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**Andrew Grant**  
**Interim Chief Executive**

## **AGENDA**

**Committee: AUDIT**

**Date and Time: Thursday 3rd February 2022 at 7.00p.m (NB Time)**

**Venue: Council Chamber**

**Membership: Councillors Riley (Chairman), Blackwell, Ms Drogman, May and A Thornton**

**Substitutes: Councillors Acott, Mrs Blissett, MacLean and Thomas**

**Officers attending:**

**Lance Wosko, Financial Services Manager**

**Ben Brook, Strategy Policy and Performance Manager**

**Andrew Barnes, Head of Internal Audit**

**Michael Dineen, Senior Manager, Counter Fraud & Investigation Directorate**

**Also attending**

**Debbie Hanson, Associate Partner, EY**

**Councillor Johnson – Cabinet Member Resources**

**Enquiries:**

**Ann Horgan, Ext. 2413**

### **PART I**

**(Business to be taken in public)**

**1. Apologies:**

**2. Members' Interests:**

**3. Minutes:**

A copy of the Minutes of the meeting held on 16th November 2021 is attached.

**4. Counter Fraud & Investigation Directorate: Quarterly Performance Report 2021/22:**

Report of the Senior Manager, Counter Fraud Investigation Directorate is attached.

**5. Internal Audit: Quarterly Performance Report 2021/22:**

Report of the Head of Internal Audit is attached.

**6. Treasury Management and Investment Strategies 2022/23**

Report of the Financial Services Manager is attached.

**7. EY Update Report on Audit Progress**

A report is attached from the Council's External Auditors for the Committee's information.

**Information Item for Committee not forming part of the Agenda**

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## AUDIT COMMITTEE

**16th NOVEMBER 2021**

**PRESENT:** Councillors Riley (Chairman), Acott (substitute for Cllr May) Blackwell, Drogman, and A Thornton.

**ALSO PRESENT:** Councillor Johnson, Cabinet Member Resources.

Head of Internal Audit, Andrew Barnes, Ben Brook, Strategy Policy and Performance Manager, Lance Wosko, Financial Services Manager and Nicholas Coker on behalf of Counter Fraud & Investigation Directorate, and Ann Horgan Head of Governance were also present.

**APOLOGIES:** Councillor May

### 8. MEMBERS' INTERESTS

There were none.

### 9. MINUTES

The Minutes of the meeting held on 22<sup>nd</sup> July 2021, were taken as read and signed as a correct record.

### 10. MONITORING REPORT OF THE COUNCIL'S GOVERNANCE ARRANGEMENTS

A report was considered by the Committee on the findings from the ongoing monitoring of the Council's governance arrangements and on progress against the action plan to address governance issues as identified in the Annual Governance Statement.

Under consideration of arrangements for business planning and strategy including partnerships, Members noted that the recently concluded audit on the effectiveness of partnerships would be used to inform further work planned to set out reporting arrangements for key partnerships.

In noting the update on Complaints and the annual report from the Local Government Ombudsman, Members requested in future a more detailed breakdown of complaints should be provided.

Following consideration of the report it was:

**Resolved** - To note the assurance provided by this report about the operation of the Council's governance framework.

**11. CORPORATE RISK REGISTER UPDATE REPORT**

The Corporate Risk Register had recently been reviewed by the Strategy, Policy and Performance Manager in consultation with Corporate Management Team.

The updated register was presented to the Committee. Members' attention was drawn to the adjustment made to the risk regarding the Local Plan. Members were referred to the Housing Management IT risk identified and noted that implementation of the system was not impacting on the provision of services to tenants. It was also noted that the Council's updated Commercial Strategy had been considered and approved by Cabinet in October.

Following consideration of the report it was:

**Resolved** - To note the Corporate Risk Register

**12. TREASURY MANAGEMENT MID-YEAR ACTIVITY REPORT**

Before considering the report, the Committee recorded the Council's thanks and appreciation to Rob Greenfield who had prepared the report who retired after 22 years of service to the Council.

The Committee considered the Treasury Management mid-year activity report as required by the Council's reporting procedures. It summarised the Council's Treasury Management activity for the first six months of the current financial year. Supporting information was provided within Annexes A and B.

The report met the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council was required to comply with both codes through regulations issued under the Local Government Act 2003.

The results for the six months to 30<sup>th</sup> September 2021 continued to demonstrate prudent and efficient treasury management. Although it was disappointing that interest receivable, as with other income streams, was lower than previous years this was reflective of wider market conditions. The Council would of course adjust estimates and take the necessary decisions to ensure a balanced budget was set and the Council's finances remained robust over the medium term.

Members discussed and asked a number questions on the report.

**Resolved:**

That following scrutiny, to approve and submit to Cabinet the Treasury Management mid-year activity report for 2021/22.

**13. COUNTER FRAUD & INVESTIGATION DIRECTORATE: QUARTERLY PERFORMANCE REPORT Q1 AND Q2**

The Counter Fraud and Investigation Team was responsible for the prevention, detection and deterrence of all instances of alleged fraud and economic crime affecting the authority including allegations of fraud, theft, corruption, bribery and money laundering.

