.gov.uk
TO:	EXECUTIVE
DATE:	18 MARCH 2019
EXECUTIVE MEMBER:	COUNCILLOR T. SCHOFIELD

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	ALL

SUBJECT:	OUTLINE CAPITAL INVESTMENT STRATEGY 2019/20
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RECOMMENDATIONS:

That the Outline Capital Investment Strategy 2019/20 be approved.

REASONS FOR RECOMMENDATIONS:

To support the adoption of an Outline Capital Investment Strategy for the 2019/20 financial period.

EXECUTIVE SUMMARY:

This Strategy sets out the Council's approach to capital investment for the next five years. It forms a key part of the Council's governance arrangements and provides a mechanism by which investment and financing plans can be prioritised, ensuring that capital decisions take account of stewardship, value for money, prudence, sustainability and affordability.

Executive has authority to approve the above recommendation.

STATUTORY POWERS

1. The Council operates its capital investment activity as an integral part of its statutory obligation to effectively manage the Council's finances under the *Local Government Act 2003* and associated regulations.
2. Investments are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities, and the Government's Investment Regulations.

Agenda Item 6

ISSUES

Background

3. The Outline Capital Investment Strategy (the ‘Strategy’) is a new report for 2019/20, providing a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services.
4. Purpose of the Strategy is to
 - Ensure capital expenditure contributes to the achievement of the Council’s organisational strategy
 - Set a capital programme which is affordable and sustainable
 - Maximise the use of the Council’s assets
 - Provide a clear framework for decision making and prioritisation relating to capital expenditure
 - Establish a corporate approach to the review of asset utilisation

It is intended to be read in combination with the Treasury Management Strategy (reported separately on this agenda).

5. The Outline Strategy covers:
 - How the Council’s capital investment plans will support delivery of corporate priorities and key strategies - including the new Corporate Plan and Housing Strategy
 - How capital investment options are evaluated – to demonstrate effective governance, robust decision-making and compliance with new regulations and guidance
 - How the Council plans to achieve a balance between capital investment to support service delivery and investments that deliver a financial return to support the budget
 - How the capital programme will be funded and how the Council will ensure it is affordable over the medium term
 - How capital investment risks are managed
 - How the Council plans to extend capital investment planning timescales from short/medium-term to longer-term (10+ years)
6. The approach to development of the Capital Investment Strategy has been subject to review by the Treasury Management Panel at a workshop with the Council’s treasury management advisors on 12 February and the Outline Strategy document has been reviewed by the Overview and Scrutiny Committee on 14 March. Their feedback will be reported at this meeting.
7. Going forward the priority areas for further work to develop the final Strategy include:
 - Refreshing the Council’s 5-year Medium Term Financial Plan in order to confirm scale of the Council’s future financial challenge and investment ambitions

Agenda Item 6

- Evaluating the performance and risk profile of existing and planned capital investments – covering investment in operational assets, commercial properties, company loans and other treasury investments
 - Further development of the supporting Governance and decision-making frameworks
8. This initial Outline Strategy will therefore develop further over coming months as priorities in the new Corporate Plan and Housing Strategy are confirmed. Further updates to the Strategy will be reported during 2019/20 as these plans are confirmed. Thereafter the intention is to update the Strategy on an annual basis.

Matters for Consideration

Guidance

9. The requirement to prepare a Capital Investment Strategy has been introduced as a consequence of recent revisions of MHCLG Investment Guidance, MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.
10. These changes are intended to reflect the increasingly complex business models being adopted by Local Authorities in response to reductions in other funding streams.
11. The objective is to demonstrate a longer-term focus to local authority capital plans. There are also enhanced reporting requirements surrounding commercial activity undertaken under the Localism Act 2011.

OPTIONS

12. There are 3 options:
13. **Option 1** – Approve the recommendations within this report
This will provide the best opportunity to ensure compliance with the new reporting standards as well as establishing a framework for future investment decisions.

This is the recommended option.
14. **Option 2** - To defer the report and ask Officers to provide more information and/or clarification on any specific points
The updated Prudential Code stipulates that the authority's Capital Investment Strategy must be approved prior to the financial year to which it relates.

Any delay in approving the Strategy could leave the Council open to the same risks identified in option 3 below.

15. **Option 3** - To not support the contents of this report

This would mean that the Council fails to meet the new reporting standards and also lacks the required frameworks for undertaking future investment decisions.

Agenda Item 6

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

17. The financial impacts of the Capital Investment Strategy have already been reflected within the Council's 2019/20 Budget proposals. There are no additional direct financial implications that arise from this report or from the changes to the CIPFA Prudential Code.

EQUALITIES IMPLICATIONS

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

COMMUNICATION IMPLICATIONS

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

RISK MANAGEMENT CONSIDERATIONS

20. These are detailed in Annex 1

OTHER IMPLICATIONS

21. There are no other implications arising from this report

CONSULTATION

22. The proposals in this report have been reviewed by a Member Panel led by the Portfolio Holder for Finance in February and then by the Overview and Scrutiny Committee at its March meeting.

POLICY FRAMEWORK

23. The Capital Investment Strategy will be part of the Council's Policy Framework as set out in Article 4 of the Constitution.

Background Papers:

24. None

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Outline Capital Investment Strategy

INDEX		Page
FOREWORD		2
1. INTRODUCTION		3
2. PURPOSE		4
3. SUMMARY		5
4. INFLUENCES ON CAPITAL INVESTMENT		7
5. CURRENT CAPITAL EXPENDITURE		8
6. COMMERCIAL PROPERTY INVESTMENT STRATEGY		11
7. FUTURE CAPITAL INVESTMENT PLANS		12
8. RISK MANAGEMENT		14
9. CAPITAL APPRAISAL PROCESS		15
10. GOVERNANCE		16
APPENDICES		
1. TREASURY MANAGEMENT FRAMEWORK		19

FOREWORD

This Outline Capital Investment Strategy sets out Reigate & Banstead Council's approach to capital investment. This builds on well-established decision-making structures and policies that support our investment ambitions.

We anticipate that the underlying details will develop further over coming months as priorities in our new Corporate Plan and Housing Strategy are confirmed and our commercial investment ambitions develop further.

As this Strategy evolves it will form an important part of our governance arrangements and provide a mechanism for prioritising our capital investment and financing plans, ensuring that decisions take account of stewardship, value for money, prudence, sustainability and affordability.

Throughout this document we describe the follow-up actions that are planned to develop our approach further to help ensure that our capital investment decisions continue to support delivery of corporate priorities.

1. INTRODUCTION

Reigate & Banstead Borough Council is committed to delivering high quality services and support, and providing value for money for our customers, be they residents, workers, local businesses or visitors.

However, being a great Council is not just about what we do, but about how we do it. The ways in which local government is funded has changed in recent years: we now receive no revenue support grant from central government and are able to retain only a small amount of the business rates that we collect. We therefore need to operate in a more commercial way, and become self-financing, if we are to deliver the quality of services that our residents and our other partners expect.

This Outline Capital Investment Strategy is an important part of the jigsaw which explains how we will do that.

It is focused on the investment activity we need to undertake to deliver the priorities set out in our current corporate Five-Year Plan which runs until 2020. Throughout 2019, we will be developing a new Corporate Plan, for the period 2020 to 2025, and so, of course, this Strategy will develop to ensure we can deliver our new priorities as well as our existing ones.

In the meantime this document provides a clear framework for our future investment activity so that Reigate & Banstead can continue to provide high quality services, value for money and make the borough a great place to live, work in and visit.

2. PURPOSE

This Strategy has been developed by Members and officers to set out the framework for future investment decisions and to ensure transparency in how these activities are reported.

The underlying principles are summarised below:

- Capital investment decisions reflect the aspirations and priorities included within our Corporate Plan and supporting strategies. This is underpinned by the commitment of Members and senior officers to adopt a strategic approach, making effective use of our capital resources to deliver corporate priorities, balancing ambition with prudence, sustainability and affordability.
- We will seek opportunities to work in partnership across the public and private sector to deliver our aims.
- New capital investment opportunities will be prioritised according to availability of resources and scheme-specific funding along with factors such as legal obligations, health and safety considerations and the longer-term impacts on our financial position.
- Commissioning and procuring capital schemes will comply with the requirements set out in our Constitution, financial procedure rules and contract standing orders.
- Risks will be identified and monitored as investments are evaluated and pursued.

