

# Public Document Pack

## Audit & Governance Committee

Thursday, 26th November, 2020

6.00 pm

Virtual Teams Meeting

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### AGENDA

1. **Welcome and Apologies**
2. **Minutes of the last meetings held on 14th January 2020 and 29th July 2020**  
**Audit & Governance Committee - 14th January 2020 minutes** 3 - 13  
**Audit & Governance Committee - 29th July 2020 minutes**
3. **Declarations of Interest**  
**DECLARATIONS OF INTEREST FORM** 14
4. **External Audit: Progress Report 2019/20**  
The Council's External Auditors, Grant Thornton, will provide the Committee with a verbal update on the progress of their audit of the annual accounts.
5. **Treasury Management Report - June to August 2020**  
The Director of Finance & Customer Services will provide the Committee with a report on Treasury Management activity including a Mid-Year Strategy Review for 2020/21.  
**Treasury Management Report** 15 - 30  
**Appendix 1 - Weekly Balances Treasury Management Report**  
**Appendix 2 - Investment details - Treasury Management report**  
**Appendix 3 - Pru Indicators - Treasury Management report**  
**Appendix 4 - Pru Graphs - Treasury Management report**  
**Glossary of Treasury Management terms**  
**Appendix 6 - Treasury Mgmt Mid-Year Review**

**6. Audit & Assurance - Progress & Outcomes to September 2020**

The Head of Audit & Assurance will report on progress and outcomes achieved within Audit & Assurance.

**Audit & Assurance - Progress & Outcomes Report - September 2020** **31 - 37**

**7. Risk Management - 2020/21 Quarter 1 Review**

The Head of Audit & Assurance will provide the Committee with a report on Risk Management for 2020/21 Quarter 1.

**Risk Management 2020/21 Quarter 1** **38 - 41**

**PART 2 - THE PRESS AND PUBLIC MAY BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEMS:**

No Part 2 items submitted.

Date Published: Wednesday, 18 November 2020  
Denise Park, Chief Executive

## AUDIT & GOVERNANCE COMMITTEE

Tuesday, 14 January 2020

**PRESENT** – Councillors, McGurk (in the Chair), Whittle, Davies, Fazal, Rawat and Slater, N.

**OFFICERS** – Louise Mattinson, Colin Ferguson, Moshin Mulla and Phil Llewellyn (BwDBC), John Farrar (Grant Thornton).

**ALSO PRESENT** – Councillor Andy Kay, Executive Member for Finance and Governance.

### RESOLUTIONS

#### 26 **Welcome and Apologies**

The Chair welcomed all present to the meeting.

#### 27 **Minutes of the meeting held on 15th October 2019**

The Minutes of the last meeting were moved as a correct record. John Farrar stated that in his opinion, Minute Number 22 was not correct in terms of the following wording “John Farrar confirmed that there would be no additional fees for this work in 19/20”, John indicated that he had not made that commitment.

The Chair stated that in her opinion the Minute was accurate and that the additional fees referred to were a one off cost. The Chair, seconded by Councillor Neil Slater then again moved the Minutes as a correct record.

**RESOLVED** – That the Minutes of the Meeting held on 15<sup>th</sup> October 2019 be agreed as a correct record.

#### 28 **Declarations of Interest**

Councillor Ron Whittle declared an interest in Agenda Item 7 – Audit & Assurance Progress Report (School Governor at Roe Lee School).

#### 29 **Significant Partnerships Register**

Mohsin Mulla, Policy and Partnerships Manager, reported on the Significant Partnerships Register, which identified all the significant partnerships the local authority was involved in as per the Audit & Governance Committee’s Terms of Reference, and which was reviewed and updated on a six monthly basis.

Members discussed potential omissions from the Register and also the significance of some the partnerships listed.

**RESOLVED** – That the significant partnerships submitted for inclusion in 2019/20 be noted.

(Councillor Tasleem Fazal in the Chair).

**30 External Audit Annual Letter for Year Ended 31<sup>st</sup> March 2019.**

The External Audit Annual Letter for Year Ended 31<sup>st</sup> March 2019 was submitted.

**RESOLVED** – That the External Audit Annual Letter for Year Ended 31<sup>st</sup> March 2019 be noted.

**31 External Audit Progress Report and Sector Update**

John Farrar reported on the progress of Grant Thornton in delivering their responsibilities as External Auditors, and highlighted the emerging issues and developments nationally.

Detailed planning of the 2019/20 audit commenced in January and interim fieldwork would begin in February.

The certification report for the Council's annual Housing Benefit Subsidy claim was issued on 21<sup>st</sup> November 2019, with the report relating to the annual Teacher's return issued on 23<sup>rd</sup> December 2019.

The Committee were advised that they would be kept informed of the independent review into local government audit being headed up by Tony Redmond.

John advised that Grant Thornton had recently recommended that the Audited Accounts deadline should return to the end of September each year, rather than the current deadline of the end of July.

In discussing the report, fees for 20/21 were raised, and John advised that would be liaising with Louise Mattinson as soon as possible on the fees.

**RESOLVED** – That the update be noted.

**32 Audit & Assurance Progress Report November 2019**

The Committee received a report which highlighted the achievements and progress made by Audit & Assurance in the period 1<sup>st</sup> October 2019 to 30<sup>th</sup> November 2019.

Further to discussions at the last meeting, Colin Ferguson updated the Committee on Counter Fraud activity, and Louise Mattinson provided information on the process for Direct Payments via the Mosaic system and explained the circumstances where overpayments to Care Homes were made and how these were recovered. Colin Ferguson agreed to send further information on 28 cases to Councillor Whittle.

**RESOLVED** – That the report be noted.

**33 Risk Management – 2019/20 Quarter 2 Review**

The Committee were advised of risk management activity for the second quarter – 1st July 2019 to 30<sup>th</sup> September 2019. There were 21 open risks at 30<sup>th</sup> September 2019.

During the year, officers continued to liaise with colleagues across the Council to identify areas to make use of the risk management support that was available from Zurich Municipal as part of the current long term insurance agreement. Colleagues from Zurich Risk Engineering (ZRE) had recently completed reviews of Lone Working arrangements and Inspection Regimes.

The Committee then considered a Corporate Risk to look at the next meeting, and agreed that No.10 which related to Social Integration be reviewed.

**RESOLVED** – 1). That the report be noted; and  
2). That Corporate Risk No.10 be reviewed at the next meeting.

#### **34 Annual Governance Statement (AGS) – Progress of 2018/19 Actions and 2019/20 Approach/Timetable**

Members were informed on progress of the actions taken to address the significant governance issues identified in the 2018/19 AGS and the planned approach and timetable for producing the 2019/20 Statement.

The Accounts & Audit Regulations required that the Council must publish an AGS on an annual basis in accordance with proper practice. The Audit & Governance Committee was also required to review and provide independent assurance on the Council's governance framework.

The following significant issues were noted in the 2018/19 AGS:

- Children's Services Financial Position - action brought forward from 2017/18); and
- Compliance with the General Data Protection Regulation (GDPR) - 2018/19 action).

Details of the progress made to 30 November for each of these areas was provided in Appendix 1. These showed that appropriate steps had been taken by senior officers and managers in respect of the issues identified. However, the strategies taken in Children's Services to address the issue in this area would take time to affect real change and it was forecast that the Portfolio budget would overspend at 31 March 2020. The progress made regarding the action to address GDPR compliance was largely in accordance with the plan. The issue was still assessed as red in the half-year Digital & Business Change Director's Half-year Management Accountabilities Framework (MAF) Dashboard Report. The impact of the actions on this area would not be able to be assessed until the end of Quarter 3.

The approach and timetable for 2019/20 were also outlined.

**RESOLVED** – That the report and approach/timetable for producing the 2019/20 AGS be noted.

The Committee received the results of the annual assessment of compliance of the Audit & Governance Committee against recognised best practise recommended by CIPFA as well as a summary of Committee members' self-assessments. The results of the various assessments were set out in appendices 1, 2 and 3 to the report.

The details included at Appendix 3 provided a summary of the responses received from the Councillors who have been members of the Committee during the Municipal Year. This also includes a comparison with the results from the 2017/18 and 2018/19 scores. The overall results show that there is a belief by the members that the Committee is operating effectively, with average scores of satisfactory/partly agree or better for most questions.

The Council's Audit & Governance Committee arrangements were largely compliant with the recommended guidance. The only areas where full compliance could not be provided was:

- Question 7: The Committee's current terms of reference does not include reference to the ethical framework.
- Question 18: The Audit & Governance Committee has not obtained feedback from others interacting or relying on its work.

However, it was recognised that that the Committee's Annual Report was presented to Full Council. This presents an opportunity to obtain feedback from Councillor colleagues at least annually.

The evaluation of effectiveness document (Appendix 2) had been completed by the Head of Audit & Assurance. The previous version was appended to the Audit & Governance Committee's annual report considered by this Committee on 25 June 2019. It noted the additional challenge of corporate risks that the Committee now carried out on a regular basis, the senior officer attendance at its meetings to update Members on progress of agreed actions from key reports. It also noted that the Committee now received a Counter Fraud Annual Report.

Across five areas the score was evaluated at 4 out of a possible 5, demonstrating: "clear evidence from some sources that the Committee is actively and effectively supporting improvement across some aspects of this area". For the remaining four areas evaluated, the assessed score was 5, demonstrating: "clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable".

**RESOLVED** – That the Committee note and approve:

- the Audit & Governance Committee's position when compared to the CIPFA good practice checklist (Appendix 1) and the additional actions noted;
- the Evaluation of Effectiveness of the Audit & Governance

Committee, produced by the Head of Audit & Assurance on behalf of the Chair of the Committee (Appendix 2); and,

- the summary results from the individual Committee member self-assessments of the overall effectiveness of the Committee (Appendix 3).

**36 Treasury Management Report 2019/20 – 1<sup>st</sup> September to 30<sup>th</sup> November 2019**

A report was submitted which updated Members with regard to the Treasury Management position to date and draft Strategy for 2020/21. The report summarised the interest rate environment for the period and borrowing and lending transactions undertaken, together with the Council's overall debt position, and the position against Treasury and Prudential Indicators established by the Council.