This report before the Committee outlined the progress made in delivering the Corporate Counter Fraud & Investigation strategy for the Council in 2021/22 for Quarters 1 & 2.

The team was making good progress in delivering the planned work identified in the agreed Counter Fraud Proactive Work Plan for this year (2021/22).

Investigations into incidents of suspected fraud or other economic crime for the council had continued. As a result of the lifting of restrictions implemented in response to the Covid 19 pandemic the work of CFI had returned to a more 'normal' level. The figures of Q1 and Q2 detailed in the report showed that the 'exit route' from the pandemic had opened greater referrals, which had allowed CFI officers to engage further and act where appropriate. The total value of crime under investigation for the year was £943,253.

In response to questions from the Committee regarding legal proceedings the difficulty of recovering monies under the Proceeds of Crime Act were highlighted and the criteria applied in pursuing formal action.

Following consideration of the report it was:

**Resolved** – To note the performance of the Counter Fraud & Investigation team to date.

#### **14. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2020/21**

The Head of Internal Audit presented a report on the rationale for an audit opinion on the adequacy and effectiveness of Castle Point Borough Council's (the Council's) risk management, control and governance processes; a statement on conformance with the UK Public Sector Internal Audit Standards (the Standards) and the results of the Quality Assurance and Improvement Programme.

The Council continued to maintain satisfactory and effective risk management, control and governance arrangements, despite the challenges posed by the impact of the covid-19 pandemic throughout this year. The Council continued to face financial pressures that it was dealing with, and the impact of the pandemic on the longer-term financial position was being worked on.

During the previous year an external provider reported on a high-level assessment of the Council's risk management arrangements which concluded that risk management was happening as expected across the Council, however there was further work to be done to fully embed this to drive value from the process and help inform decision making at all levels of the Council. Work had begun to move this forward, but this had yet to be completed. However, reliance continued to be placed on the Council's risk management arrangements, and steps would be taken to further enhance the consistent utilisation of arrangements and to refresh the Risk Management Policy and Strategy.

The work of the Good Governance Group and results of the audits completed continued to confirm that corporate business management processes remained generally well designed and, in some areas, work was underway to update or

strengthen them further. There was inconsistency in terms of application, across some services which still needed to be addressed.

Therefore as a result of the assurance provided by audit and other work undertaken, the design and operation of the Council's risk management, control and governance framework in place for the year remains satisfactory overall.

The impact of the covid-19 pandemic had manifested itself throughout the year as the Council was initially in emergency response mode in line with the rest of the country and most of the world. The Council's response appeared to have held up well, cooperating with and coordinating a range of resources from a range of different sources to provide the support, response and management of the community to meet the requirements of the Borough as it had gone through different periods of lockdown during the year. There remained work to be done as the situation continued to evolve and there would be further challenges as the Borough and the Council worked on recovery from the pandemic, and the Council geared itself to deliver and meet the multiple challenges ahead.

During the year there had been changes made to way the Council was operating, including most staff operating remotely for most of the time. These new ways of working in the current situation appeared to have worked effectively throughout the year, but continued to develop and evolve, and there was a need for an opportunity for them to be properly embedded with assurance obtained that they were working effectively as intended. However as the situation continued to develop and evolve the opportunity for time in which things can settle into a 'new normal' did not appear to be forthcoming very soon.

The Council also experienced the sad passing of the Chief Executive in March 2021, and while the Council had continued to function effectively in his absence, this had stretched the capacity of management. As a result the Council should seek to move forward with making a decision about how to deliver that role in the future and then implement that decision as quickly as possible to end the current period of uncertainty and enhance the capacity of management to deliver the objectives of the Council.

Therefore, the remainder of this report should be read within this context.

There were no issues other than those already disclosed to be including in the Council's Annual Governance Statement.

The Committee considered the remainder of the report detailed in the supporting commentary and appendices

Appendix A	Assurance Summary 2020/21
Appendix B	Internal Audit Plan 2020/21 as at 19 <sup>th</sup> October 2021
Appendix C	Summary Assessment of Compliance with UK Public Sector Internal Audit Standards 2020/21
Appendix D	Compliance with the UK Public Sector Internal Audit Standards 2020/21 Action Plan as at 19 <sup>th</sup> October 2021

Members asked questions on the report. Following consideration of the report it was:

**Resolved** – That the Audit Committee notes the Head of Internal Audit's Annual Report for 2020/21

## **15. INTERNAL AUDIT SERVICE, QUARTERLY PERFORMANCE REPORT**

The Committee received an update on progress made in delivering the Internal Audit Strategy for 2021/22.