3. SUMMARY

This Outline Capital Investment Strategy presents an overview of:

- how capital expenditure, capital financing and treasury management activities contribute to the provision of services
- how the associated risks are managed; and
- how the implications for our future financial sustainability are assessed.

Going forward it is intended to be an integral part of our service and financial planning framework and should be read in conjunction with the current Five-Year Corporate Plan, Capital Programme 2019 to 2024, the Medium-Term Financial Plan, the Treasury Management Strategy Statement and the Asset Management Plan.

Figure 1: Service & Financial Planning Framework



Over the medium term the intention is for this Strategy to include a longer-term vision, covering the time frame for the 10 years to 2033/34. The plan is to take a forward look at those projects that are likely to run beyond the initial five-year Strategy and programme period.

The Strategy includes information on non-treasury investments and is aligned to, but reported separately from the Treasury Management Strategy Statement. This ensures the separation of information about commercial investments from the core treasury function which operates under the principles of security, liquidity and yield.

In relation to non-treasury investments, the Strategy will cover:

- The governance and decision-making arrangements;
- An overview of service objectives relating to capital investments;
- The expected income, costs and resulting contribution to support our budget;
- Information about borrowing and associated financing costs;
- The debt payback period (Minimum Revenue Provision Policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Our approach to developing the Strategy has included:

- Taking on board the relevant guidance and regulations
- Collating information about current custom and practice relating to our investments so that it can be reviewed and made available in one place
- Calling on support from our Treasury advisors, Link Asset Services ('Link')
- Briefing senior management and Executive Members
- Holding a workshop with a group of representative Members, facilitated by Link; and
- Adopting a 2-stage reporting and approval process to reflect the fact that our investment plans will change as the new Corporate Plan and Housing Strategy are developed.

Next Steps - Action Plan

Action	Timescale
Further development of the 5-year Medium Term Financial Plan – to confirm scale of the financial challenge and future investment ambitions	Q2 19/20
Capital Investment Strategy updates to reflect: <ul style="list-style-type: none"> • the new Corporate Plan 2020 to 2024 • the new Housing Strategy 2020 to 2024 • relevant recommendations from the recent Commercial Governance Review • relevant recommendations from the planned Corporate Governance Review 	Q3 19/20
Recommendations on types of assets / commercial activity that will be considered and investment durations where appropriate along with the maximum level of investment and any other decision-making criteria.	Q3 19/20
Further work to develop a longer-term vision, a forward-look at those projects that are likely to run beyond the five-year Strategy. This will cover a timeframe for the 10 years to 2033/34	Q4 19/20

4. INFLUENCES ON CAPITAL INVESTMENT

Influences on Investment

Current capital investment plans that underpin this Strategy reflect external, partner and internal influences. We aim to take a strategic view in relation to capital investment so that it can be directed to make a real and demonstrable impact on service delivery and the local economy by:

- Ensuring that service delivery is supported by fit for purpose assets
- Regenerating the borough, building on the established investment programme, by attracting external investment to supplement Council resources and deliver an enhanced borough-wide regeneration offer
- Using regeneration investment to drive up gross value-added and increase the yield from business rates and commercial rents
- Working with partners, including Surrey Council and other public and private sector bodies, to take advantage of joint investment opportunities, co-location and the release of surplus assets
- Adopting transformational approaches to the delivery of services with and by local communities
- Aiming to get the basics right and drive improved business performance through investment in technology and instigating new service delivery models.

Next Steps - Action Plan

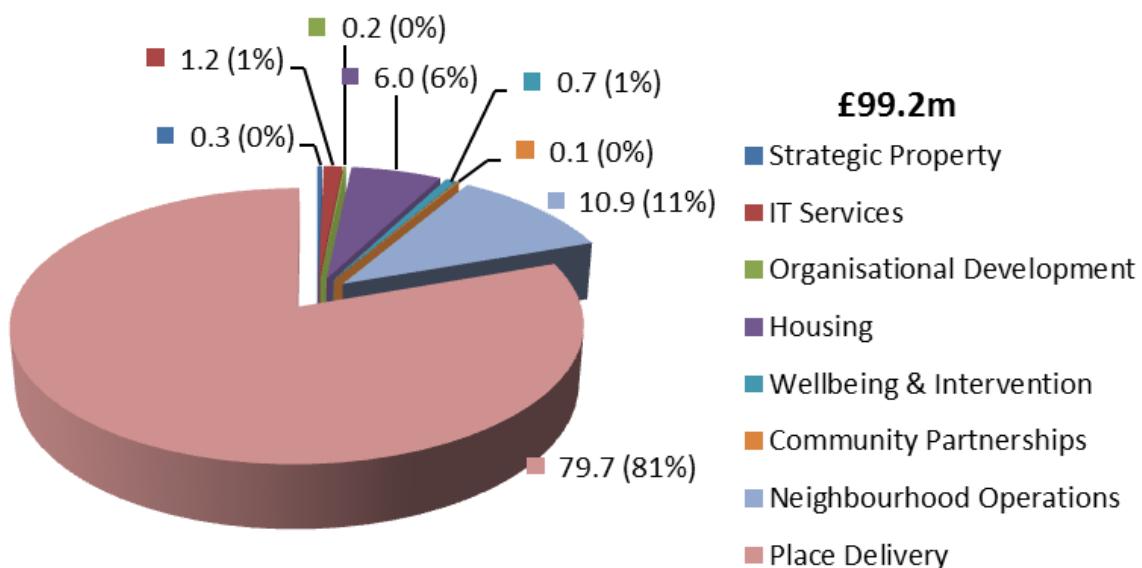
Action	Timescale
Asset Management Plan refresh	2020/21

5. CURRENT CAPITAL EXPENDITURE

Capital Programme

The Capital Programme for 2019/20 to 2023/24 includes initial forecasts for capital growth during the 2019/20 year and the resources available to fund it. New capital schemes will be reported to Executive for approval during the year as our Commercial Investment Strategy priorities are confirmed and new investment opportunities are identified.

Figure 2: Capital Programme 2019/20 to 2023/24 by Service



Source: Budget Report 2019/20, Executive 24 January 2019

Asset Management

For an organisation like the Council, with a diverse property portfolio, the Asset Management Plan describes the general direction that the organisation's property portfolio will take over the next 5-10 years, the approach to be adopted in getting there and the policies that will be applied to decision making. The Asset Management Plan presents such a vision and reflects the operational and business strategies of the Council. It is essential to achieving efficient use of corporate assets.

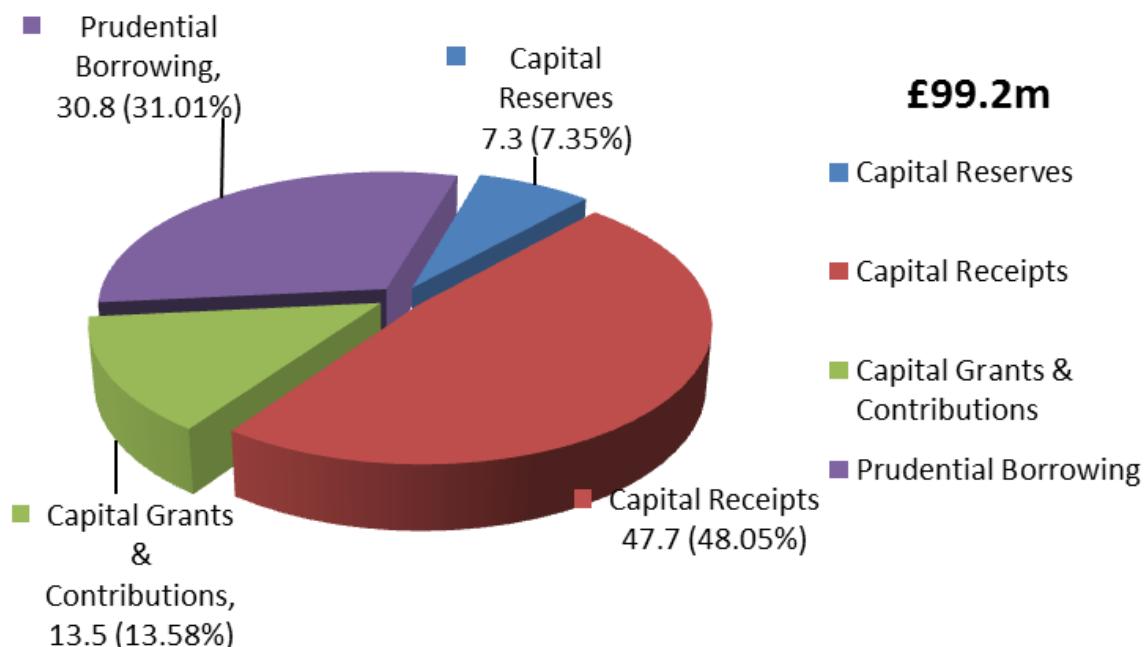
Commercial Investment

Our current approach to making property investment decisions was approved by Executive in 2014 and explains how investment decisions are made, delivery approaches and how risks will be managed.