Louise Mattinson highlighted the recent increase in the cost of long term borrowing through the Public Works Loan Board, advising that short term and long term options would continue to be reviewed. Reference was also made to

the recent refinancing of the Phase 2 PFI Scheme which had resulted in a financial benefit to the Council of £971,000. Additionally, it was reported that new employer contribution rates following the triennial valuation of the pension fund would commence from 1<sup>st</sup> April 2020, and options were being considered relating to prepayment savings.

**RESOLVED** – That the Committee note the Treasury Management position for the period and draft Treasury Management Strategy for 2020/1 appended to the report.

Signed: .....

Date: .....

Chair of the meeting  
at which the minutes were confirmed

# AUDIT & GOVERNANCE COMMITTEE

## Wednesday, 29th July 2020

**PRESENT** – Councillor Ron Whittle in the Chair), Councillors Maureen Bateson and Andy Kay.

**OFFICERS** – Louise Mattinson, Colin Ferguson, and Phil Llewellyn (BwDBC), John Farrar and Gareth Winstanley (Grant Thornton).

**ALSO PRESENT** – Councillor Vicky McGurk, Executive Member for Finance and Governance.

### RESOLUTIONS

#### 1 **Welcome and Apologies**

The Chair welcomed all present to the meeting and read the notice that outlined the arrangements relating to the virtual meeting.

Apologies had been received from Councillors Abdul Patel, Neil Slater and Mahfooz Hussain.

#### 2 **Minutes of the meeting held on 14<sup>th</sup> January 2020**

It was noted that there was no Members present who attended the last meeting.

**RESOLVED** – That the Minutes of the meeting held on 14<sup>th</sup> January 2020 be submitted to the next meeting for approval.

#### 3 **Declarations of Interest**

No Declarations of Interest were received.

#### 4 **External Audit – Audit Scope and Fees**

John Farrar introduced Gareth Winstanley, who was the new Audit Manager from Grant Thornton for the Council.

The Committee was provided with a report on the Audit Plan and Fee for 2019/20, the 20/21 Scale Fee and the Public Sector Audit Appointments report on Future Procurement and Market Supply.

Members discussed the documents submitted, in particular the fees and fees variations, and whilst the pressures on external audit were noted, Members commented that the Council needed early notice of any proposed variations to fees. The Chair advised that any additional fees around remote working due to Covid-19 would be challenged, as it was felt that remote working for External Auditors should not incur costs for the Council.

The Committee noted Future Procurement and Market supply considerations, particularly in relation to the very competitive market



situation and the extra, complex work to be carried out by External Auditors.

**RESOLVED** – That the updates and information presented be noted.

## **5 Finalisation of External Audit Fees 2018/19**

The Committee received a report on the outcome of the adjudication by Public Sector Audit Appointments Limited (PSAA) regarding the 2018/19 fee variation requested by the Council's External Auditors relating to the additional work needed to be carried out in respect of the 2018/19 Statement of Accounts.

The Council's External Auditors, Grant Thornton, requested the following variations to the PSAA Scale Fee in respect of completion of the Council's 2018/19 Financial Statements and work on the Value for Money conclusion; the original scale fee was set out in the Audit Fee letter presented to the Audit & Governance Committee in October 2018.

Following the PSAA adjudication, the adjustments were amended to £10,000 further to an email from the PSAA on 29 April 2020.

**RESOLVED** – That the Committee:

- Note the outcome of the adjudication by PSAA in respect of the 2018/19 External Audit fee variation and approve the proposed variation of £10,000.

## **6 External Audit Progress Report and Sector Update**

John Farrar and Gareth Winstanley reported on the progress of Grant Thornton in delivering their responsibilities as External Auditors, and highlighted the emerging issues and developments nationally.

Initial planning for the 2019/20 audit began in March and work on financial statements would commence during the summer.

A VFM risk assessment had been undertaken and as part of work later in the year there would be a focus on two VFM significant risks, namely: Financial Sustainability and Implementation of regulator recommendations. Work undertaken would be reported in the Audit Findings Report and an opinion given on the Statement of Accounts ahead of the 30 November 2020 deadline.

In terms of Certification of claims and returns, in response to the impact of the Covid-19 pandemic, the DwP had moved the reporting deadline back to 31 January 2021, and discussions with the Council's Housing Benefit Section had begun about this work and certifying of the claim ahead of the deadline.

In relation to the Council's annual Teachers' Pensions return, the certification work for the 2019/20 claim was due to be completed in line with the national deadline.

**RESOLVED** – That the update be noted.

**7 Treasury Management Report – March to May 2020**

The Committee received a report which summarised the interest rate environment for the period March to May 2020 and the borrowing and lending transactions undertaken, together with the Council's overall debt position, and the position against Treasury and Prudential Indicators established by the Council.

**RESOLVED** – That the report be noted.

**8 Treasury Management Annual Report 2019/20**

The Committee received a report on the Treasury outturn for 2019/20, which had also been reported to the Executive Board on 9<sup>th</sup> July 2020 in the 2019/20 Outturn Corporate Monitoring Report.

**RESOLVED** – That the Outturn position for 2019/20 be noted.

**9 Audit & Assurance – Progress and Outcomes to June 2020**

Members were informed of the achievements and progress made by Audit & Assurance in the period from 1 December 2019 to 30 June 2020.

In terms of Corporate Governance and Risk, here were fourteen “red” priority areas/issues across the departments, by key themes, which had been identified in the summary Director Exception/Dashboard Report and Assurance Statements for the year-end, as at 31st March 2020.

This included ten “red” priorities that remained as areas of concern from 30th September 2019, two areas that had been upgraded and two new areas which appeared as red for the first time. There were also four areas of concern previously identified as “red” that had now been downgraded to “amber” in the period.

The report also highlighted Counter Fraud Activity and Internal Audits recently undertaken.

**RESOLVED** – That the report be noted.

**10 Audit & Governance Plan 2020/21 and Internal Audit Charter**

The Committee were presented with a report, informing Members of the planned Audit & Assurance work for the forthcoming year.

The Plan and Charter defined the scope and the rationale of the approach being followed.

The Internal Audit Charter was a requirement of the PSIAS, which became mandatory from 1 April 2013. The Charter was last re-approved at the Audit

& Governance Committee meeting on 11 April 2019 following the publication of updated PSIAS in March 2016. The Charter was reviewed and up-dated to reflect recent changes in the senior management structure and job titles at that time. No other changes were deemed necessary for 2020/21.

**RESOLVED** – That The Committee:

- approve the 2020/21 Audit & Assurance Plan (as set out in Appendices 1 and 2);
- approve the Internal Audit Charter (as set out in Appendix 3)
- note that reports dealing with both progress against the Plan and outcomes achieved will be submitted to each meeting; and
- note that Plan changes will be reported during the year.

## **11 Annual Risk Management Report 2019/20**

Members received a report that informed the Audit & Governance Committee of the risk and related activity which has taken place or been delivered during 2019/20 and provide an overall conclusion of the effectiveness management arrangements which were in place within the Council.

The report covered the activities relating to the corporate and departmental risk management arrangements, emergency and business continuity planning, event management, information governance and insurance. It outlined the risk management policies and arrangements currently in place, activities which had taken place or been delivered during the last year directed at achieving the various risk objectives, and details of key actions or developments for 2019/20.

The details provided in the report provide evidence that, overall, the Council had adequate risk management arrangements in place and these had operated effectively during the year ended 31 March 2020. Areas for action or development during 2020/21 had been identified and would strengthen the existing systems and procedures in place.

The Committee discussed the impact of Covid-19 in terms of Risk, and the Executive Member for Finance and Governance, and Director of Finance outlined the latest position in terms of additional costs, loss of income, Government assistance available, minimum level of Reserves and the funding gap arising.

**RESOLVED** – That the report be noted and that the Committee agree with the conclusion on the overall effectiveness of the Council's risk management arrangements in place during 2019/20.

## **12 Annual Counter Fraud Report 2019/20**

A report was submitted informing the Audit & Governance Committee of the results of the counter fraud activity that had been carried out during the year ended 31 March 2020 to minimise the risk of fraud, bribery and corruption occurring in the Council, and the outcome of investigations carried out into potential or suspected fraud or irregularities.

**RESOLVED** – That the report be noted.

### **13 Annual Internal Audit Opinion Report 2019/20**

Members received a report which provided independent evidence to allow it to fulfil its role and function of providing independent assurance to the Council on the adequacy of the risk management and internal control arrangements within the Council.

**RESOLVED -**

That the Committee:

- note the content of the Annual Internal Audit Opinion Report for 2019/20 (as set out in Appendix A);
- note the overall annual opinion of the Head of Audit & Assurance, which is that **adequate assurance**, can be placed upon the Council's framework of governance, risk management and internal control; and
- note that the internal audit work that supports this opinion has been delivered in accordance with the Public sector Internal Audit Standards (PSIAS) and that there are no significant areas of non-conformance.

### **14 Annual Governance Statement for 2019/20**

The Committee was presented with the Draft Annual Governance Statement for 2019/20.

**RESOLVED** – That the Annual Governance Statement for 2019/20 be noted.

### **15 Audit & Governance Committee Annual Report 2019/20**

The Committee received the draft Audit & Governance Committee Annual Report, which summarised the work undertaken by the Committee during the year to demonstrate that it had fulfilled its agreed terms of reference.

**RESOLVED** – That the Committee:

- approve the Committee's Annual Report, including the statement on its effectiveness during 2019/20 and the draft effectiveness self-assessment evaluation; and
- request that the Full Council endorse the report.

Signed: .....

Date: .....

Chair of the meeting  
at which the minutes were confirmed



## BRIEFING PAPER



**REPORT to :** Audit and Governance Committee

**LEAD OFFICER:** Director of Finance and Customer Services

**DATE:** 26<sup>th</sup> November 2020

**WARD/S AFFECTED:** All

### TREASURY MANAGEMENT REPORT – 2020/21

Based on monitoring information for the period 1<sup>st</sup> June – 31<sup>st</sup> August 2020

#### 1. PURPOSE

To allow scrutiny of the Treasury Management function.

#### 2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee notes the Treasury Management position for the period.

#### 3. BACKGROUND

3.1 The Treasury Management Strategy for 2020/21, approved at Executive Board in March 2020, complies with the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

The CIPFA Code, the Investment Guidance issued by MHCLG, and the Internal Audit & Assurance reviews of Treasury Management activities, all recommend a strong role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reports on the position against Treasury and Prudential Indicators established by the Council.