Appendix A to the report set out the current status of the audit work planned for the year as at 19<sup>th</sup> October 2021. There had been three changes to the audit plan since the update provided to Audit Committee in July 2021. These were:

- The Community Infrastructure Levy (CIL) and Section 106 audit had been deferred until 2022/23. The Council was in the process of introducing its CIL arrangements. Delaying this audit would allow for consideration of these new arrangements once they have been implemented.
- The Development of the CRM Specification was originally deferred from 2019/20 but had now been removed from the plan. Due to the changing needs of the business following Covid-19, the project had been put on hold indefinitely while the future requirements of a CRM system were reviewed. The need for this audit would be re-visited as part of the 2022/23 audit planning cycle in Q1 of 2022.
- The Intereg Go Trade grant had been added to the plan to undertake a final as the project has now finished.

In addition, an IT Risk Assessment is planned for Q3. This will look to identify the key risks being faced by the Council in respect of IT, help to identify opportunities to strengthen controls and improve management of risks, which will include future areas of focus for Internal Audit review.

The high-level results of the audit work completed and reported upon since the last Audit Committee meeting were also before the Committee. Two unqualified opinions had been issued in respect of the Intereg Grant Claim and Disabled Facilities Grants.

A programme of stakeholder surveys was usually produced each quarter, but this was on hold as the Audit Business Support Officer had been re-deployed to the Test and Trace service within Southend Borough Council. It was anticipated that these would be recommenced for the 2021/22 audit plan as works complete.

Outside of the formal stakeholder surveys, positive feedback had been received from the Head of Housing in relation to the work undertaken to support the implementation of the Housing Management System.

Following consideration of the report it was:

**Resolved:**

To note the progress made in delivering the 2021/22 Internal Audit Strategy.

**16. EY EXTERNAL AUDIT STATUS REPORT FOR THE YEAR ENDED 31 MARCH 2021**

The Committee received an update to the External Auditor's Audit Planning Report to the Audit Committee for the year ended 31 March 2021.

Audit Committee had received and considered the initial report in April 2021. This report provided an update to the audit timetable and delivery schedule which was scheduled to commence this month and be completed in January 2022.

**Resolved –** To notes the update and revised timetable to EY's Audit Planning Report for the year ended 31 March 2021.

Chairman

**AUDIT COMMITTEE**

**3rd February 2022**

**Subject: Counter Fraud & Investigation: Quarterly Performance Report (Q3)**

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**1. Purpose of Report**

To update the Audit Committee on the progress made in delivering the Corporate Counter Fraud & Investigation strategy for the Council in 2021/22.

This report reports on the work completed during Q3 and realigns quarterly reporting after disrupted reports during 2021.

**2. Counter Fraud Proactive Work Plan and other Work Streams**

**Appendix A** outlines the progress made in delivering the agreed Counter Fraud Proactive Work Plan for this year (2021/22).

The team is making good progress in delivering the planned work. If during the year any changes or additions to the plan are proposed between CFI and the Section 151 Officer, these will be brought back to the Committee and included in an amended work plan. The work that CFI has been completing has been delayed and was officially recommended by the committee in October last year due to the delayed committee hearings, for clearly correct and obvious reasons.

The work plan is designed to track specific work streams that are designed at the start of the year, with the needs of the council being met. Although the team complete the work plan throughout the year, there remains a consistent work stream by referrals into the CFI. These come from various sources but include members of the public, Officers of the Council, Councillors, and other law enforcement agencies. This work is not documented within the work plan and forms part of the reporting process in this report.

The CFI is also taking great strides in developing the National Fraud Initiative, known as NFI within the council. CFI officers will continue to work with officers of the council to ensure timely uploading and reviewing of the initiative, taking on investigations that fall within the CFI Economic Crime remit. The offences that can be identified from this initiative are housing fraud, employee fraud and grant fraud.

**3. Investigations**

CFI continues to deliver investigations into incidents of suspected fraud or other economic crime for the Council.

During Q3 the CFI have been able to expand on the work they do and have resumed visiting and interviewing witnesses/suspects. Legislative changes that were made during Q1 and Q2 of 2021 have elapsed and courts are

starting to sit, with trials restarting for various offences, including fraud. However, there is still a significant delay in trial dates, with CFIs most recent trial being set in 2023.

The Court process is expected to take 2 years to recover from the disruption caused by COVID19. The CFI will still pursue offenders that fall within its remit, but it is important for Members to understand the issues facing the prosecution of offenders.

Although during 2021/22 it was difficult to target certain offences, such as abandonment of council property, CFI are starting a new work stream by 're-visiting' all the referrals that it received during 2021, which were closed due to the aforementioned legislative issues, to ascertain if there is now a basis for officers to take action. The results of this will not be known until the end of Q4 and moving into Q1 of 2022/23.

The figures represent activity undertaken by the CFI departments

Number of suspected fraud reports received within Q3: 9

Number of ongoing investigations in 2021/22: 20

Housing	Transport	Grants	Revenues	RTB	Money Laundering
9	1	5	3	1	1

Value of suspected fraud under investigation in 2021/22: £647,450

Number of Closed investigations in 2021/22: 67

#### 4. **Contribution to Council's Aims and Priorities**

Work undertaken to reduce fraud and enhance the Council's anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

CFI are always available to officers and members, ensuring confidentiality is maintained where the reporting of wrongdoing is disclosed. CFI will work with any department if it is believed there is wrongdoing taking place within the workplace.