In order to support investment decisions we rely upon the principles established in our evolving Commercial Investment Strategy and powers under the Localism Act 2011. This forms the framework for maximisation of new and existing income streams to support service provision. We will continue to identify suitable property investments and to complete substantial due diligence.

Capital Funding

Figure 3: Capital Programme Financing 2019/20 to 2023/24

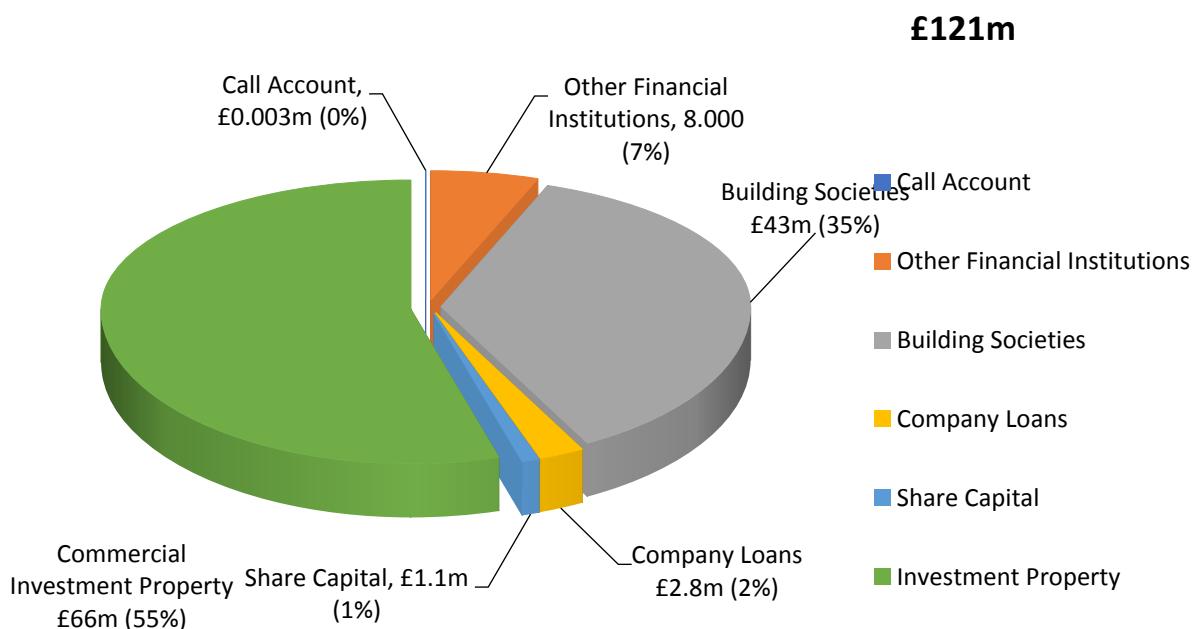


Source: Budget Report 2019/20, Executive 24 January 2019

Treasury Management Investments

Our Treasury Management Strategy Statement is reported each year to Executive and full Council. Treasury investments are central in providing an income stream to help fund our revenue activities.

Figure 4: Investment Portfolio Components at 31 December 2018



Next Steps - Action Plan

Action	Timescale
Evaluate performance and risk profile of existing and planned capital investments in treasury investments - to help inform capital investment decision-making and investment prioritisation in future.	Complete - see Treasury Management Strategy and Q3 Performance Report
Evaluate performance and risk profile of existing and planned capital investments in company loans - to help inform capital investment decision-making and investment prioritisation in future.	Complete - see Company Performance Report
Evaluate performance and risk profile of existing and planned capital investments in commercial properties - to help inform capital investment decision-making and investment prioritisation in future.	Q1 19/20
Evaluate performance and risk profile of existing and planned capital investments in operational assets - to help inform capital investment decision-making and investment prioritisation in future.	Q3 19/20

6. COMMERCIAL PROPERTY INVESTMENT STRATEGY

Commercial Investment Strategy

We plan to develop a Commercial Investment Strategy which is anticipated to cover:

- Our objectives for generating sustainable future income streams to support service delivery
- The role of commercial investments acquisition in achieving that objective
- The commercial investment decision-making process
- The financial resources that will be available to facilitate commercial investments
- How commercial investments will be managed

Next Steps - Action Plan

Action	Timescale
Further development of our Commercial Property Investment approach and priorities. Including reviewing current Commercial Property Investment Property decision criteria	Q2 19/20
Monitor and respond to further developments in relevant CIPFA guidance and Government regulations	Ongoing
Develop organisation capacity and skills to support delivery of our commercial investment ambitions	Ongoing

7. FUTURE CAPITAL INVESTMENT PLANS

Capital Investment Plan 2019/20 to 2023/24

The proposed Capital Programme includes £20.8m of investment in 2019/20, with an indicative programme for the subsequent four years of £78.4m. Our intention is to develop this Programme over the coming year to include longer-term (10-year) forecasts.

How Future Capital Requirements Will Be Prioritised

We plan to assess our approach to capital expenditure and investment, and aim to avoid over-exposure to specific markets, sectors or activity. This will reflect investments made to deliver Council services and those designed for wider economic benefit.

Overall, the intention is that our portfolio will comprise an acceptable balance of risk and return, based on market conditions and the level of secured / unsecured investments. Appropriate risk management tools will be applied, tailored to individual schemes and projects.

Asset Management Planning

Our Asset Management Plan will both inform, and be informed by, this Capital Investment Strategy. The overriding objective of asset management within the Council is to achieve a portfolio of property assets that is appropriate, fit for purpose and affordable. Our property portfolio consists of operational property, commercial investment property and property held for specific community or regeneration purposes.

Purchase of Shares/Provision of Loans:

We may make investments to support delivery of local public services, including making loans to and buying shares in service providers, local businesses to promote economic growth and our subsidiaries that provide services or which have been established for the purposes of trading.

During 2018/19 our Members have carried out a Commercial Governance Review that focussed on our companies and Executive has agreed a number of recommendations that are intended to further develop the governance arrangements relating to their operation.

Non-Specified Investments

Shares are the only investment type that we have identified that meets the definition of a non-specified investment in the government guidance.

Treasury Management Investments

Our Treasury Management Strategy Statement and Annual Investment Strategy set out our current decision-making arrangements, investment position and forward view.

Non-Treasury Investments

This will be covered in our Commercial Investment Strategy

Next Steps - Action Plan

Action	Timescale
Develop 10-year capital investment plan to support an improved view of affordability and better identification of the financial and non-financial outcomes of capital investment	2020/21
Implement recommendations from the Commercial Governance Review of the Council's companies	Timescales as agreed by Executive in March 2019

8. RISK MANAGEMENT

Our capital investment activity requires us to manage a range of risks.

This section of the Strategy provides an initial overview of known risks. Next step will be to develop a more detailed Risk Register, including an assessment of risk tolerances and risk appetite with cross-references to the Corporate Risk Register.

Affordability and Delivery Risks

We are exposed to a range of risks with regard to the continued affordability and delivery of the Capital Programme and Commercial Investment Strategy as follows:

- Financial risks related to the investment of our assets, cash flow and market volatility
- Macroeconomic risks related to the growth or decline of the local economy, interest rates, inflation and the wider national and global economy
- Credit and counterparty risks related to investments, loans to public and private institutions
- Operational risks related to operational exposures within the organisation, its counterparties, partners and commercial interests
- Strategic risks related to key initiatives undertaken by we such as areas of organisational change necessary to enable the Council to meet its goals and objectives, significant capital schemes and major purchases and new ventures
- Reputational risks related to our dealings and interests, and the impact of adverse outcomes on our reputation and public perception
- Environmental and social risks related to the environmental and social impact of our Strategy and interests
- Governance risks related to ensuring that prudence and careful consideration are prominent in Council decision-making, augmented by quality independent advice and appropriate checks to ensure that we have the correct level of oversight, scrutiny and efficiency.