3.3 A glossary of Treasury Management Terms is appended to this paper.

#### 4. KEY ISSUES

##### 4.1 Bank of England Bank Rate

The Bank of England Bank Rate has remained steady during the period, having been reduced to 0.1% in March 2020 at the start of the COVID-19 pandemic.

#### 4.2 Investments Made and Interest Earned

The graph in Appendix 1 shows the weekly movement in the totals available for investment, both actuals to date and projections for the rest of the year (adjusted for anticipated borrowing). These balances have fluctuated significantly across the period, ranging between £40M and £60M. Investment balances were unusually high during this period, because of funds received from central government. Funds received from central government included both grants received in advance of their usual payment dates and additional funds in respect of extra costs and the distribution of grants to small businesses, in relation to the response to the COVID-19 pandemic. It is intended that investment balances will ultimately reduce in future to between £10 M and £20 M.

Investments made in the period were mainly in “liquid” (instant access) deposits, either bank “call accounts” or Money Market Funds (MMFs). During the period, the Council has opened additional Call Accounts with the aim of achieving slightly higher returns on investments in such accounts and mitigating risk. Returns on MMFs holdings had decreased significantly by the end of the period, following the reductions in the Bank of England Bank Rate, to around 0.07%. Bank account rates have also decreased over the period, paying between 0.01% and 0.05%.

For limited periods, funds were also placed with the Government’s Debt Management Office (at 0.01%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
09-Jun-20	2 days notice	Thurrock Metropolitan Borough Council	£5,000,000	0.40%

At 31<sup>st</sup> August, the Council had approximately £40.4 M invested, compared to £45.7 M at the start of the period. Appendix 2 shows the breakdown of the closing investment balance.

The Council’s investment return over the period was approximately 0.10%.

For comparison, benchmark LIBID (London Interbank Bid) rates were:

- (a) 1 month lending - decreasing over the period, averaging -0.05% and ending at -0.07%
- (b) 3 month lending - decreasing over the period, averaging -0.01% and ending at -0.06%

#### 4.3 Borrowing Rates

The cost of long-term borrowing through the PWLB (Public Works Loan Board) is linked to central government’s own borrowing costs.

The cost of short-term borrowing, based on loans from other councils, has continued to fall during the period. Interest rates on loans from 3 months out to a year were priced at exceptionally low rates between 0.03% to 0.30% by the end of the period.

The Council continues using short-term borrowing, with balances having remained consistent during the period, but should we need to borrow over the longer term this may be more expensive. It is uncertain as to how the long term borrowing market will develop, but should the need arise, we will review the options available.

It is expected that interest rates will remain low for the foreseeable future.

#### 4.4 Short Term Borrowing in the 3 month period

The Council’s CFR (Capital Financing Requirement) is the key measure of the Council’s borrowing **need** in the long term. It is

- (a) the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.)

*less*

- (b) the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts each year, to finance their debt -

*less*



(c) any capital receipts applied to finance outstanding debt.

and therefore tends to increase if capital spend financed from borrowing exceeds MRP.

The Council's **actual** long term debt is significantly below the CFR – the gap has widened as long term debt has been repaid. We have been using “internal borrowing” from available revenue cash balances to partly cover this gap. The remaining gap has been covered by taking enough short term borrowing to ensure that the Council has sufficient funds to pay its liabilities and commitments, and to anticipate future borrowing needs. This has resulted in net interest savings.

Up to the end of August, there was a decrease in short term borrowing of £3M, as loans of £22M were repaid and £19M of new loans were taken (listed below).

<b>New loans taken in the period</b>				
<b>Start Date</b>	<b>End Date</b>	<b>Counterparty</b>	<b>Amount £</b>	<b>Rate</b>
01/06/2020	01/12/2020	Craven District Council	2,000,000	0.90%
07/07/2020	07/01/2021	Police and Crime Commissioner for Northumbria	5,000,000	0.70%
07/07/2020	07/01/2021	Police and Crime Commissioner for Northumbria	5,000,000	1.00%
31/07/2020	29/01/2021	West Yorkshire Fire and Rescue	5,000,000	0.80%
05/08/2020	04/08/2021	North of Tyne Combined Authority	5,000,000	0.80%
			<b>22,000,000</b>	

<b>Future deals already agreed by end of period</b>				
<b>Start Date</b>	<b>End Date</b>	<b>Counterparty</b>	<b>Amount £</b>	<b>Rate</b>
01/10/2020	30/09/2021	Vale of Glamorgan Council	2,250,000	0.55%
25/09/2020	24/09/2021	Merseyside Fire and Rescue Service	2,000,000	0.40%
25/09/2020	25/06/2021	Police & Crime Commissioner Hampshire	3,000,000	0.35%
09/11/2020	08/11/2021	Wokingham Borough Council	5,000,000	0.40%
30/10/2020	28/05/2021	Hampshire County Council	4,000,000	0.29%
30/10/2020	28/05/2021	Hampshire Fire and Rescue Authority	1,000,000	0.29%
19/01/2021	19/10/2021	St Helens Council	5,000,000	0.45%
10/11/2020	10/08/2021	West Midlands Combined Authority	7,000,000	0.35%
27/01/2021	27/10/2021	Lincolnshire County Council	5,000,000	0.45%
			<b>34,250,000</b>	

#### 4.5 Current debt outstanding -

	31 <sup>st</sup> May 2020		31 <sup>st</sup> Aug 2020	
	£'000	£'000	£'000	£'000
<b>TEMPORARY DEBT</b>				
Less than 3 months	25,000		25,000	
Greater than 3 months (full duration)	<u>59,000</u>		<u>56,000</u>	
		84,000		81,000
<b>LONGER TERM DEBT</b>				
Bonds	18,000		18,000	
PWLB	131,652		131,652	
Stock & Other Minor Loans	<u>263</u>		<u>263</u>	
		149,915		149,915

Lancashire Council County – Transferred Debt	14,148	14,007
Recognition of Debt re PFI Arrangements	<u>63,414</u>	<u>62,659</u>
<b>TOTAL DEBT</b>	<b>311,477</b>	<b>307,581</b>
LESS: TEMPORARY LENDING		
Fixed Term	(23,300)	(15,100)
Instant Access	(22,397)	(25,323)
<b>NET DEBT</b>	<b><u>265,780</u></b>	<b><u>267,158</u></b>

The key elements of long term borrowing set out above are:

- (a) £18M classed as bonds, borrowed from the money markets, largely in the form of “LOBO” (Lender Option, Borrower Option) debt. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%
- (b) £131.7M borrowed from the PWLB at fixed rates, at an overall average rate of around 4%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.7% to 3.77%.
- (c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year, charged provisionally at 2%.
- (d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use school buildings financed through Public Finance Initiative (PFI) arrangements. The Council’s effective control over, and use of these assets is thereby shown “on balance sheet”, with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax Payer as these payments made to the PFI contractor are largely offset by PFI grant funding from the Government.

#### 4.6 Performance against Prudential and Treasury Indicators

Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the current year.

With regard to the movement in the key indicator, **Total Borrowing against the Authorised Borrowing Limit**, this is shown as the first graph in Appendix 4. Total borrowing at 31<sup>st</sup> August 2020 was £307.6M, which is below both our Operational Boundary (£360.8M) and our Authorised Borrowing Limit (£370.8M) for 2020/21.

This year we have remained within both our Operational Boundary – which is set for management guidance - and the (higher) Authorised Borrowing Limit. The Authorised Limit is the key Prudential Indicator - loans from the PWLB cannot be taken if this Limit is (or would be caused to be) breached.

This total debt includes the impact on the balance sheet of the recognition of assets that have been financed through PFI. The accounting adjustments are designed to show our effective long term control over the assets concerned, and the “indebtedness” arising from financing the cost of them. They do not add to the “bottom line” cost met by the Council Tax Payer.

The Council still holds a large part of its debt portfolio in loans of less than a year’s duration - short-term loans still represent a cheap way to fund marginal changes in its debt. This remains under review, with regular updates from the Council’s treasury management advisors, Arlingclose.

### Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at £53.6M, against the **limit** set for this year of £116.4M.

This indicator exists to ensure that the Council does not become over-exposed to changes in interest rates impacting adversely on its revenue budget. The limit is set to allow for short as well as long term borrowing, and takes:

- (a) all variable elements of borrowing (including short term borrowing – up to 364 days – and any LOBO debt at risk of being called in the year), which is then offset by
- (b) any lending (up to 364 days).

Our **Fixed Interest Rate Exposure** was around £136.9M, against the **limit** of £267.2M. This indicator effectively mirrors the previous indicator, tracking the Council's position in terms of how much of the debt will **not** vary as interest rates move. The historically low interest rates prevailing over recent decades led the Council to hold a large part of its debt in this way.

This limit was set to allow for the possibility of much higher levels of new long term, fixed rate borrowing. There are still significant levels of short-term debt.

### 4.7 Mid-Year Treasury Management Strategy Review

Executive Board approved the Treasury Management Strategy for 2020/21 on 12th March 2020. A mid-year review has been undertaken, a copy of which is appended (Appendix 6), which has been approved by Executive Board on 12<sup>th</sup> November 2020, as part of the budget monitoring process.

The conclusion of the review is to make an amendment to the Investment Counterparty Criteria, to increase the total cash limit able to be invested in Money Market Funds. All other Investment Criteria and Treasury Indicators set before the start of the financial year can remain unchanged.

## **5. POLICY IMPLICATIONS**

None

## **6. FINANCIAL IMPLICATIONS**

The financial implications arising from Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

## **7. LEGAL IMPLICATIONS**

The report is in accordance with the CIPFA code and therefore is in accordance with the Financial Procedure Rules under the Council's Constitution.