#### **Financial Implications**

Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.

Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.

Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

#### **Legal Implications**

The Accounts and Audit Regulations 2015 Section 3 requires that:

*The relevant authority must ensure that it has a sound system of internal control which:*

- *facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *ensures that the financial and operational management of the authority is effective*
- *includes effective arrangements for the management of risk.*

The work of the Directorate contributes to the delivery of this.

### **People Implications:**

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

### **Property Implications**

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity. This action will benefit the authority by means of returning housing stock to those in need or gaining the assets of those who seek to profit from their criminal behaviour.

### **Consultation / Equalities Impact Assessment:**

None

### **Risk Assessment**

Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

### **Value for Money**

An effective counter fraud and investigation service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

### **Community Safety Implications and Environmental Impact:**

None

### **Recommendations**

#### **The Audit Committee:**

- **The Audit Committee notes the performance of the Counter Fraud & Investigation team to date.**

## **Background Papers**

- Fighting & Corruption Fraud locally, the Local Government Fraud Strategy
- Crowe Whitehall & Clarke Annual Fraud Indicator 2017

## **Appendices**

- Appendix A: Counter Fraud Proactive Work Plan

**Report Author:** Michael Dineen, Strategic Lead for Counter Fraud & Investigation.

## Counter Fraud & Investigation



See it.



Report it.



Stop it.

## Work Plan 2021/22



## Proactive Work Plan 2021/22

Risk Area	Activity	When	Current Status	Responsible Officer	Date Complete
Council-wide	<b>Training of high risk areas in counter fraud measures</b>  Ensure understanding of the threats posed to those areas. To be tailored to the areas and ongoing support offered via a Single Point of Contact with CFI	June 2021  To  May 2022	This is being completed with CFI Staff delivering training to various departments including Housing.	Phil Butt  (Officers delivering - Robert Kleinberg and Daniela Croci)	
Council-wide	<b>Review all relevant policies concerning fraud aspects</b>  Ensuring that all hold the most up to date legislative information as well as ensuring best practice is always adhered to.	Jan 22	No Changes are required at this time to the policies that were accepted in the last meeting. This will be an ongoing review, where changes will be brought to the attention of senior staff and councillors.	Michael Dineen	Review completed in Quarter 2.
Revenues & Treasury	<b>COVID-19 Business Grants Counter Fraud Programme</b>  The council has awarded £19m of government grants to businesses during the COVID-19 pandemic. The team will be using the Counter Fraud tools provided by the Cabinet Office and commercial sector to assure the payment already made and prevent future frauds.  <i>(Continued from 2020/21 due to ongoing grants)</i>	June 2022  To  May 2021	CFI continues to assist where required and have access to the SPOTLIGHT and NFI datasets if the Revenues Department wish to utilise these functions. At present this is supplied by an external supplier.	David Nash	Completed – Will be constantly reviewed.
Council-wide	<b>Renewed Education &amp; Marketing Campaign for Countering Fraud, Housing Fraud, Insider Threats and Corruption</b>	Dec 2021	This is in its final stages of design and will be taken to Senior Management and then committee before being displayed online and 'in house' at the civic offices.	Nicholas Coker	

Risk Area	Activity	When	Current Status	Responsible Officer	Date Complete
Council-wide	<p><b>Targeting POCA and Civil Legislation to maximise effect on criminal behaviour</b></p> <p>Ensure that CFI utilise the appropriate legislation to maximise the effects on criminals and ensure that our vision of protecting the public purse is adhered to by promoting this work.</p>	June 2022	This is a continued piece of work and we have had POCA cases raised by the CFT and they will continue to do so that resulted in money being returned to the council.	Roger Noakes	

**AUDIT COMMITTEE**

**3rd February 2022**

**Subject: Internal Audit Service, Quarterly Performance Report**

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**1. Purpose of Report**

To update the Audit Committee on progress made in delivering the Internal Audit Strategy for 2021/22.

**2. Internal Audit Plan Status**

**Appendix A** sets out the current status of the audit work planned for the year as at 21<sup>st</sup> January 2022.

There have been two changes to the audit plan since the update provided to Audit Committee in November 2021. These are:

- The removal of the Housing Management Process Review advice and support work. Due to the ongoing implementation of the new Housing Management System within the service area, the planned review has been delayed and so this work will not be required during 2021/22. It's inclusion on the audit plan for 2022/23 will be revisited during the annual audit planning cycle.
- The introduction of an audit on Senior Management Pay and Conditions. This has been added into the plan as a follow-on piece to the Workforce Management audit that is currently being finalised.

**Appendices B, C and D** set out the high-level results of the audit work completed and reported upon since the last Audit Committee meeting.

**3. Performance Targets**

As outlined in the Strategy presented to the July 2021 Audit Committee, the team will be reporting on a more limited set of indicators this year given the amount of work that is still being contracted out.