Next Steps - Action Plan

Action	Timescale
Develop a detailed Capital Investment Strategy Risk Register, including and assessment of risk tolerances and risk appetite and cross-references to the Corporate Risk Register	Q2 1920

9. CAPITAL APPRAISAL PROCESS

In considering schemes for inclusion in the capital programme, regard will be had to the following principles:

- schemes to be included in the Capital Programme will follow an appropriate level of due diligence and assurance regarding deliverability
- prior to mobilisation, all projects will be supported by an affordable and sustainable plan, including careful consideration of value for money and options appraisal
- capital appraisal will promote schemes which provide a direct gain to our revenue budget position within agreed risk appetite limits, e.g. council tax and business rate growth, commercial investment return, 'invest to save' outcomes
- environmental and social sustainability issues in line with Council policy will be built into project appraisal
- the financial implications of capital investment decisions will be properly appraised as part of the determination process
- available resources will be identified for investment over the capital planning period
- available capital funding will be optimised e.g. through surplus asset disposal, maximising use of planning gain, by pooling capital receipts and by exploring external financing sources
- capital funding decisions will seek to minimise or mitigate the ongoing revenue implications of investment decisions
- the financial implications of capital investment decisions will be fully-integrated into revenue budget and longer-term financial plans
- robust governance arrangements will be in place for all programmes and projects, clearly defining responsibility for the delivery of individual schemes within the Capital Programme
- capital schemes will follow appropriate project management arrangements
- there will be effective working relationships with partners
- projects will be reviewed on completion to ensure key learning opportunities are captured.

Next Steps - Action Plan

Action	Timescale
Further development of the approach to capital investment appraisal.	Continual improvement of schemes brought forward for approval.

10. GOVERNANCE

Capital Programme

Democratic decision-making and scrutiny processes provide overall political direction and ensure accountability for investment in our Capital Programme. These processes include:

- Executive and full Council approve the Corporate Plan and supporting Strategies which set out our strategic priorities
- Full Council is ultimately responsible for approving the Capital Investment Strategy, Treasury Management Strategy Statement and Capital Programme
- The Executive receives regular capital monitoring reports, approves variations to the programme and considers new bids for inclusion in the Capital Programme
- Overview & Scrutiny Committee can call in Executive reports and routinely receive and scrutinise reports
- All projects progressing to the Capital Programme comply with the Constitution and financial procedure rules
- The Capital Programme is subject to internal and external audit.

Any new capital expenditure is subject to thorough evaluation which focuses on the key benefits that are expected in relation to Council priorities. The evaluation includes financial considerations such as the expected cost and funding sources identified. Risks to either the delivery or cost forecasts are considered as part of the evaluation.

Approval to spend on individual capital schemes will only be given once procedural guidelines have been complied with and assessed to the satisfaction of the Section 151 Officer. Designated budget managers monitor the delivery of individual capital schemes.

Treasury Management

Day to day decisions on investment and borrowing are delegated to the Section 151 Officer and the Finance Team, who act in line with the Treasury Management Strategy Statement, which is approved by full Council before the start of each financial year. The underlying framework is explained at Appendix 1.

The Overview & Scrutiny Committee is responsible for scrutiny and governance of Treasury Management. It reviews the Treasury Management policy and procedures and all Treasury Management reports. It also scrutinises the full suite of budget reports prior to their presentation to Executive and Council for final approval.

Throughout the year the Overview & Scrutiny Committee receives regular updates on performance and emerging issues and the Mid-Year Treasury Management report which is also reported to full Council. The Treasury Management function is also subject to regular internal and external audit reviews.

APPENDICES

1. TREASURY MANAGEMENT FRAMEWORK

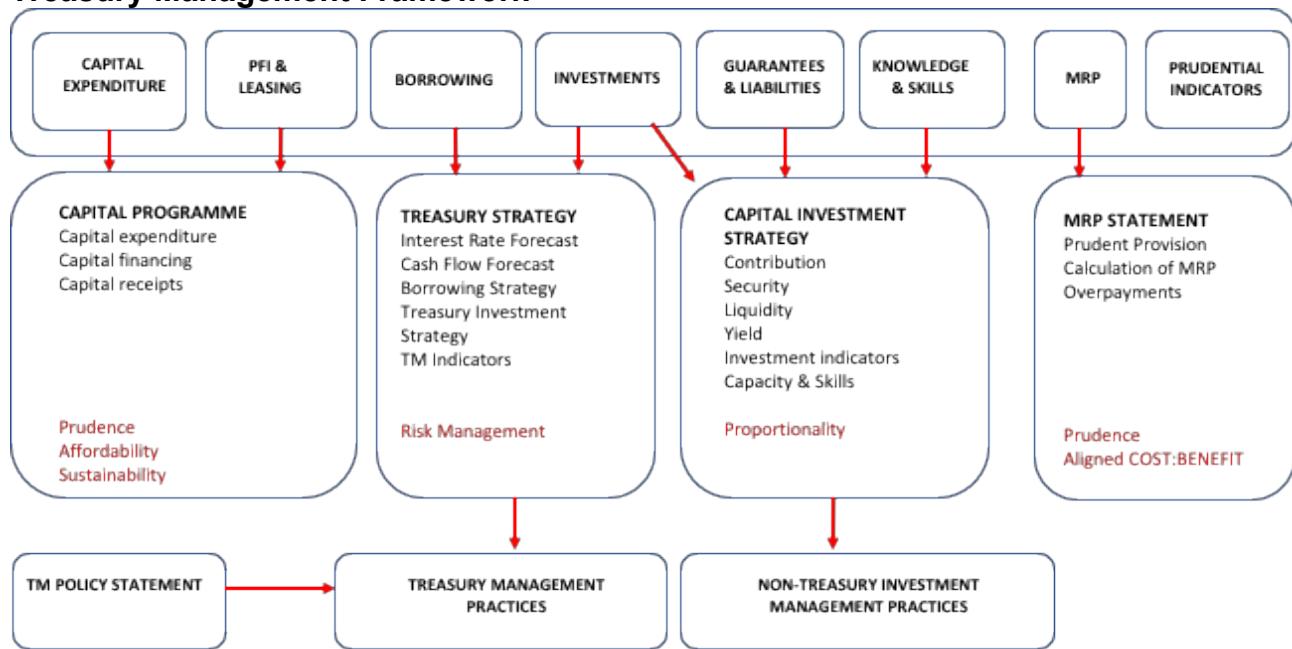
APPENDIX 1

TREASURY MANAGEMENT FRAMEWORK

To be read in conjunction with the Treasury Management Strategy Statement 2019/20.

The implications of financing capital expenditure from borrowing is that the expenditure is not funded immediately but charged to the revenue budget over a number of years. We may defer the timing of external borrowing on a short to medium term by using temporary cash resources held in reserves and balances. This practice, which is referred to as 'internal borrowing', does not reduce the magnitude of borrowing required or the level of funds held in reserves and balances; the funds are merely being utilised in the short term until they are required for their intended purpose. The timing of external borrowing and the balance of external / internal borrowing is determined by market conditions and our cash flow position. Officers manage this position on a day to day basis in line with the overall Treasury Management Strategy Statement, as approved by full Council each year.

Treasury Management Framework



Debt is only a temporary source of finance, loans must be repaid. We have a statutory duty to set aside an amount that we consider to be prudent, in line with guidance, for the repayment of borrowing. This is known as the Minimum Revenue Provision (MRP). See our Treasury Management Strategy Statement for the MRP Policy for 2019/20.

Our underlying debt liability will be repaid in line with the MRP Policy, amortised over the life of the assets creating the debt liability. Alternatively we may repay debt from selling capital assets (capital receipts).

Although capital expenditure is not charged directly to the revenue budget, interest payable and MRP are charged to revenue. The cost is offset by income and

investment income. Our treasury and non-treasury investments make a contribution to our services, and in meeting our strategic aims and objectives.