## **8. RESOURCE IMPLICATIONS**

None

## **9. CONSULTATIONS**

None

## **10. STATEMENT OF COMPLIANCE**

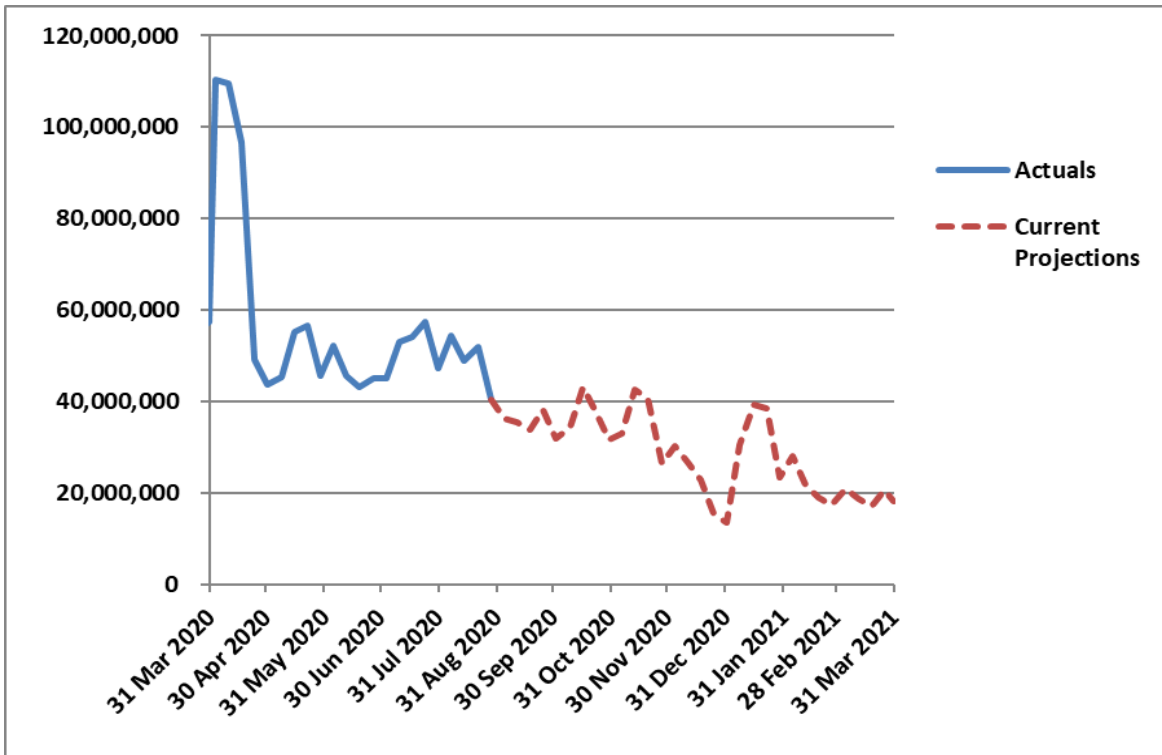
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

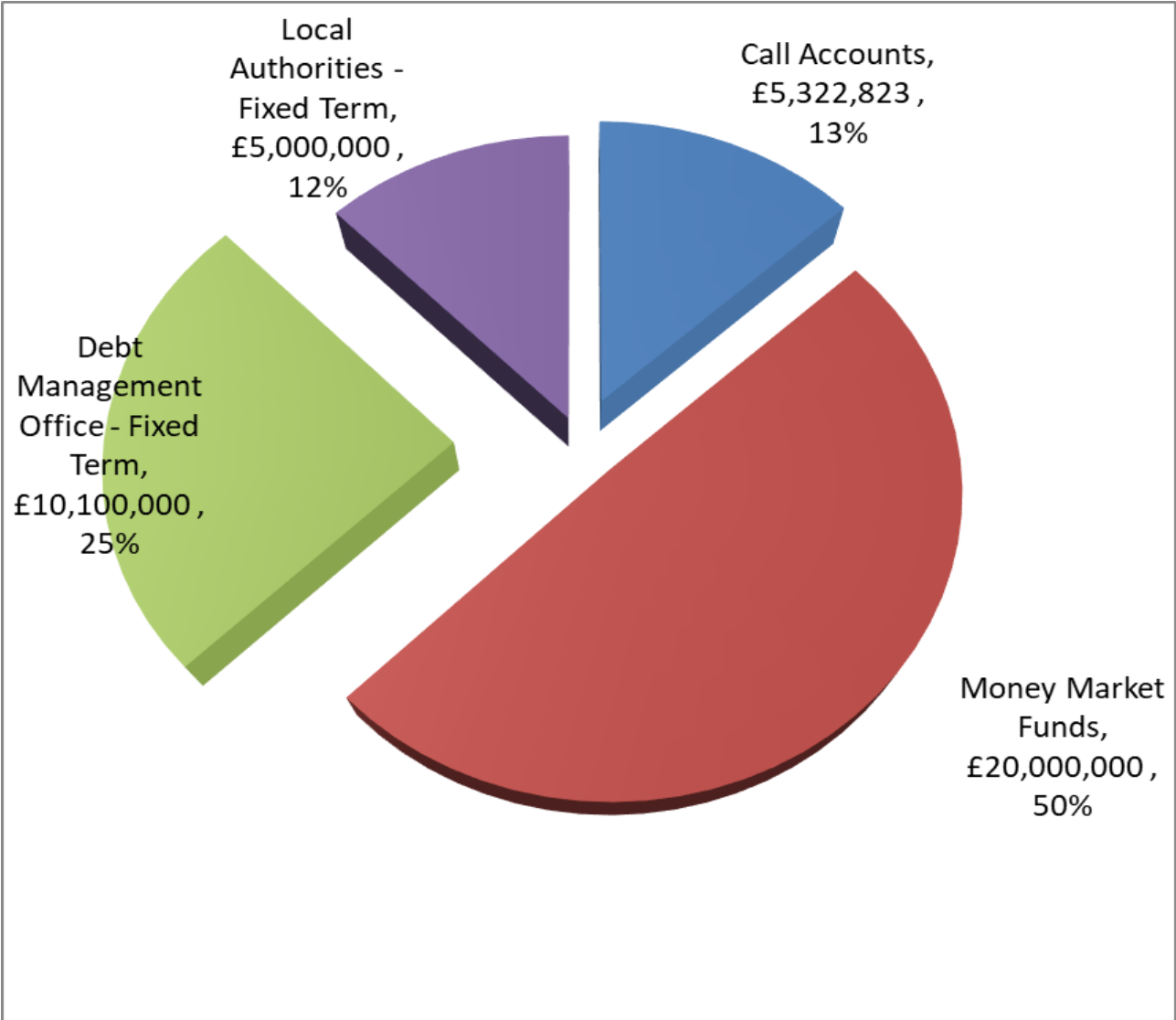
**VERSION:** 0.01

<b>CONTACT OFFICER:</b>	Jody Spencer-Anforth – Finance Manager	extn 507748
	Louise Mattinson - Director of Finance & Customer Services	extn 5600
<b>DATE:</b>	November 2020	
<b>BACKGROUND PAPERS:</b>	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved by Executive Board 12 <sup>th</sup> March 2020	

# Weekly Investment balances

2020/21 (Feb 20 to Mar 21)