As at 21<sup>st</sup> January 2021:

- For the period since 1<sup>st</sup> April 2021 the team had no sickness absence.
- of the 26 jobs in the plan, including those outstanding from 2020/21:
  - seven are complete
  - six are at draft report stage
  - ten are work in progress
  - one is being scoped and planned
  - two are yet to start.

Stakeholder surveys are designed to assess compliance with some of the less tangible elements of the UK Public Sector Internal Audit Standards (the Standards). No stakeholder surveys were completed for 2020/21 because of the impact of Covid-19 and the redeployment of the Business Support Officer to assist with the Council's track and trace team.

It was originally planned that these would be re-introduced for audits completed as part of the 2021/22 audit plan and reported to Audit Committee in due course. However, due to the Covid-19 Omicron variant and surge in cases, the Business Support Officer's redeployment has been extended. It is currently hoped she will return to the team at the end of January 2022, at which point the surveys will be re-commenced.

#### **4. Resourcing**

Since the last report to the Audit and Risk Committee in November 2021 there have been no changes to the staffing of the team. The salaries of the vacant posts are being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan.

In December 2021 the internal audit team engaged with the Learning and Development Team at Southend to facilitate a session to apply the team's analytical thinking into the current position of the internal audit team and the expected requirements of the internal audit service into the future, as this continues to evolve both at an industry level and at a local level. The results of this session will be used to develop an action plan for the team to assist with the development and delivery of the most appropriate team model, utilising the financial resources available.

#### **5. Corporate Implications**

##### **Financial Implications**

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

##### **Legal Implications**

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

##### **Human Resources**

People issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

Regular updates will be provided to the Audit Committee on how the service is being resourced (as required by the Standards).

##### **Equality Implications**

The relevance of equality and diversity will be considered during the initial planning stage of each audit before the Terms of Reference are agreed.

## **IT and Asset Management Implications**

People or asset management issues that are relevant to an audit will be considered as part of the review.

### **6. Links to Council's Aims, Targets and Objectives**

Audit work contributes to the delivery of all the Council's Aims, Targets and Objectives.

### **7. Timescale for Implementation**

The Audit Plan relates to the 2021/22 financial year.

This is a key piece of evidence available to the Audit Committee when reviewing the Annual Governance Statement, which is presented to the Audit Committee as part of the annual reporting arrangements after the end of the financial year.

### **8. Risk Factors**

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact on the Council's ability to deliver its Corporate Aims, Targets and Objectives. A key mitigating factor is the work of the Good Governance Group (the Group). Assurance provided by this Group is summarised in the regular Monitoring Report on the Council's Governance Arrangements.

The main risks the team continues to manage are the:

- loss of in-house staff and the ability of the service to replace this resource at all or in a timely manner
- lack of management capacity to support and process work in a timely manner and provide strategic leadership to the team
- possibility that the external suppliers won't deliver contracted out work within the required deadlines or to the expected quality standards
- need to maintain relationships with clients / partners.

#### **Recommendations:**

**The Audit Committee notes the progress made in delivering the 2021/22 Internal Audit Strategy.**

## **Background Papers**

- The Accounts and Audit Regulations 2015
- UK Public Service Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

## **Appendices**

- Appendix A Internal Audit Plan 2021/22
- Appendix B Opinions and Summaries – Other audits and grants
- Appendix C Opinions and Summaries – High Assurance
- Appendix D Opinions and Summaries – Partial Assurance

**Report Author: Andrew Barnes, Head of Internal Audit**

## Appendix A: Internal Audit Plan 2021/22

Dept	Service Activity	Fraud risk	Status as at 21 <sup>st</sup> January 2022
Managing the Business			
All Aims			
C&D	<b>Implementation of the ICT Contract (2020/21)</b> To assess the adequacy of arrangements in place to ensure the handover to and implementation of a new ICT contractor ensures continuity of service and minimal disruption to the Council.	No	Draft report with Head of Internal Audit.
CS	<b>Ethical Governance</b> To assess the suitability of arrangement to ensure the Council's operations, conduct and leadership is aligned to required ethical standards and associated good practice, to enable ongoing public confidence and trust in the local authority.	Yes	Yet to start.
All	<b>Workforce Management</b> To assess the effectiveness of arrangements to ensure the Council has an effective workforce with the right skills and level of knowledge, being appropriately managed to deliver the Council's vision, priorities and objectives for high quality services to residents.	No	Report being drafted.
All	<b>Senior Management Pay and Conditions</b> To assess the adequacy of arrangements to ensure that senior management are effectively recruited, pay and conditions are properly governed, applied consistently and administered appropriately.	Yes	Audit added in January 2022. Work in progress.