Our ability to borrow to fund our capital investment plans is governed by CIPFA's Prudential Code, which requires local authorities to publish indicators to demonstrate that the level of borrowing is affordable, prudent and sustainable.

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Agenda Item 7



Subject: Quarterly Performance Report (Q3 – October to December 2018)

Officer: Jocelyn Convey

To: Overview and Scrutiny Committee, 14 March 2019

Purpose: To consider the key service performance for the third quarter of the year 2018-19.

Introduction

This report provides the headline issues on major variances in relation to the Council's overall performance for Quarter 3.

The detailed information showing all performance is available for Members to review at the eMembers room.

The headline performance information is set out in the following sections:

Key Performance Indicators – Q3 2018-19	Section 1
Revenue Budget Monitoring	Section 2
Capital Budget Monitoring	Section 3
Risk Management	Section 4
Internal audit	Section 5
Update to Key Performance Indicators to take effect from Q1 2019-20	Section 6
Risk Management – New Strategic Risks for 2019/20	Section 7

Recommendation

The Committee is requested to review the performance report and consider any advance questions received in relation to strategic issues and make any observations to the Executive.

The Committee is also requested to consider the revised Key Performance Indicators to take effect from Q1 2019-20 and make any observations to the Executive.

In addition, the Committee is requested to consider the identified Strategic Risks for 2019-20 and make any observations to the Executive.

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KEY PERFORMANCE INDICATORS**Headline Information**

Of the 14 Key Performance Indicators (KPIs) reported on this quarter, 8 are on target or within the agreed tolerance.

KPIs 4-8 are contextual homelessness indicators introduced to reflect the changes required by the Homelessness Reduction Act (2017). As the impact of the new legislation is uncertain, no target has been set for these indicators this year. Performance this year will therefore inform targets for next year.

Major variances (those off target)**KPI 3 – number of affordable home completions**

Target	Actual
75	60

Completions of affordable homes have slowed in the third quarter of the year. Achieving this target is largely outside the Council's control. However at the end of Q3 52 affordable dwellings were under construction, with the construction of a further 31 affordable dwellings having commenced during Q3. This therefore gives confidence that the target for the year will be achieved.

eMembers room information

A copy of the full schedule can be found in the eMembers room.

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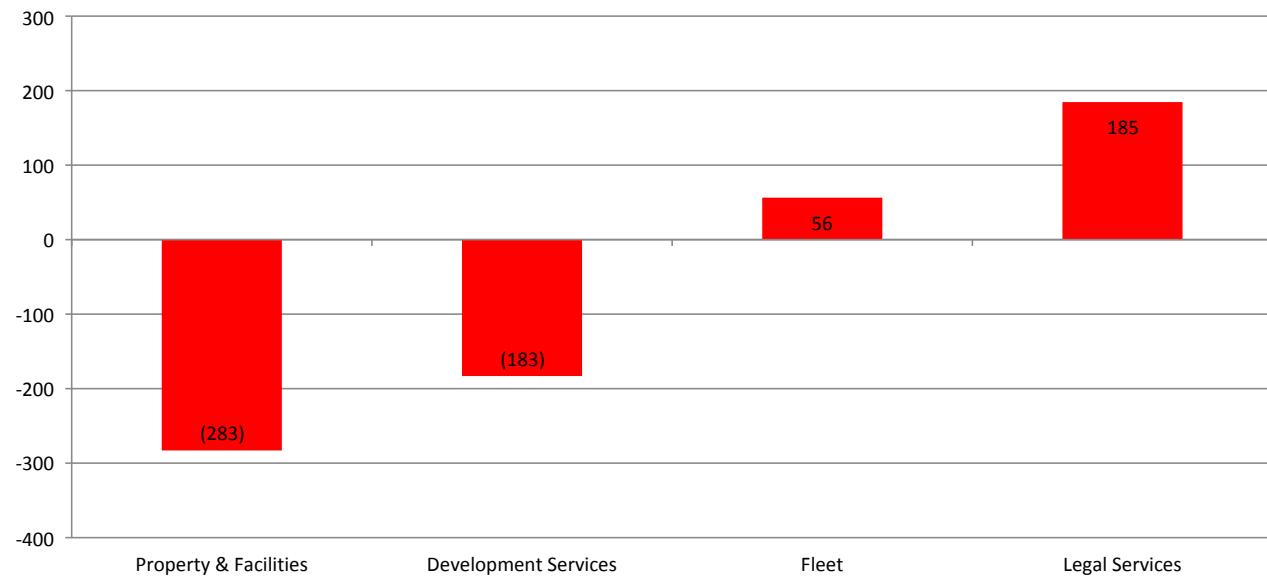
Reconciliation of Original Budget to Management Budget for 2018-19

	£'000	£'000
Original Budget		15,494.5
Transfers from Reserves:		
Corporate Plan Delivery Fund	2,102.8	
CIL funds	100.1	
Neighbourhood Improvement Fund	10.7	
		<u>2,213.6</u>
Management Budget		<u>17,708.1</u>

Headline Revenue Budget information 2018-19

	£'000
Management Budget	17,708.1
Forecast Year End Outturn	17,199.1
Projected underspend	-509.0 (or -2.9% of the budget)

Table 1: Major Revenue Variances



Major Variances

Property and Facilities:

The improvement in the forecast rental income takes into account the acquisition of Regent House after making allowance for the loss of income from the departure of Surrey Police from the Town Hall site.

Development Services:

As reported at Q1 and Q2, the income from planning fees continues to remain buoyant with a surplus over the budget being forecast at this stage.

Fleet:

The overspend variance is caused by the increasing costs of maintaining the ageing Waste and Recycling vehicles. The estimated cost of spare parts at the year end is the major factor driving this forecast.

Legal Services:

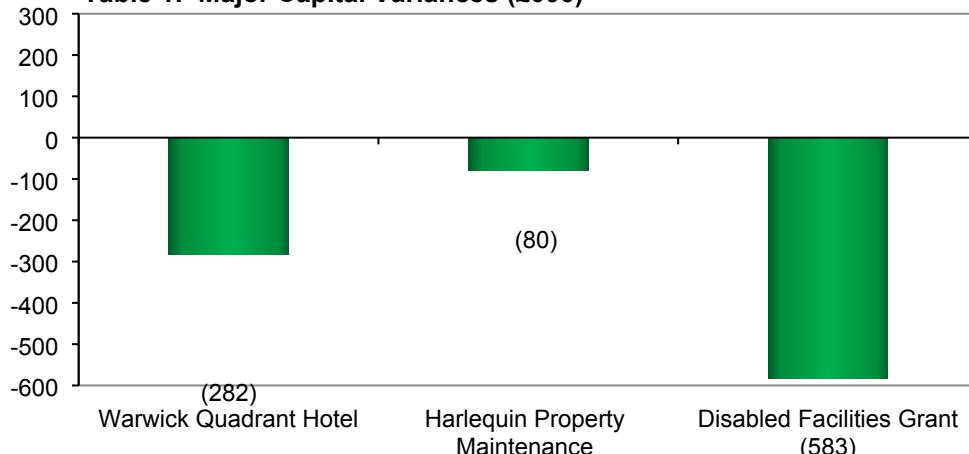
As reported at Q1 and Q2, the forecast overspend relates to the reliance on locum staff and external advice to deliver the service.

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Headline Capital Budget Information, Quarter 3 2018/19

Current Budget:	£10,079,200
Forecast Expenditure:	£7,857,700
Projected Underspend:	(£1,211,400) (or -12.02% of budget)

Table 1: Major Capital Variances (£'000)



Major Variances

Warwick Quadrant Hotel: £282k is the final underspend position as the work is now completed and no further expenditure is expected. Total expenditure for this project is £4,972,525.10.

Harlequin Property Maintenance: There is an £80k underspend forecast against current budgets; there is a review currently in progress to realign and confirm ongoing capital budget requirements for Harlequin maintenance. This is expected to be completed over the next quarter.

Disabled Facilities Grant: The new supplier commenced in January and is working through the cases transferred from the previous supplier as well as taking on new applications. It is expected that some of the underspend for 2018/19 will be carried forward to 2019/20. Work has been completed to allow specified exemptions to the Housing Assistance Policy, with an expectation that the policy itself will be further reviewed and potentially revised during 2019, to allow smoother progression of cases through the system and reduce the underspend on the DFG budget.