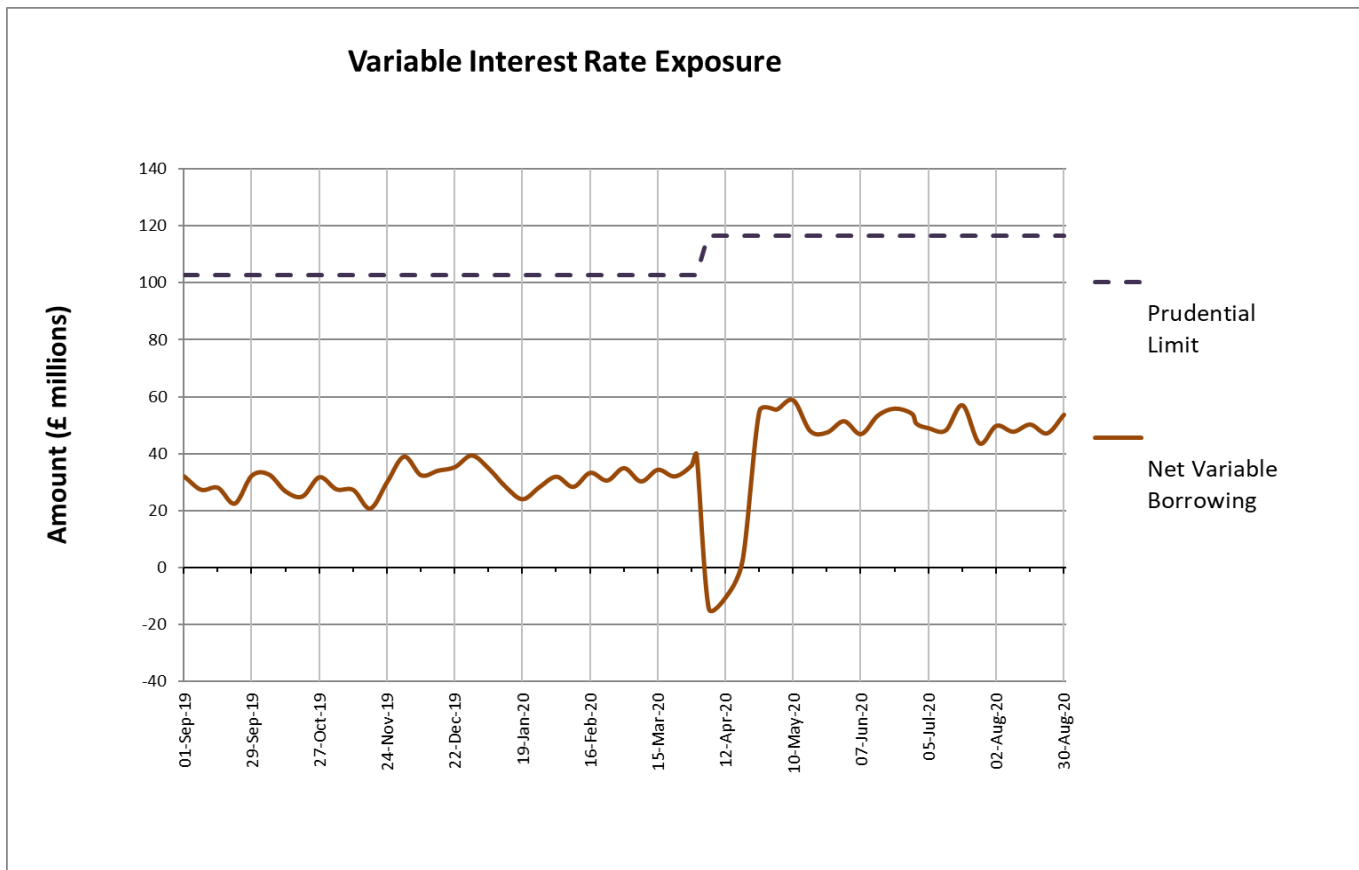
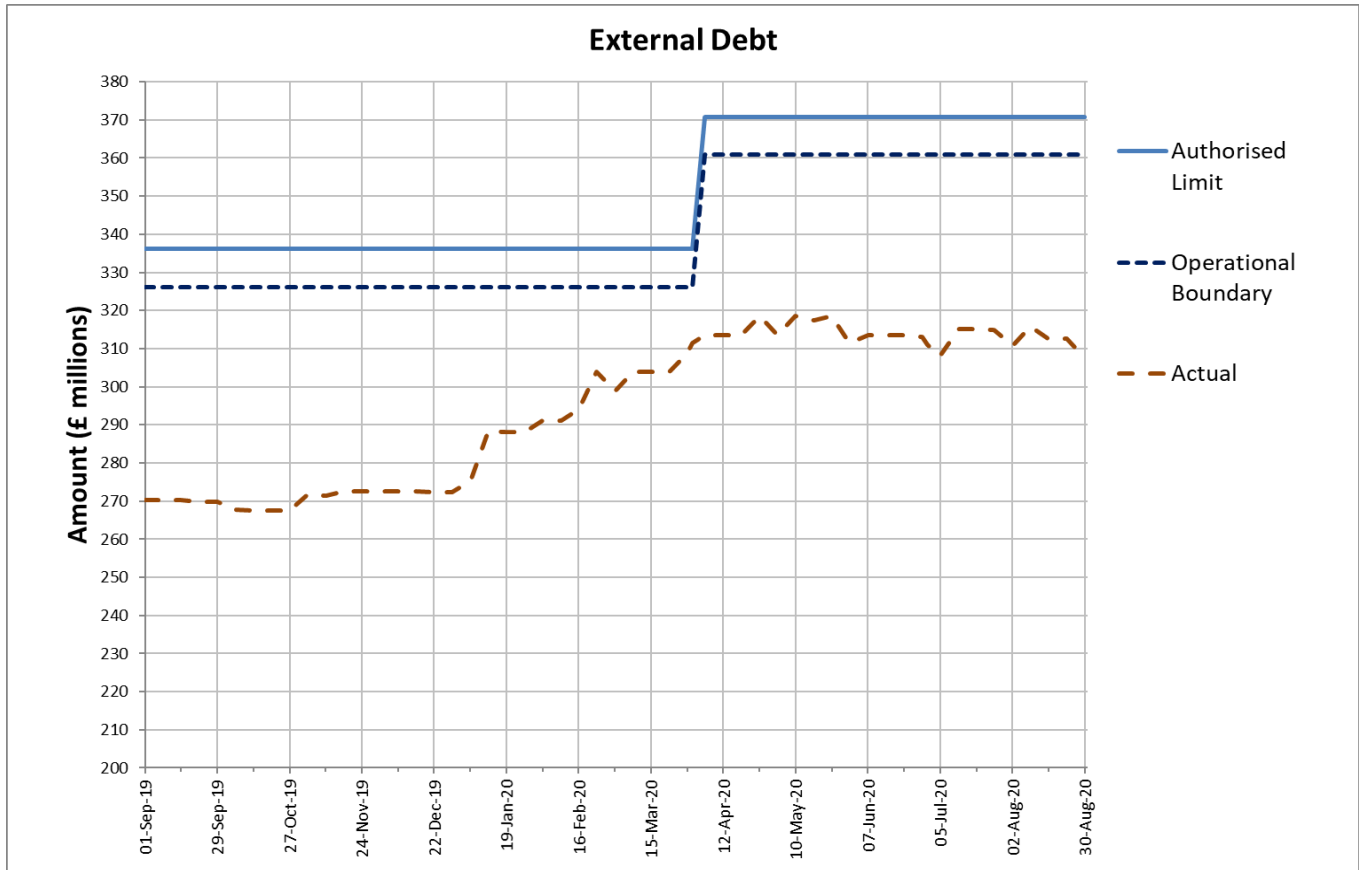


**Performance against Treasury & Prudential Indicators 2020-21 (approved by Council 24th Feb '20/ Exec Board 12th Mar '20)**

Appendix 3

	Indicator 2020/21	As approved Feb/Mar 20	Current Monitoring	Commentary																																										
PRUDENTIAL INDICATORS	Estimated Capital Expenditure	£40 M	£42 M																																											
	Estimated total Capital Financing Requirement at end of year	£307.3 Million (incl projections re LCC debt £15.0M and accumulated PFI / Lease debt £69.3M)	<div style="border: 1px solid black; padding: 5px;">                     These indicators are set when the Capital Programme is approved, to inform the decision making around that process, and are not, as a matter of course, updated during the financial year                 </div>																																											
	Estimated ratio of financing costs to net revenue stream	13.68% (Main Programme Capital Spend)																																												
	Outturn External Debt prudential Indicators	LCC Debt 15.0M PFI elements (no lease) 69.3M Remaining elements 276.5M <b>Operational Boundary 360.8M</b> <b>Authorised Borrowing Limit 370.8M</b>		<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Borrowing to date</th> <th style="text-align: right;">£M</th> </tr> </thead> <tbody> <tr> <td>LCC Debt</td> <td style="text-align: right;">14.0</td> </tr> <tr> <td>PFI Elements</td> <td style="text-align: right;">62.7</td> </tr> <tr> <td>BwD</td> <td style="text-align: right;">230.9</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>307.6</b></td> </tr> </tbody> </table>	Borrowing to date	£M	LCC Debt	14.0	PFI Elements	62.7	BwD	230.9	<b>Total</b>	<b>307.6</b>	LCC debt and BSF PFI debt will both fall across the year, as debt payments are made																															
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Variable Interest Rate Exposure	£116.4 M	Exposure to date	54	Limit not breached during the year																																										
Fixed Interest Rate Exposure	£267.2 M	Exposure to date	£136.9 M	Limit not breached during the year																																										
TREASURY	Prudential limits for maturity structure of borrowing	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Lower Limit</th> <th>Upper Limit</th> <th>Period (Years)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>50%</td> <td>&lt;1</td> </tr> <tr> <td>0</td> <td>30%</td> <td>1-2</td> </tr> <tr> <td>0</td> <td>30%</td> <td>2-5</td> </tr> <tr> <td>0</td> <td>30%</td> <td>5-10</td> </tr> <tr> <td>25%</td> <td>95%</td> <td>&gt;10</td> </tr> </tbody> </table>	Lower Limit	Upper Limit	Period (Years)	0	50%	<1	0	30%	1-2	0	30%	2-5	0	30%	5-10	25%	95%	>10	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3">Actual maturity structure to date</th> </tr> <tr> <th>Period (Years)</th> <th>£M</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>&lt;1</td> <td>93.2</td> <td>40%</td> </tr> <tr> <td>1-2</td> <td>3.9</td> <td>2%</td> </tr> <tr> <td>2-5</td> <td>22.1</td> <td>10%</td> </tr> <tr> <td>5-10</td> <td>34.0</td> <td>15%</td> </tr> <tr> <td>&gt;10</td> <td>77.7</td> <td>34%</td> </tr> <tr> <td><b>Total</b></td> <td><b>230.9</b></td> <td><b>100%</b></td> </tr> </tbody> </table>	Actual maturity structure to date			Period (Years)	£M	%	<1	93.2	40%	1-2	3.9	2%	2-5	22.1	10%	5-10	34.0	15%	>10	77.7	34%	<b>Total</b>	<b>230.9</b>	<b>100%</b>	
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<b>Total</b>	<b>230.9</b>	<b>100%</b>																																												
Total investments for longer than 364 days	£7 Million	<b>NO LONG TERM INVESTMENTS MADE</b>																																												

**Movements in Prudential Indicators - Total Debt and Variable Interest Exposure**  
**Year to 31st August 2020**





**Investment Rates**

The interest rates for durations of less than a year are represented by LIBID (London Interbank Bid Rate), a reference rate measuring levels at which major banks are prepared to borrow from one another. This is a potential benchmark for the return on the Council's investments, though the rates actually available are constrained by the Council's investment criteria and largely short term investment horizon, designed to ensure cash is available when required.

**Borrowing Rates**

To indicate the potential costs of borrowing to fund the Council's capital programme, the reference point is Public Works Loans Board (PWLB) borrowing rates. The benchmark used is for "Certainty Rate" borrowing of "Maturity" Loans (loans of fixed lump sums, at fixed rates, over periods from 1 to 50 years).

The PWLB is the statutory body which lends to public bodies from Government resources – the Government has declared that it will be abolished at some point in the future, but that the facility for lending at good value will be continued - no date has been proposed for the change.

**PWLB Loans** - Fixed rate loans are repayable by one of three methods:

(a) **Maturity**: half-yearly payments of interest only, with a single repayment of principal at the end of the term.

(b) **Annuity**: fixed half-yearly payments to include principal and interest or

(c) **EIP (Equal Instalments of Principal)**: equal half-yearly instalments of principal together with interest on the balance outstanding at the time.

**Certainty Rates** - a discount - currently 0.20% - is available on new PWLB borrowing to local authorities completing an information request on borrowing intentions to Central Government.

Current PWLB rates have no impact so long as no new longer term borrowing is taken, as all the Council's existing long term debt is at fixed rates.

**LOBO** - LOBO stands for Lender Option, Borrower Option. It means that the lender can increase the interest rate, which gives the borrower the option to repay the loan in full without penalty fees. Public bodies used to be only able to borrow money through government Public Works Loan Board (PWLB) loans, however borrowing from banks in the form of LOBOs was permitted from the early 2000s. LOBOs were made available with low rates (cheaper than then available PWLB rates) so they appeared to be an attractive alternative.

LOBOs have provoked criticism because of high initial profits to the lender from day one, and high subsequent interest rates. It is difficult to exit LOBO loans early unless the lender is in agreement, so they are less flexible, and there is a risk that if/when they are "called", the borrower may find itself having to refinance debt at high rates.