## Appendix A: Internal Audit Plan 2021/22

Dept	Service Activity	Fraud risk	Status as at 21 <sup>st</sup> January 2022
All	<b>Business Continuity and Response to Covid-19</b> To assess the effectiveness of the Council's response to the Covid-19 pandemic in ensuring minimal disruption to staff and service delivery, and revisit the work undertaken in 2019/20 to confirm the areas identified have been suitably addressed.	No	<b>Terms of Reference agreed.</b> <b>Fieldwork commencing 28<sup>th</sup> February.</b>
C&D	<b>Cyber Security: Incident Management</b> To assess the effectiveness of arrangements in place to quickly identify a Cyber Security incident and the suitability of planned strategic and technical responses following an attack.	Yes	<b>Work in progress.</b>
<b>Managing Service Delivery Risks</b>			
<b>Aim: A Commercial and Democratically Accountable Council</b>			
CS	<b>Corporate Estate and Asset Management (Property)</b> To assess the arrangements in place to ensure assets within the Council estate are effectively managed in order to support delivery of the Council's duties, vision, priorities, objectives and plans for the borough.	Yes	<b>Work in progress.</b>
<b>Aim: Health and Community Safety</b>			
All	<b>Partnerships (2020/21)</b> To assess the effectiveness of arrangements to ensure the Council's strategic partnerships enable effective joint working and support the delivery of the Council's corporate priorities and objectives.	Yes	<b>Completed January 2022.</b>
SD, MO	<b>Safeguarding (2019/20)</b> To assess whether the Council has robust arrangements in place to discharge its statutory responsibilities with regard to safeguarding and promoting the welfare of adults and children in accordance with the statutory requirements.	No	<b>Work in Progress.</b>

## Appendix A: Internal Audit Plan 2021/22

Dept	Service Activity	Fraud risk	Status as at 21 <sup>st</sup> January 2022
<b>Aim: Environment</b>			
Env	<b>Health and Safety (2020/21)</b> To assess the robustness of the arrangements in place to ensure health and safety risks within the workplace are effectively and efficiently identified, assessed, responded to, and reported against, in line with legislation.	No	<b>Draft report with Head of Internal Audit.</b>
<b>Aim: Housing and Regeneration</b>			
P&P	<b>Community Infrastructure Levy and Section 106</b> To assess the robustness of arrangements to ensure income from CIL and S106 contributions is maximised, and funds are utilised to the benefit of the borough.	Yes	Deferred to the 2022/23 audit plan.  The Council is in the process of introducing its CIL arrangements, so the audit has been delayed while these are developed and implemented.
H	<b>Fire Safety</b> To assess the adequacy of arrangements in place to ensure fire safety within residential properties is proactively and effectively managed in order to reduce the risk of harm to residents.	No	<b>Work in progress.</b>
<b>Key Financial Systems: All Aims</b>			
Res	<b>Income Receipting and Banking (2020/21)</b> To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that this information can be relied upon when producing the Council's Statement of Accounts.	Yes	<b>Draft report with Head of Internal Audit.</b>
Res	<b>General Ledger (2020/21)</b> To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that this information can be relied upon when producing the Council's Statement of Accounts.	Yes	<b>Draft report with the business.</b>

## Appendix A: Internal Audit Plan 2021/22

Dept	Service Activity	Fraud risk	Status as at 21 <sup>st</sup> January 2022
<i>Implementing Action Plans</i>			
R	<b>General Ledger</b> To check that actions agreed have been effectively implemented and have been embedded into the day-to-day operation of the service.	Yes	Yet to start.
All	<b>Accounts Receivable (2020/21)</b> To confirm that actions agreed have been effectively implemented and embedded into the day to day operation of the service.	Yes	<b>Completed October 2021.</b>
All	<b>Accounts Payable (2020/21)</b> To confirm that actions agreed have been effectively implemented and embedded into the day to day operation of the service.	Yes	<b>Completed October 2021.</b>
<b>Grant Claims</b>			
C&D	<b>Test and Trace Support Payment Scheme</b> To certify that, in all significant respects, the terms and conditions attached to the grant have been complied with.	Yes	Work in progress.
E	<b>Green Homes Grant</b> To certify that, in all significant respects, the terms and conditions attached to the grant have been complied with.	Yes	Planning underway.
E	<b>Disabled Facilities Grant</b> To certify that, in all significant respects, the terms and conditions attached to the grant have been complied with.	Yes	Completed October 2021.
P&P	<b>Interreg Go Trade Grant</b> To certify that, in all significant respects, the terms and conditions attached to the grant have been complied with.		Completed September 2021.

## Appendix A: Internal Audit Plan 2021/22

Dept	Service Activity	Fraud risk	Status as at 21 <sup>st</sup> January 2022
<b>Advice and Support Work</b>			
<b>Aim: A Commercial and Democratically Accountable Council</b>			
All	<b>Project Management</b> Provide advice, support and challenge over the design of the revised project management framework and the effectiveness of its rollout and implementation within the organisation.	Yes	Completed December 2021.
Res	<b>Knightswick Centre (2020/21)</b> To provide advice, support and challenge over the contract management arrangements being developed to ensure the Knightswick Centre is well managed and remains financially viable.	Yes	Report being drafted.
P&P	<b>Development Control Peer Review (2020/21)</b> To provide advice, support and challenge over the arrangements in place to address the recommendations of the April 2019 Peer Review.	Yes	Completed and feedback provided December 2021.
<b>Aim: Housing and Regeneration</b>			
H	<b>Housing Management System Project Implementation</b> To provide independent advice and support to the Project Sponsors in their understanding and challenge of the information / project documentation presented to Project Board, at key project decision points.  To monitor the ongoing implementation / application of robust project processes to ensure the new Housing Management System is fully operational within the intended timeframes as well as achieving the expected benefits.	Yes	<b>Work in progress.</b>  Further work has been undertaken to support the project team review and assess the impact of the risk, issues and assumptions identified on the revised project plan.