Other Capital Investment

Loans to Companies

As @ 31/12/2018:

Greensand Holding Ltd	£2,269,639
Horley Business Park Development LLP	£552,000

Preference Shares

As @ 31/12/2018:

Pathway for Care Limited	£1,099,920
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eMembers room information

Further information has been provided in the eMembers room to support the Committee's consideration of the monitoring report as follows:

- Reconciliation of Capital Programme to Approved Budget
- Budget Monitoring Summary

Section 4

RISK MANAGEMENT

An update on risk management does not form part of the Q3 performance report.

No new strategic risks were identified during Q3 2018-19.

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INTERNAL AUDIT

Background

The annual Audit Plan is agreed by the Overview and Scrutiny Committee.

SCORING

RED	<p>Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.</p> <p>Urgent action is needed to strengthen the control framework to manage the identified risk(s).</p>
AMBER/ RED	<p>Taking account of the issues identified, the Authority can take partial assurance that the controls to manage this risk are suitably designed and consistently applied.</p> <p>Action is needed to strengthen the control framework to manage the identified risk(s).</p>
AMBER/ GREEN	<p>Taking account of the issues identified, the Authority can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied.</p> <p>However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).</p>
GREEN	<p>Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively.</p>

Headline Information

During the last quarter eight internal audits have been completed:

Name of Audit	Score
Procurement & Contracts	Amber / Red
Treasury Management	Green
Main Accounting	Green / Amber
Debtors	Green/ Amber
Creditors	Amber/ Red
Community Infrastructure Levy & S106	Green / Amber
Payroll	Green
Governance & Risk Management	Green

Recommendations/observations with a high priority

There are six recommendations/observations that are designated high priority.

Procurement & Contracts

1. There is limited awareness of a reporting line for contracts and procurement through to senior management. There is no procurement board and the procurement officer is not required to attend any senior management meetings to provide oversight on contracts. This raises the risk that procurement is not being reporting on and that major contract tenders are not being discussed at the senior Management level.

Main Accounting

2. It was not possible to confirm that all Car Parking income had been reconciled to zero.
3. Where reconciliations are not regularly completed and reviewed errors and omissions may not be identified and resolved in a timely manner. The accounting team are working on some historical outstanding balance items that have rolled forward from previous financial years. This specifically relates to the General Account balance of £165,828.

Creditors

4. In the absence of new supplier set ups being approved, there is a risk of incorrect supplier details being inputted.
5. In the absence of approvals for amendments made to supplier details, there is a risk that errors could be made when inputting changes to supplier details and that any unauthorised amendments made will not be detected.

Community Infrastructure Levy & S106

6. It was not possible to confirm that there is a system of monitoring that tracks whether these funds have been distributed in line with requirements.

Management actions

Procurement & Contracts

1. Procurement and contracts management should be set as a standing agenda in the quarterly business performance committee meetings with Heads of Service.
2. The Procurement Manager is to produce a report each quarter for the Head of Legal and Governance on the number of procurement exercises undertaken, clearly identifying major contract tenders, any potential risks and confirmation of compliance with the Council's Contract Procedure Rules and Procurement legislation.
3. The Head of Legal and Governance to provide senior management with a Procurement Briefing Note each quarter.

Main Accounting

4. All Car Parking income will be reconciled on a monthly basis to zero. Any outstanding balances will be investigated and resolved between Finance, Car Parking and the cash collection company.
5. The accounts team will undertake further investigation to determine the reasons for the General Account credit balance of £165,828. This will be either written off in the statutory accounts or disclosed as a separate note.

Creditors

6. The Transactions Manager will ensure that all new suppliers set up on Agresso are checked and approved and that this takes place prior to orders being placed with a new supplier.
7. The transactions manager will ensure that all amendments made to supplier details are approved, and that amendments are checked prior to any further orders being placed with a supplier following any changes made to their details

Community Infrastructure Levy & S106

8. The Council will establish a process for monitoring S106 funds received against the expenditure deadlines, thereby having greater oversight on the amount of funds that need to be spent within a specific timeframe. This will be reported through in quarterly monitoring reports and in the annual performance report.

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Section 6

UPDATED KEY PERFORMANCE INDICATORS 2019-20

The Council's Key Performance Indicators (KPIs) have been reviewed and updated where appropriate.

The KPIs below will be reported on from Q1 2019-20.

Ref	Description
KPI 1	Maintain levels of self-service transactions (channel shift)
KPI 2	Total number of residential completions
KPI 3	Number of affordable homes included in KPI 2
KPI 4	Number of households approaching the Council for homelessness assistance (contextual)
KPI 5	Number of homeless prevention duties accepted
KPI 6	Number of new homeless relief duties accepted
KPI 7	Number of positive homelessness prevention and relief outcomes
KPI 8	Number of homelessness main duty acceptances
KPI 9	Average number of households in B&B accommodation
KPI 10	Percentage of Council Tax collected by the Council in the year
KPI 11	Percentage of Business Rates (NNDR) collected
KPI 12	Trade waste - increase in the number of customers
KPI 13	Green waste – increase in the number of Garden Waste bins
KPI 14	Total percentage of household waste that is recycled and composted.
KPI 15	Business income as a percentage of gross budget

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RISK MANAGEMENT

Strategic risks for 2019-20

The table below details the strategic risks that have been identified for 2019-20.

Description	Portfolio holder
Brexit <p>There is a high possibility that the UK's exit from the European Union will result in disruption to the borough and Council services. However there is a high degree of uncertainty surrounding the scale of impact that could be experienced by the Council as a result of Brexit, therefore making this risk difficult for the Council to effectively manage and control.</p>	Cllr Brunt
Financial sustainability <p>The Council receives no Revenue Support Grant from Central Government. Whilst council tax and business rates make up a significant portion of the Council's funding, they do not cover the full extent of the Council's expenditure.</p> <p>The Council's ability to generate income from investments may be restricted by changes in regulations and codes of practice.</p> <p>The Council must therefore put in place a capital investment strategy, supported by appropriate governance structures and resources, to generate additional income to sustain service provision. The failure to generate this income will jeopardise the delivery of corporate objectives. Managing this risk well is dependent on Officers and Members remaining ambitious.</p>	Cllr Schofield
Local Government reorganisation and partner public sector funding decisions <p>The public sector as a whole is experiencing significant funding pressures. Budgetary decisions made by other public service providers will impact this borough's residents and businesses as well as the Council itself. The Council may need to increase its services or the support provided, which could have funding and resource implications.</p> <p>In addition, funding pressures could result in the financial failure of partner public sector organisations. A failure of this nature within Surrey may prompt a reorganisation of local government which could have adverse effects on this Council and the delivery of services for residents.</p> <p>These funding and structural pressures, juxtaposed with the outcome of the local government Fair Funding review, could also result in this Council assuming a range of new functions or responsibilities that have traditionally sat with Surrey County Council. This Council's ability to influence such decisions will be limited, however the mitigation of this risk may require the diversion of a disproportionate level of Council resources.</p>	Cllr Brunt
Organisational capacity and culture <p>The Council is on the verge of implementing an ambitious Corporate Plan, supported</p>	Cllr Brunt

Description	Portfolio holder
<p>by a capital investment strategy and housing strategy. Delivering on the ambitions in these plans – to ensure we remain an efficient and effective Council - will require a continually ambitious organisation and culture, including both Members and Officers.</p>	
<p>Economic prosperity</p> <p>A prosperous economy is essential for the wellbeing of the borough, creating employment and wealth that benefits local people. Economic prosperity cannot be taken for granted and the current economic outlook is very uncertain.</p> <p>Prevailing economic conditions have a direct impact on the Council's financial position and likewise impacts upon the demand for Council services, particularly in terms of income derived from paid for services and the collection of monies owed. Challenging financial circumstances for residents may also increase their reliance on Council services.</p>	Cllr Humphries
<p>Welfare reform</p> <p>The borough's residents are being affected by a combination of welfare reforms, increasing housing costs and economic changes. This increases the risk of household budgets being stretched and residents being threatened with homelessness. The latter could result in an increase in cost pressures on the Council as our services are increasingly relied upon.</p>	Cllr Knight
<p>Cyber security</p> <p>Organisations are at an ever increasing risk of cyber attack as the use of digital systems and technologies increases. More sophisticated attacks and new variants of malicious software underscore the risk of corporate defences being compromised.</p> <p>The effects of a cyber attack are wide and varied though at their worst could result in data destruction, disruption to the delivery of services and data theft.</p>	Cllr Brunt
<p>Fraud</p> <p>Due to the wide range of activities being undertaken by the Council, there is a risk of fraud being committed which therefore requires robust systems and processes to be in place.</p>	Cllr Schofield
<p>Local Plan</p> <p>The Council's existing Core Strategy will become out of date in July 2019 and a new local plan must therefore be prepared to give certainty over housing need and other strategic planning matters.</p> <p>Failure to have an up to date strategic plan risks the Council losing the ability to control its planning decisions including where development is located.</p>	Cllr Foreman
<p>Marketfield Way</p> <p>Marketfield Way is a major place project for the Council and is critical to shaping Redhill and ensuring the town's continued vitality and viability. It will also generate</p>	Cllr Bramhall

Description	Portfolio holder
income which can be reinvested in Council services. Delays to this project would have an impact on the delivery of Redhill's regeneration as well as a financial impact on the Council.	