This Council always limited the scale of LOBO borrowing taken, so that it formed part of an overall balanced debt portfolio, while bringing the advantage of initial lower rates.

**PFI** - The private finance initiative is a way of creating "public-private partnerships" (PPPs) by funding public infrastructure projects with private capital.

**BSF** - Building Schools for the Future (BSF) was the name given to Central Government's investment programme in secondary school buildings in England in the 2000s. In Blackburn with Darwen, the schools funded through this scheme are Witton Park High School, Blackburn Central High School and Pleckgate High School.

### **Prudential Indicators**

Prudential Indicators are established mainly to allow members to be informed of the impact of capital investment decisions and to establish that the proposals are affordable, prudent and sustainable. In addressing the debt taken on by the Council, the indicators also deal with treasury issues, in particular the absolute level of debt being taken on (through the Authorised and Operational Borrowing Limits).

It should be noted that a "breach" of a prudential indicator is not necessarily a problem for the Council. Some indicators are more crucial than others, particularly in terms of their impact. If we spend more on the capital programme in total, that is not necessarily a problem if it has no adverse revenue consequences, for instance. Similarly, if we breach the indicator relating to variable interest rate exposure, this can just point to the balance of different types of debt taken up (between at fixed or variable interest rates) being significantly different from that anticipated when the indicator was set.

On the other hand, the Council's ability to borrow from the PWLB is constrained by needing to remain within the Authorised Borrowing Limit the Council has set for itself. If it became necessary to re-shape the Council's overall capital spending and borrowing strategy to the extent that the original Authorised Borrowing Limits were at risk of being breached, it would be necessary to obtain authority from full Council to change the borrowing limits.

**Money market fund** – type of fund investing in a diversified portfolio of short term, high quality debt instruments - provides benefit of pooled investment - assets are actively managed with very specific guidelines to offer safety of principal, liquidity and competitive returns - such funds "ring-fenced", kept fully separate from the remainder of funds managed by the investment house running the fund.

Council only uses highly rated funds - **policy** is to limit to those with long-term credit ratings no lower than A-, but current **practice** is to only use AAA rated with daily access (like instant access bank accounts).

## **MID-YEAR TREASURY MANAGEMENT STRATEGY REVIEW 2020/21**

### **1 Original Strategy for 2020/21**

1.1 The Treasury Management Strategy for 2020/21 was approved by Executive Board on 12<sup>th</sup> March 2020.

The broad strategy continued the approach of looking to minimise borrowing costs, in the context of the Council's long-term debt being considerably lower than its accumulated Capital Financing Requirement, with the difference covered by the use of short-term borrowing and any available balances. This approach had generated savings on interest costs over the last few years.

At the time, it was expected that interest rates could increase slowly, so it was noted that it might be possible, and appropriate, to take out more long-term borrowing.

1.2 The Original 2020/21 Investment Limits were set by reference to amount, duration and credit rating – and distinguished between Unsecured Deposits, which would be subject to greater risk of credit loss, and Secured Deposits, in which there was less risk. The limits set were largely comparable to those applying in previous years.

### **2 Economic Review 2020/21**

2.1 The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news, it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

2.2 During the period, The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion.

2.3 GDP growth contracted by a massive 19.8% in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains, this still only makes up half of the lost output.

2.4 In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and were down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

2.5 Arlingclose, our Treasury Management Advisors, expect Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future, most likely through further financial asset purchases. While Arlingclose's central case for Bank Rate is no change from the current

level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

### **3 Treasury Performance to date**

3.1 Thus far, cash balances have ranged between £40M and £110M, being significantly higher than in previous years as a result of grants received in advance from central government. These investment levels have also been supported by short-term borrowing (at rates averaging around 0.8%). No further long-term borrowing has been taken, while short-term borrowing levels have fluctuated, currently standing at slightly lower levels than the start of the year.

3.2 Investments have continued to be made with a limited range of banks, building societies and Money Market Funds, along with other local authorities and the Government's Debt Management Office (DMO), earning interest at exceptionally low levels. Interest rates have fallen significantly to date this year, following the Bank of England Bank Rate cuts in March 2020, bringing the average interest earned on investment balances to around 0.17% in the first half of the year. It is likely that investment returns will remain exceptionally low in the second half of the year.

### **4 Investment and Borrowing Strategy for the rest of the year**

4.1 Both the CIPFA Code and government guidance require that funds be invested prudently, and with regard to security and liquidity, before seeking the optimum rate of return or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.2 The Council's Investment Criteria allow investment in a range of other organisations and structures, but as there are limited opportunities for straightforward trading in Secured Deposits, and as priority is given to maintaining liquidity, short-dated and simpler options are mainly used. Investments are made in: fixed term deposits and instant access accounts with banks and building societies; instant access Money Market Funds; and fixed term deposits with local authorities and the UK Government's Debt Management Office. It is expected that these will continue to be the main investment options taken up across the remainder of the year.

4.3 In the light of the pandemic crisis and the likelihood of unexpected calls on cash flow, the Authority kept more cash available at very short notice than is normal. Liquid cash was diversified over several counterparties and Money Market Funds to manage both credit and liquidity risks.

4.4 On 25th September the 'less than 2 week' deposit rates on the UK Government's Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3 week deposits and 0.01% for longer maturities.

4.5 The Council continues to hold higher than usual cash levels. With interest rates being extremely low, including short term deposit rates with the DMADF being below 0%, it is proposed to make an amendment to the Investment Counterparty Limits approved by Executive Board on 12<sup>th</sup> March 2020, to allow the Council to further diversify its investments and attempt to maintain principal amounts invested, in a low interest rate environment. It is proposed to amend Investment Counterparty Limits as follows:

Other Investment Limits	Cash Limit
Money market funds	£30M in total (was £20M in total)

It is proposed that all other Investment Counterparty Limits remain as approved in March 2020 by Executive Board.

- 4.6 The Council's key objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans, should long-term plans change is a further, secondary objective.
- 4.7 It is proposed that the Borrowing Strategy remain unchanged, with the Council looking to take new borrowing as determined by cash flow requirements and by reference to movements in actual and projected long-term interest rates.

## 5 Risk Management

- 5.1 The Council's main objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return. Therefore, most surplus cash is held in short-term investments with government bodies, and with highly rated banks and pooled funds. In addition, the Council can hold investments that entail a slightly higher level of risk, but such risks are mitigated by limiting the amount and duration of exposure.
- 5.2 The Council's main objective for the management of its debt is to ensure its long-term affordability. The largest part of its loans is from the PWLB at long-term fixed rates of interest.
- 5.3 Another significant element of the Council's long-term debt is £18M of loans from banks and other institutions. £13M worth are "lender's option, borrower's option" (LOBO) loans, under which the Lender can, at pre-determined times, exercise an Option to increase the rate payable on the debt, and the Borrower has the Option to either accept the proposed increase or repay the whole loan.

These loans have interest rates fixed at levels that were relatively low when they began, but if the Lender Option is exercised, the Borrower has to deal with whatever interest rates turn out to be at that later date. This exposes the Council to some risk of rising long-term interest rates, but that is mitigated by the fact that £5M of this debt (forming a large part of the lowest interest rate elements) can only be "called" once in every five years. Current projected future interest rates suggest LOBOs are unlikely to be called in the next 5 years.

- 5.4 A combination of short duration investments and long duration debt exposes the Council to the risk of falling investment income during periods of low interest rates. However, the risk of low investment returns is viewed as lower priority compared to the benefits of optimising the security and liquidity of investments, and the savings made on borrowing costs. Also, though the Council has no long term investments, at this stage, it is hedged against the investment return risk by its short term debt holdings.

**6 Indicators**

6.1 The originally approved Indicators were set at cautious levels and can remain unchanged.



**TO:** Audit & Governance Committee

**FROM:** Head of Audit & Assurance

**DATE:** 26 November 2020

**PORTFOLIOS AFFECTED:** All

**WARDS AFFECTED:** All

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**TITLE OF REPORT:** **Audit & Assurance - Progress and Outcomes to 30 September 2020**

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**1. PURPOSE**

To inform Committee Members of the achievements and progress made by Audit & Assurance in the period from 1 July 2020 to 30 September 2020.

**2. RECOMMENDATIONS**

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 September 2020 against the annual 2020/21 Audit & Assurance Plan, as approved by the Committee on 29 July 2020.

**3. BACKGROUND**

The internal audit function is required to comply with the Public Sector Internal Audit Standards (PSIAS).

The PSIAS require the Head of Internal Audit to communicate any significant governance, risk management and control issues identified to the Audit Committee during the year. This Progress and Outcomes report complies with the requirements of the PSIAS by communicating any significant issues that have been identified during the year.

The work completed to date has not identified any significant governance, risk management or control issues to bring to the Committee's attention at this time. However, the Committee should consider the information provided in the following sections regarding the work carried out during the period and the summary of issues in respect of the limited assurance audit noted.

**4. RATIONALE**

The Council is required under the Accounts and Audit (England) Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards (PSIASs).

The work undertaken throughout the year is intended to ensure that:

- an objective and independent opinion can be provided at the year-end which meets the PSIAS and statutory governance requirements;
- it demonstrates the effectiveness of the internal audit function; and
- support is provided to Members, Directors and managers in their particular

areas of responsibility throughout the year.

## 5. KEY ISSUES

### Outcomes achieved in the year to 30 September 2020:

#### Corporate Governance and Risk

The table below summarises the nine “red” priority areas/issues across the departments, by key themes, which have been identified in the summary Director Exception/Dashboard Report and Assurance Statements for the half-year, as at 30 September 2020.

This includes eight red priorities that have remained as areas of concern from 31 March and one area that has been upgraded (U below). There are also six areas of concern previously identified as red that have now been downgraded (D below) to amber or green in the period.