## Appendix A: Internal Audit Plan 2021/22

Dept	Service Activity	Fraud risk	Status as at 21 <sup>st</sup> January 2022
H	<b>Housing Management Process Review</b> To provide advice and challenge over the review and redesign of processes within the Housing Management team, to support the inclusion of a suitable control framework to aid performance and delivery.	Yes	<b>Removed from the Audit Plan.</b> Due to the ongoing work within the Housing service to implement the Housing Management System, the planned review and redesign of the team has been postponed.
<b>Aim: Environment</b>			
E	<b>Climate Change and Carbon Reduction</b> To provide advice and support around the arrangements currently being developed to enable the Council to work effectively towards delivering its aims of carbon reduction and increased energy efficiency within the borough.	No	<b>Work in progress.</b>
E	<b>Waste and Recycling Services</b> To provide advice, support and challenge as service delivery options are explored, to ensure cost, environmental performance and compliance with the expected outcomes of the Government's Resource & Waste Strategy are suitably considered.	Yes	<b>Work in progress.</b>
<b>Managing Delivery of the Audit Plan</b>			
	Audit Planning and Resourcing		
	Managing Audit Plan Delivery		
	Reporting to Executive Management Team and Audit Committee		

## Appendix A: Internal Audit Plan 2021/22

Audit Activities	Resource allocation
Managing the Business	32%
Managing Service Delivery Risks	17%
Key Financial Systems	3%
Grant Claims	8%
Advice and Support	25%
Managing Delivery of the Audit Plan	15%
<b>Total</b>	<b>100%</b>
<b>Total Council Audit Plan Days</b>	<b>209</b>

The days required to revisit and retest action plans from previous reports are included under each heading.

Analysis Over Departments		
R	Resources	3%
CS	Corporate Services	9%
P&P	Place and Policy	0%
C&D	Customer and Digital	12%
E	Environmental	14%
H	Housing	18%
All	Cross cutting	29%
All	Managing Delivery of the Audit Plan	15%
	<b>Total</b>	<b>100%</b>

## Appendix A: Internal Audit Plan 2021/22

Risk Watch List	
C&D	Cyber Security Arrangements
C&D	Business Rates
C&D	Council Tax
C&D	CRM Project
CS	Leases and Licences of Council Property
E / CS	The Paddocks
E	Food Premises Inspections
E	Private Sector Housing
H	Compliance with Construction, Design and Management Regulations
H	Housing Allocations
H	Sustainability of the Housing Revenue Account
H	Housing Rent Collection and Arrears Management
H	Management of Void Properties
H	Implementation of Health and Safety Legislation Post Grenfell
R	Procurement
R	Contract Management
P&P	Building a Safer Future
P&P	Regeneration Partnerships
P&P	Regeneration Project Delivery
P&P	Building Control
P&P	Community Infrastructure Levy and S106 Payments
All	Data Strategy
All	Council Commercialisation
All	Performance Management
All	Governance Arrangement for Grant and State Aid Funding

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit or the risk profile change.

## **Appendix B: Other Audits and Grant Claims**

### **Project Management**

#### **Objective**

To assess the design of the key controls relating to the revised Project Management Framework, Toolkit and Guidance documents at the Council. This is to provide ongoing advice and support on the development and implementation of a revised framework that can be used to manage and deliver plans, strategies and projects within the Council and borough.

#### **Summary Findings**

Castle Point's PROMPT framework is in the process of being replaced by the Project Management Toolkit and Workbook. The Toolkit provides guidance to project management practitioners within Castle Point on how projects should be undertaken, and the Workbook is the sole document to record all key aspects of the project through its lifecycle. These documents are well aligned and provide a simplified set of documents focused on the key areas required for effective project management.

These documents cover many of the areas you would expect a project management framework to include, are an improvement and have addressed many of the points raised in the previous Internal Audit review including: providing definitions on how projects should be classified; rationalising the documents into two key documents to make them more user-friendly; and improved reporting on the status of projects. Further work is being undertaken to strengthen the guidance in the following areas:

- Enhancing descriptions of key project management roles and developing the terms of reference for the OMT-level Project Board and CMT-level Project Board
- Extending the Project Management Toolkit and Workbook in the following project management areas: planning; assumptions; dependencies; risks; change control; communications and the engagement plan
- Introducing templates and guidance on budget and benefits management processes including the tracking of the delivery of benefits
- Defining the Gateway / Go-Live process assessing parameters which should be met in order to proceed to the next project phase and the related governance and approval processes
- improvements to the Project Workbook and Project Management Toolkit, which would make them more user-friendly and better aligned
- Introducing a central repository for lessons learned to be stored.