Operational Risks

New operational risks for 2019-20 will be identified and managed by the Heads of Service and Management Team.

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Agenda Item 8



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

SIGNED OFF BY	Chief Executive
AUTHOR	Joss Convey, Director of Finance and Organisation
TELEPHONE	01737 276341
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TO	Overview and Scrutiny Committee
DATE	Thursday, 14 March 2019
EXECUTIVE MEMBER	Leader of the Council

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards);

SUBJECT	Companies Performance Update - March 2019
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RECOMMENDATIONS
To note the March 2019 Companies Performance Update, as detailed in the report.
REASONS FOR RECOMMENDATIONS
To consider the performance of companies owned or part-owned by the Council, as of March 2019.
EXECUTIVE SUMMARY
This report provides an overview of the performance of the companies currently owned, or part-owned, by the Council. These companies currently consist of Greensand Holdings Ltd, Horley Business Park Development LLP, Pathway for Care Ltd and RBBC Ltd. This report was considered by the Overview and Scrutiny Committee on 14 th March 2019. Any views of the Committee will be reported to the Executive separately. Additional supporting information is set out in the exempt Part 2 section of this agenda. This provides updates from each of the three companies rather than (as for previous updates) information from the Council representatives involved in running the companies. This approach provides greater transparency and is intended to help minimise any possible perceptions of conflicts of interest.

Agenda Item 8

Executive has authority to approve the above recommendations.

STATUTORY POWERS

Section 1 of the Localism Act 2011 gives local authorities a general power that enables them to do anything that a private individual is entitled to do, as long as it is not expressly prohibited by other legislation. Section 4 of the same Act directs that anything which is done for purely commercial purpose should be done through a company structure.

Central Government funding for local authorities has reduced considerably, and to enable the Council to continue to deliver and maintain the level of services that residents current benefit from, it is essential that alternative sources of income are found. Commercial activity is one such source of income, and has in recent years formed part of the Council's strategy to become financially self-sustaining.

BACKGROUND

It was agreed towards the end of 2017/18 that the Executive and the Overview and Scrutiny Committee should receive six monthly updates on the performance of companies owned, or part-owned, by the Council. An update was presented to the Overview & Scrutiny Committee in October 2018, and to the Executive in November 2018. These updates were noted and a number of issues considered. It was highlighted that future updates would include performance information on the business plan targets for each company owned, or part-owned, by the Council.

This is the second update and provides an overview of the performance, as of February 2019, of Greensand Holdings Ltd, Horley Business Park Development LLP, Pathway for Care Ltd and RBBC Ltd.

Commercial Governance Review

At its meeting in March 2018, the Executive commissioned the Monitoring Officer to undertake a review of the Council's governance arrangements of its companies. In July 2018, the Leader of the Council commissioned a Task Group of members to assist the Monitoring Officer in undertaking the review. The (then) Monitoring Officer and Task Group have completed their work with their findings reported to the Overview & Scrutiny Committee on 14th February 2019 and to be considered elsewhere on this meeting's agenda.

On the basis that the Task Group's recommendations are supported, the next step in terms of the Council's existing companies will be to take forward the Executive's decisions and to work through the Framework with the Boards of each of the companies to apply the learning from the Task Group as best as possible to these companies. This work will be reported to the new Executive Sub-Committee, which will have the remit of overseeing the Council's company activities. It is expected that the new Executive Sub-Committee will (i) consider and have strategic operational input into any company of which the Council is a majority shareholder and (ii) exercise the shareholder function in those instances.

Agenda Item 8

KEY INFORMATION

Greensand Holdings Ltd

Background

At its meeting on 15th September 2016 the Executive authorised the setting up of a company limited by guarantee with the Council retaining 100% shareholding.

The company, Greensand Holdings Ltd, was established to facilitate the Council's property investment and development work inside and outside the Borough to provide an income stream to the Council. In accordance with the decision of the Executive on 15th September 2016, the company has been funded by a direct loan from the Council using Council Reserves, details of which are set out in the exempt part of this report.

As reported through the October 2018 company update, Greensand Holdings Ltd has looked at a number of possible new acquisitions. These have been discussed with the Executive Property Sub-Committee comprising the Leader, Deputy Leader and the Portfolio Holders for Property and Finance, and some of those potential acquisitions instead progressed as Council purchases as they were long-term investments with no short-term development potential.

Six-month update

The company is solvent and currently holds one property, as described in the exempt part of this report. . The activity of the company has over the last 6 months been modest as it is dependent on the Council's future ambition as defined in its emerging draft Corporate Plan, which is reported elsewhere on the agenda, and the Capital Investment Strategy, also on this meeting's agenda. Both documents are expected to be adopted later in 2019 setting the direction of travel of the Council through to 2025.

Next steps

Subject to the agreement of the revised Corporate Plan and the Capital Investment Strategy, it is envisaged that Greensand Holdings Ltd will continue to explore opportunities for property acquisition aligned with the purpose identified for the company in September 2016, that is to enhance the economic wellbeing within the borough to enable the Council to meet the funding challenges set down by Central Government

In view of the Commercial Governance Task Group's findings, future potential Greensand acquisitions will normally be reported to the new Executive Sub-Committee once it is established. It will then be possible for the new Executive Sub-Committee to give direction to Greensand Holdings, setting out its expected contribution to the Council's direction of travel, and then holding the company to account for timely delivery of expected outcomes.

Horley Business Park Development LLP

Background

The Executive at its meeting on 15th October 2015 authorised the then Head of Property (in consultation with the Leader, Deputy Leader, Executive Member for Finance and Executive Member for Property and Regeneration) to finalise and agree terms and enter into binding legal agreements with landowners to form a Joint Venture Limited Liability Partnership (LLP) to bring forward for planning, and subsequent development, employment land in Horley.

A Joint Venture with Millhill Properties (Horley) Ltd was established in 2016. In accordance with the 2015 Executive decisions, and a subsequent decision in January 2018, the Council

Agenda Item 8

has made loans available to the company and these details are set out in the confidential annex.

Six-month update

The focus for the LLP over the last six months has been the promotion of the site with the aim of achieving an allocation of the site for employment purposes in the Council's Development Management Plan (DMP). This has included outline scheme design, transport modelling work, outline junction design, the development of transport mitigation proposals and engagement with interested parties including Surrey County Council, West Sussex County Council, Gatwick Airport and Highways England.

The DMP is expected to be adopted later this year and, although the Inspector's final report is yet to be received, she did not suggest any further modifications in respect of the proposed policy in her interim report. The site is therefore expected to be allocated for employment purposes, and this planning policy framework will set out the context for the company to bring forward a planning application for office development.

Steps are also being taken by the company to acquire land within the site that is owned by two other parties. In January 2018, the Executive resolved to purchase land from one owner, and continue negotiations with the other owner (Surrey County Council) to include them in promoting the site. Unfortunately, negotiations between the company and the landowners have progressed slowly with both landowners waiting for the planning policy position to be established through the DMP before deciding how to proceed.

The County Council has indicated that as part of its current transformation programme they are considering their options in relation to their landholdings in this area.

The other landowner appears unsure about selling its land to the Council and may seek to sell to a third party. If it does, the Council has the option of progressing a Compulsory Purchase Order to acquire the land to bring forward the development. The Council has already resolved to use such powers on this site.