No	Theme / Description	2020/21 30 September Half Year	2019/20 31 March Year End
<b>Demand Management</b>			
1	Special Guardianship Orders (Children’s Services)	Red	Red
2	Fostering and Adoption Placement Sufficiency. (Children’s Services)	Red <sub>(U)</sub>	Amber
	Contextual Safeguarding – The development of a multi-agency response. (Children’s Services)	Amber <sub>(D)</sub>	Red
	AST (Area Support Teams) (Children’s Services)	Amber <sub>(D)</sub>	Red
	Crime Figures (Adults & Prevention)	Green <sub>(D)</sub>	Red
<b>Budgets &amp; Finance</b>			
3	Ensure strong budget management via full open transparent processes and QA framework. (Adults & Prevention)	Red	Red
4	Budget and Demand Pressures - Social Work Demand Costs and externally commissioned Placements. (Children Services)	Red	Red
5	School Deficits - Local Authority maintained schools were showing deficit balances on their reserves. (Children Services)	Red	Red



		2020/21	2019/20
No	Theme / Description	30 September Half Year	31 March Year End
6	Budget Pressures - Income Shortfalls. (Environment & Operations)	Red	Red
	Adult Social Care Budget Pressures. Increased demand and complexity coupled with increase in commissioning rates. (Adults & Prevention)	Amber <sub>(D)</sub>	Red
	Potential increase in contract costs for sheltered housing and LD supported living framework (Adults and Prevention)	Amber <sub>(D)</sub>	Red
<b>Staffing/ HR</b>			
7	Capacity and direction to provide strategic capacity/analysis to SLT and the wider department. (Adults & Prevention)	Red	Red
8	Sickness Absence (Adults & Prevention)	Red	Red
9	Data Subject Access Requests (Children Services)	Red	Red
	Sickness Absence (Corporate)	Amber <sub>(D)</sub>	Red

### **Counter Fraud Activity**

#### **National Fraud Initiative (NFI)**

Work on the 2018/19 exercise is now complete. The results of work undertaken show that a total of 642 errors were found resulting in savings of £163,646. Arrangements are in place to recover this money from the individuals concerned where appropriate. The table below illustrates main areas of activity, and where savings have been identified.

#### **Summary of Results**

Area	No. of Errors	Value (£)
Benefits (Housing/Council Tax Support)	29	£55,298
Private Residential Care Homes	3	£8,094
Resident Parking Permits*	14	-
Concessionary Travel Passes**	429	£10,296

Blue Badge Parking Permits***	142	£81,650
Council Tax Single Person Discount	25	£8,308
<b>TOTAL</b>	<b>642</b>	<b>£163,646</b>

\* Residents parking permits cancelled & system updated as a result of NFI information

\*\* Concessionary Travel Passes - these passes have all been cancelled due to information from the DWP that the permit holders are deceased and the passes 'hot listed' to prevent future misuse. The Cabinet Office attach a monetary value to these cancellations. The figure shown is an estimated savings figure provided by the Cabinet Office.

\*\*\* Blue Badge Parking Permits – these permits have been cancelled due to information from the DWP that the permit holders are deceased. The Cabinet Office attach a monetary value to these cancellations. The figure shown is as estimated savings figure provided by the Cabinet Office.

The Council received a separate report from the Cabinet Office in March 2020 which included 1,949 Council Tax Single Person Discount data matches. These were generated after matching with the electoral register. These matches have been shared with the Revenues section and work is ongoing to review them.

Work is currently underway to prepare for the 2020/21 NFI. As required, data is currently in the process of being supplied to the Cabinet Office and the resultant data matches will be returned to the Council for review and action early in the new year.

### **COVID-19 Financial Support Schemes**

In response to the Coronavirus, Covid-19, the Government announced there would be grant support for small businesses, and businesses in the retail, hospitality and leisure sectors. An additional discretionary fund aimed at small businesses who were not eligible for these grants was launched in May 2020. The Council has been actively administering payments under these schemes. In order to ensure that grant aid requirements have been fully complied with Audit & Assurance has supported colleagues within the Revenues and Growth Teams to develop a proportionate, risk based post payment assurance plan.

This will involve a review of both pre and post payment assurance checks to ensure that payments were correct. Audit & Assurance has already undertaken some pre-assurance work using a free toolkit supplied by the Cabinet Office and supported colleagues within the Growth Team to carry out pre-assurance checks on payments due to businesses under the Discretionary Grants Fund. This has helped to identify those legitimate businesses eligible for support and those where further investigation was required. This work has been completed and of 461 applications received, 323 grant claims were paid and 138 were declined.

### **Proactive fraud work**

As part of our planned counter fraud work a review of the administration of the Blue Badge scheme was carried out. The details are summarised in the internal audit table on the following page.

### **Other investigations**

Audit & Assurance is continuing to liaise with the Police in the case of a suspected fraud. In one other case of suspected fraud the matter has been concluded, with full repayment to the Council of approximately £40,000 in monies incorrectly claimed.

Audit & Assurance have also investigated a complaint raised through the Whistleblowing Hotline from a source alleging misuse of a Council asset. The

investigation concluded that there was no basis to the allegation made.

### **Internal Audit**

A summary of the five audits completed and finalised since the last report to Committee are detailed below:

<b>Risk, Control &amp; Governance Reviews</b>	<b>Assurance Opinion</b>		<b>Recommendations Agreed</b>
	<b>Environment</b>	<b>Compliance</b>	
Blue Badge Proactive Fraud Testing	Adequate	Adequate	2
Pupil Transport	Substantial	Substantial	0
Highways Maintenance – Procurement	Adequate	Limited	5
Turton Tower Income	Adequate	Adequate	9
Apprenticeship Levy	Adequate	Adequate	6

A brief commentary on the audit assignment where we have provided a limited assurance opinion is set out below.

**Highways Maintenance – Procurement:** The audit involved a review of the procurement process for third party suppliers delivering Highways Maintenance work to ensure was fully compliant with the Council’s Contract Procedure Rules and EU Procurement Regulations and to review the contract management and monitoring arrangements in place. Adequate assurance was provided for the control environment and limited assurance for compliance with the controls in place. Recommendations were made to ensure that the procurement arrangements were fully compliant with the Council’s procurement rules and that monitoring arrangements in place were strengthened.

Audit & Assurance staff have also completed expenditure reviews during the period to ensure the funding terms and conditions were met and enable the following grant declarations to be signed by the Chief Executive and Head of Audit & Assurance in respect of the year ended 31 March 2020:

- Local Transport Settlement 2019/20;
- Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Determination 2019/20
- Local Transport Revenue Block Funding (Blue Badge New Criteria Implementation ) 2019/20

The results of the work confirmed that, in our opinion, the conditions attached to the grant determinations had been complied with in all significant respects.

### **Current internal audit reviews**

In addition to the above completed audits, the following reviews are ongoing:

- Police & Crime Commissioner Grant;
- Income billing & collection arrangements (Car Parking and Cemeteries);
- Building Control Performance Standards;

- Commercial Property Rental;
- Creditors;
- Council Tax;
- Payroll Core System;
- Corporate Appointee;
- Young Peoples Service – Educational Visits Risk Assessments;
- Arrangements for the Use of the Contractor & Development Framework;
- Mileage Payments/Staff Expenses.

### **Internal Audit Performance**

The Departmental Business Plan includes seven targets to achieve our strategic aims. The defined targets and actual performance for the latest period and the previous period are as follows:

<b>Performance Measure</b>	<b>Target</b>	<b>Q2 2020/21</b>	<b>Q1 2019/20</b>
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	<b>75%</b>	71%
3. Final Reports Issued Within Deadline	90%	100%	94%
4. Follow Ups Undertaken Within Deadline	90%	<b>73%</b>	80%
5. Recommendations Implemented	90%	<b>85%</b>	74%
6. Client Satisfaction	75%	%	100%
7. Compliance with PSIAS (Annual)	95%	N/A	N/A

We have provided a brief commentary on the measure where performance in the period has fallen below the agreed target:

#### **2. Planned Assignments Completed Within Budget**

Two of the eight audits (25%) completed in the period were over budget. Additional time was required to complete the Apprentice Levy and Pupil Transport reviews as this was the first time these areas had been audited. Extra time was for the planning, preparation and testing due to the nature of these areas.

#### **4. Follow Ups Undertaken Within Deadline**

There was a delay in issuing a number of follow-ups at the time that they were due during the period following the handover of responsibility for this work. However, these have subsequently all been issued.

#### **5. Recommendations Implemented**

Of the follow up responses received back we were able to identify that 133 (84%) of the 158 recommendations due for implementation on or before 30 September 2020 had been fully implemented or partially implemented. Implementation of a number of recommendations had been delayed due to the impact of CV-19 on staff resources and departmental priorities. This included four must recommendations. One of these related to ensuring annual agreements were in place with each team receiving the Public Health internal recharge funding. The three others were in respect of schools. These related to Governor Registers of Business Interests, publication of required information on a school website and ensuring that required policies are developed and reviewed on a regular basis.

**6. POLICY IMPLICATIONS**

The delivery of the Plan leads to the Annual Internal Audit Opinion Report and this, in turn, contributes directly to the Annual Governance Statement.

**7. FINANCIAL IMPLICATIONS**

There are no financial implications arising as a result of this report.

**8. LEGAL IMPLICATIONS**

There are no legal implications arising as a result of this report.

**9. RESOURCE IMPLICATIONS**

There are no resource implications arising as a result of this report.

**10. EQUALITY & HEALTH IMPLICATIONS**

There are no equality or health implications arising as a result of this report.

**11. CONSULTATIONS**

Directors

Contact Officer: Colin Ferguson, Head of Audit & Assurance– Ext: 5326

Date: 13 November 2020

Background Papers: Audit & Assurance Plan 2020/21, approved by the Audit & Governance Committee on 29 July 2020.



**TO: Audit & Governance Committee**

**FROM: Head of Audit & Assurance**

**DATE: 26 November 2020**

**PORTFOLIOS AFFECTED: All**

**WARDS AFFECTED: All**

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**TITLE OF REPORT: Risk Management – 2020/21 Quarter 1 Review**

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**1. PURPOSE**

To provide the Committee with details of the risk management activity that has taken place in the period from 1 April 2020 to 30 June 2020.

**2. RECOMMENDATIONS**

The Committee is asked to:

- Discuss, review and challenge the progress made on the Corporate Risk Register as at the end of Quarter 1 2020/21;
- Note the risk management activity that has occurred during the period; and
- Consider the selection of a Corporate Risk for the Committee to undertake a review of its assessment, control and monitoring at its next meeting.

**3. BACKGROUND**

The Council recognises that risk management is not simply a compliance issue, but rather it is a process to help ensure the successful delivery of the Council's Corporate Plan priorities and objectives. Effective risk management arrangements should be embedded in the Council's culture and decision making processes as well as being an inherent part of the operational and financial management arrangements operating within the Council. Risk management helps to demonstrate openness, integrity and accountability in all of the Council's activities.