It is also worth noting two external developments have occurred in recent months which are pertinent to the future development of Horley Business Park. The first of these is the publication of Coast to Capital's Strategic Economic Plan, which recognises the importance of the area around Gatwick Airport to the continued success of the area, and includes as a priority to identify and bring forward new high quality business space in the area.

The second is the publication of Gatwick Airport's draft Masterplan in late 2018. This included proposals to make greater use of its standby runway and to grow passenger and freight activity at the airport. In the event of this proposal receiving support from the Civil Aviation Authority and the Secretary of State (via a Development Consent Order) it is not considered that this would constrain the delivery of the Business Park, indeed Gatwick Airport's proposals specifically identify that there would be a need for further office space around the airport.

Gatwick Airport Limited (GAL) gave evidence at the DMP examination expressing concern about the impact of the development on the airport and its growth (specifically in relation to transport network capacity, and dialogue will need to continue if a planning application is to be brought forward successfully).

Next steps

In the coming six months, and subject to any findings of the DMP Planning Inspector in her final report, the Company intends to continue to develop its proposals with a view to

Agenda Item 8

submitting a planning application.

Whilst the purchase of third party land is not material to making the planning application or its funding, negotiations will continue with other relevant landowners, as will discussions with key stakeholders including Gatwick Airport and Highways England.

Historically Executive Property Sub-Committee members have been briefed on progress in relation to Horley Business Park. In future this will be via the new Executive Sub-Committee.

Pathway for Care Ltd

Background

At its meeting on 14th July 2016 the Executive authorised the Head of Legal Services to incorporate a local authority trading company (trading as Pathway for Care Ltd) with an 80% Council shareholding. The Executive delegated authority to the Chief Executive (in consultation with the Head of Legal and Head of Health and Wellbeing) to finalise all legal documentation to enable the company to begin trading on 1st August 2016. At that time, the vision for the company was stated as increasing the patient experience and outcomes in a holistic way to support more vulnerable and less supported residents, whilst generating profit. It proposed primarily targeting the 55+ market across three products – assessments, direct support and electronic monitoring. The proposal included a one-off equity investment by the Council to get the Company up and running, to be recouped from profits in the first 24 months. In 2017 the company diversified into delivery of supported-living services in addition to digital services. The Council invested £1.1m in loans to the Company. At its meeting in March 2018, the Executive agreed not to invest further, to split the original company into two - Pathway for Care Ltd and RBBC Ltd (see below) - and to sell the majority shares to two external investors.

Following the sale of the Council's majority interest in Pathway for Care Ltd, the loan was converted to £1.1m in redeemable preference shares.

Six-month update

Pathway for Care Ltd currently provides supported-living facilities and support for its residents, and is part-owned by the Council, with Fairhome Group being the majority shareholder. The new business has been operating for about 10 months. Fairhome Group is providing the necessary resources to ensure the company can grow rapidly. The business model involves Fairhome Group acquiring properties. Tenants, who live in a property indefinitely, pay a rent to occupy a flat in a property which generates an income for Fairhome. Tenants are likely to be receiving disability-related benefits, and could receive further assistance towards their rent if they qualify for housing benefit. Pathway for Care delivers services to look after the tenants of the properties. The new business began operating from a single property in April 2018. It now operates from two properties with two more opening in March 2019. In addition, a further four properties are in the process of being purchased and refurbished before Pathway For Care begin operating services from them.

Next steps

The next steps for the company are to continue to grow rapidly by identifying prospects for property acquisition, work with Fairhome on property acquisition and refurbishment activities, and to work to convert 'in progress' referrals to actual tenancies.

Agenda Item 8

Pathway Digital (RBBC Ltd)

Background

At its meeting in March 2018, the Executive agreed to split the activities of Pathway for Care Ltd into a supported living business (described above) and a new digital monitoring company (known as RBBC Ltd) and to support the securing of external investment for those companies. However, in relation to RBBC Ltd, the hoped for external investment was ultimately not secured.

Six-month update

The Executive resolved in November 2018 to close Pathway Digital. Arrangements to wind up this dormant company are being progressed and relevant Executive members have been briefed.

Next steps

It remains for the winding up of RBBC Ltd to be concluded

OPTIONS

Option 1: To note the performance of companies currently owned, or part-owned, by the, as set out in this report. This option is recommended.

Option 2: To ask officers to provide additional information to assist consideration of the performance of companies owned, or part-owned, by the Council.

LEGAL IMPLICATIONS

There are no specific legal implications arising from the recommendations set out in this report but it is expected that the adoption of the Task Group's recommendations will help to strengthen governance within the Council.

FINANCIAL IMPLICATIONS

There are no specific financial implications arising from the recommendation set out in this report

EQUALITIES IMPLICATIONS

There are no specific equalities implications arising from the recommendation set out in this report.

COMMUNICATION IMPLICATIONS

There are no specific implications for communications arising from the recommendation set out in this report.

RISK MANAGEMENT CONSIDERATIONS

The information below provides a summary of the risk management considerations in relation to the Council's investments in each company.

Agenda Item 8

Greensand Holdings Ltd

Property Development	<p><i>Expanding activities in this area increases the Council's exposure to the property market fluctuations and the normal development risks.</i></p> <p><i>These risks may be exacerbated by Brexit, as markets react to the negotiations that are ongoing following the triggering of Article 50.</i></p>
<p>The new Executive Sub Committee will set the parameters for the work of the company in terms of the scale and pace of development it wishes to see undertaken as well as the return on investment based on the new Draft Corporate plan and Capital Investment Strategy. The company can then bring forward a draft business plan for the new Executive Sub-Committee to consider with a programme of investment, development and acquisition works setting out the resources (people and money) to deliver the plan. That can then be kept under review and adapted to changes in the property market, taking into consideration market and economic conditions.</p>	

Horley Business Park Development LLP

Planning Policy	<p><i>Securing a local plan allocation</i></p>
	<p>The company has been seeking to secure an allocation in the normal way. The site is allocated in the 'Submission Draft' of the Development Management Plan. An Examination of the Plan took place in early November 2018, and the Inspector's Interim Findings report has not proposed any further modifications to the allocation. Prospects of an allocation are, therefore, promising.</p>
Land Acquisition	<p><i>Securing the land necessary for the development to proceed</i></p>
	<p>Negotiations continue with the other 2 landowners. One is the County Council and those negotiations are progressing well. The other land owner is understood to be considering alternative offers for their land and is considering how to proceed. The Council has resolved to use compulsory purchase powers in the event that acquisition cannot be secured by negotiation.</p>
Gatwick	<p><i>Impact of future expansion plans at Gatwick Airport</i></p>
	<p>Gatwick Airport published its proposals for future expansion on 18 October 2018 setting out how they would</p>

Agenda Item 8

	like to take forward the growth of the airport. This proposes use of the standby runway as a permanent runway, and associated increase in passenger numbers. The proposals are currently in draft and subject to change. Continued joint working with the airport and other stakeholders in relation to scheme design will ensure that development proposals are complementary.
Funding	<i>Future funding for the development</i> To date the Council has agreed funding up to the determination of a planning application assuming the County Council also make a contribution. Funding has also been provided for the purchase of some land. Long term funding for the project has not yet been secured so is a risk; the Council will need to take a view on if and how to fund the project in the longer term.

Pathway for Care Ltd

Referrals	<i>Ability of the company to generate interest from commissioners in taking tenancies</i>
	This is the key focus of Board Directors activity to convert a number of referrals in progress to actual tenancies. Pathway for Care are currently working with commissioners across a broad geographic area. The major shareholder has confirmed to the Council's Statutory Officers, and the Leader of the Council that he is pleased with progress.

Pathway Digital (RBBC LTD) – This company is not active so there are no operational risks to report.

OTHER IMPLICATIONS

No other implications have been identified

CONSULTATION

The Council's Director of Finance and Organisation, and the Monitoring Officer, are informing Horley Business Park LLP and Pathway For Care Ltd of the outcomes of the Commercial Governance Task Group's recommendations.

Discussions are underway to identify how those companies can assist the Council in evidencing learning from the Review, and details will be reported to the new Executive Sub Committee in due course.

BACKGROUND PAPERS

None

Agenda Item 8

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