**4. RATIONALE**

The Audit & Governance Committee terms of reference require it to review progress on risk management at least annually and to promote risk management throughout the Council. The Corporate Risk Management Strategy & Framework requires that the Audit & Governance Committee will receive regular reports setting out progress against corporate risk management action plans. This report satisfies both these requirements.

**5. KEY ISSUES AND RISKS**

The Corporate Risk Register contained 15 open risks at 30 June 2020.

A summary of the corporate risk details is set out in Appendix 1 of this report. The residual risk score relating to risk 14, Safeguarding, has been increased. This is linked to the impact that Covid-19 has had on the work that Children's Social Care does and the wider community. The Service has not been able to have the same level of face-to-face contact that social workers would have had with children and their families prior to the pandemic. This is coupled with the reduced contact schools and other services have had with younger children and families compared to prior to the pandemic and increased numbers of children who have not been in school during the lockdown period.

As at 30 June 2020 the Council's top corporate risks were:

- Failure to deliver a balance budget and Medium Term Financial Strategy, which may result in a Government Commission taking control of the Council's finances;
- A high profile serious or critical safeguarding case that is known to the Council services, in light of Covid-19 working arrangements; and
- The ability of the Council to recover its critical functions, core services and income generation during the transition and recovery phases of a Covid-19 outbreak due to high staff absences and a failure of effective business continuity arrangements.

As part of the Council's Risk Management process we review and monitor the Corporate Risks on a regular basis to ensure that we have appropriate, properly assessed corporate risks identified going forward. Management Board review the risk details as part of the Management Accountability Framework reporting arrangements, as well as the on-going review and update of the risks by the designated risk owners and key contacts.

We have also continued to use the risk management support that is available from Zurich Municipal as part of the current long term insurance agreement. Since May Zurich have provided a series of monthly webinars on a wide range of topics. These have included safeguarding during lockdown, a look at the risk landscape for public services now and in the future, the impact of Covid-19 on mental wellness, Adult Social Care post Covid-19 and emerging risk management considerations for highways.

Zurich has also published a wider range of guidance notes during the period. These have covered topics such as risk control measures for the temporary closure of premises, managing additional homeworking exposure, working from home display screen equipment (DSE) risk assessments, the cyber dimension of the corona virus, planning for a return to the workplace and guidance for reopening schools. Details of the webinars and guidance have been circulated to relevant colleagues across the Council for their consideration.

## **6. POLICY IMPLICATIONS**

There are no policy implications arising from this report.

## **7. FINANCIAL IMPLICATIONS**

There are no financial implications arising from this report.

**8. LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

**9. RESOURCE IMPLICATIONS**

There are no direct resource implications arising from this report.

**10. EQUALITY AND HEALTH IMPLICATION**

There are no equality or health implications arising from this report.

**11. CONSULTATIONS**

The Corporate Risk Register has been reviewed by Risk Owners and Key Contacts and agreed by Management Board.

Contact Officer: Colin Ferguson Head of Audit & Assurance – Ext: 5326  
Date: 13 November 2020  
Background Papers: Corporate Risk Management Strategy 2015/2020,  
2019/20 Annual Risk Management Report (including  
Quarter 4 Review)





# Summary Risk Register

Appendix 1

Update

Create

Insert

Directorate:

Department: Corporate Risk Register

Service:

Quarter and Year: Quarter 1 - 2020/21

Date of last review: 31-Mar-20

Date: 30-Jun-20

Date of next review: 30-Sep-20

Risk N	Risk Description	Date Raised	Strength of Existing Controls	Inherent			Residual			Target			Risk Owner(s)	Key Contact(s)	Risk Status	Last Risk Review Dat	Previous Residual			Change in Score
				L	I	Risk Rating	L	I	Risk Rating	L	I	Risk Rating					L	I	Risk Rating	
1	Failure to deliver a balanced budget and Medium Term Financial Strategy may result in a Government Commission taking control of the authority's finances	26-Jan-15	Good	5	5	HIGH	3	5	HIGH	1	2	LOW	Louise Mattinson	Simon Ross, Zoe Evans	Open	29-May-20	3	5	HIGH	-
2	Failure of the assets or failure to manage these in a proactive and co-ordinated way (Assets include Buildings, Infrastructure)	25-May-11	Fair	3	5	HIGH	2	4	MEDIUM	2	2	LOW	Martin Kelly/ Martin Eden	Lee Kinder, Dwayne Lowe	Open	20-Apr-20	2	4	MEDIUM	-
4	The Council is not able effectively influence and shape new partnership structures to respond to changes occurring in the public sector.	07-Feb-12	Good	3	3	MEDIUM	2	3	LOW	2	2	LOW	Denise Park	Alison Schmid / Heather Taylor	Open	19-Nov-19	2	3	LOW	-
5	There is a risk that governance and decision making arrangements fail	25-May-11	Good	2	4	MEDIUM	2	2	LOW	1	1	LOW	David Fairclough	Asad Laher	Open	28-Sep-17	2	2	LOW	-
7	Ensure BwD delivers its statutory function- Emergency Preparedness, Planning, Response, Recovery & BC Promotion (small & med businesses) to protect the Community/enhance the Council's resilience, mitigate reputational and financial damage. Corporate Objectives at risk - 1,2,5,6.	25-May-11	Good	4	5	HIGH	1	5	LOW	1	5	LOW	Denise Park	David Fairclough, Rachel Hutchinson, Sarah Riley	Open	17.04.2019	1	5	LOW	-
7b	Ensure delivery of statutory Civil Contingencies function - Business Continuity Management arrangements in place,planning, training testing & validating & exercising procedures & plans: to protect Council's resilience, protect the community,& mitigate financial & reputational damage. Corpo Obj 1,2,5,6 link	22-Sep-16	Good	3	4	MEDIUM	2	4	MEDIUM	1	3	LOW	Denise Park	David Fairclough, Paul Fleming, Rachel Hutchinson, Sarah Riley	Open	11.05.2020	2	4	MEDIUM	-
9	Failure to improve health outcomes within Blackburn with Darwen could result in the communities' health and wellbeing position or conditions deteriorating.	25-May-11	Good	3	4	MEDIUM	3	4	MEDIUM	1	3	LOW	Dominic Harrison	Gifford Kerr	Open	16-Jul-19	3	4	MEDIUM	-
10	Due to the breakdown of community relations or a deterioration of community cohesipn, greater risk of hate crime, extremism, radicalisation or polarisation of communities.	07-Feb-12	Good	4	5	HIGH	2	3	LOW	1	3	LOW	Sayyed Osman	Heather Taylor/Mark Aspin	Open	24-Apr-19	2	3	LOW	-
11	Failure to improve the education and skills for our young people	20-Aug-13	Good	4	4	HIGH	3	3	MEDIUM	2	3	LOW	Jayne Ivory	Jo Siddle	Open	02-May-19	3	3	MEDIUM	-
13	Failure to prevent data loss and privacy incidents (Information Governance) leading to financial/Data loss, disruption or damage to the reputation of the Council	26-Sep-14	Good	5	4	HIGH	3	3	MEDIUM	2	2	LOW	Paul Fleming	Sarah Critchley	Open	06-Mar-20	3	3	MEDIUM	-
14	High profile serious/critical safeguarding incident/case that is known to Council services in light of Covid-19 working arrangements	20-Aug-13	Fair	4	5	HIGH	4	5	HIGH	3	5	HIGH	Sayyed Osman (DASS) / Jayne Ivory (DCS)	Paul Lee	Open	05-May-20	3	5	HIGH	Up
15	Failure, at a corporate level, to comply with Health & Safety legislation and provide both a safe working environment for employees and the provision of a safe environment for service users.	19-Mar-15	Fair	4	4	HIGH	3	3	MEDIUM	2	3	LOW	David Fairclough	Fiona Eastwood	Open	30-Apr-19	3	3	MEDIUM	-
17	Cyber Risk - Risk of financial/Data loss, disruption or damage to the reputation of an organisation from compromise of its IT systems.	15-Mar-16	Good	5	5	HIGH	3	4	MEDIUM	2	4	MEDIUM	Paul Fleming	Steve Rowe	Open	27-Jan-20	3	4	MEDIUM	-
18	Insufficient budget for service delivery if MTFs income targets from the Growth Agenda are not met.	29-Nov-16	Good	4	5	HIGH	3	4	MEDIUM	3	4	MEDIUM	Martin Kelly	Simon Jones	Open	28-Apr-20	3	4	MEDIUM	-
21	The Council is unable to recover its critical functions, core services and income generating functions during the transition and recovery phases of a COVID-19 outbreak, due to financial impacts, high staff absences and a failure of effective business continuity management.	04-May-20	Fair	5	5	HIGH	4	4	HIGH	1	3	LOW	Denise Park / Dominic Harrison (Public Health element)/ Paul Fleming (Resilience & Emergency Planning Service)	Gifford Kerr / Rachel Hutchinson	Open	04-May-20				-

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**Summary of closed risks**

- 3 IT Infrastructure (Resilience) - OTH. The risk is now incorporated into the Business Continuity risk above.
- Failure to deliver the management, workforce and organisational objectives for workforce reviews within the agreed budget. Risk closed following discussion at Mgmt Board 12 June 2019. May require re-opening again during 2019/20 depending on budget pressures 6 identified.
- 8 Failure to contribute effectively to economic growth within Blackburn with Darwen. Risk merged with Risk 18
- 12 The Council does not effectively capitalise on potential opportunities to improve housing quality or build more houses in the Borough to maximise the income available from the new homes bonus and increased council tax. Risk merged into Risk 18
- 16 Failure to deliver a robust Medium Term Financial Strategy (MTFS) with adequate reserves to meet unforeseen circumstances and with the resource capacity to deliver statutory services. Merged with Risk 1
- 19 EU Exit - Risk of inadequate planning/preparedness at a national & local level for a "no deal" exit from the EU arrangements on the 29.03, 12.04, 31.10.19. Risk retained but closed temporarily until end of December 2020.
- 20 The Council is unable to deliver its critical and core services and functions during the response and mitigation phase of a COVID-19 outbreak, due to high staff absences and a failure of effective business continuity management.