The Project Management Toolkit and Workbook had not been rolled out at the time of the review with training expected to be delivered by management in March 2022. Management expect to incorporate our findings into updates to the documents and to inform the training plan.

## **Appendix B: Other Audits and Grant Claims**

### **Waste and Recycling Services**

#### **Objective**

To provide advice, support and challenge as service delivery options are explored, to ensure cost, environmental performance and compliance with the expected outcomes of the Government's Resource & Waste Strategy are suitably considered.

#### **Summary of input to date**

A review of the WRAP report has been undertaken and discussion has been held with the Head of Environment on the current status of the work and next steps that need to be, or are currently being, explored, in order to support member decision making on service delivery going forward. These include:

- Readjusting the baseline modelled option included within the WRAP recommendations to reflect the current costs of delivering the service. These have increased due to the use of agency workers in response to more waste being collected, resulting in longer days and / or additional rounds being required.
- Giving further consideration on the potential risks, costs and benefits of:
  - doing nothing - for example, considering the lifecycle of the existing collection lorries, their ongoing maintenance requirements and the impact on service delivery that may arise with an aging fleet of vehicles
  - the more operational / lower-level detail on the modelled options eg. the storing of wheeled bins before they are provided to residents
  - the modelled options with consideration to the Council's wider corporate objectives, such as Climate related priorities eg. exploring the use of electric collection vehicles.

## Appendix C: Audit Opinion and Themes

### Assurance



### Accounts Receivable Revisited

#### Objective

To assess whether the actions agreed in the original audit dated December 2019 have been implemented and are now effectively embedded into the day-to-day operation of the service

#### Themes

The Accounts Receivable procedural guidance has been reviewed to ensure it is accurate and relevant. The guidance dates between March 2017 and June 2020 and is for internal use by collection staff.

Sundry Debtors Credit Policy was updated and circulated in October 2020. The Policy now outlines:

- the responsibility for accuracy of invoicing remains with the originating department.
- Service Managers are required to ensure an adequate range of invoices are checked at intervals during the course of the year.
- Service Managers are also required to ensure that all invoices are raised as required and all income due has been correctly invoiced.

Sample checking of invoices by Accounts Receivable has been doubled from four to eight each month, including VAT details, and covers a representation of services. Monthly checks are being undertaken for overdue invoices and failed direct debits. Action taken on overdue accounts is recorded on a spreadsheet. These increased checks will help to ensure invoices continue to be raised correctly, with monies recovered promptly and appropriately.

## Appendix D: Audit Opinion and Themes

### Assurance



### Accounts Payable Revisited

#### Objective

To assess whether the actions agreed in the original audit dated December 2019 have been implemented and are now effectively embedded into the day-to-day operation of the service

#### Themes

The Accounts Payable Team has updated the procedural guidance to reflect current working practices. The documents are subject to annual review in March each year, however this has not been reflected in a procedural guidance log as agreed which may mean that future reviews are missed.

The Financial Services Manager confirmed that they undertake sample checking of amendments to supplier details once every two months. However, only verbal assurance has been obtained regarding this as, at the time of the audit, these checks were not being documented. Therefore, we are unable to provide assurance over the consistency or effectiveness of the reported checks.

The Accountant and Financial Services Manager have advised that the original audit action that recommended the need for a more regular review and approval process to ensure authorisation levels within the eFinancials system remain appropriate is not considered practical to implement and has therefore not been actioned. It is reported that a sense check of the authorisation levels within the eFinancials system and corresponding spreadsheets is undertaken when there are known changes in the organisation that would impact the authorised signatories database. However, it has not been possible to confirm this check has taken place and thus provide any assurance over its suitability.

In addition, a decision has been made not to introduce upper limits for authorisers where two signatures / Cabinet / Council approval is required. Financial Services report that:

- all online banking payments require a proposer and authoriser, ensuring segregation of duties, and
- they review and sense check all BACS payments over £10k.

It is therefore deemed by Financial Services that the existing arrangements are sufficient. While the reasoning behind this is understood, there remains a small risk that inappropriate payments may be made, causing financial loss for the Council.

## Appendix D: Audit Opinion and Themes

### Assurance



### Partnerships

#### Objective

To assess the effectiveness of arrangements to ensure the Council's strategic partnerships enable effective joint working and support the delivery of the Council's corporate priorities and objectives.

#### Themes

The Council work with a number of partners to deliver the required services to the borough which either aren't delivered directly by the Council, or are more effectively delivered alongside partners. These partners and the way the Council work with them is vital in delivering the Council's corporate priorities as well as wider community, environment and infrastructure enhancements across the South Essex area.

Management has created a Partnership Framework and Toolkit to aid staff in establishing new and assessing current partnerships. This defines the various categories of partnerships and is aligned to the principles of good governance in partnerships as set out in the publication *Delivering Good Governance in Local Government: Framework (CIPFA/SoLACE 2016)*. A partnership register has also been created capturing key information regarding the current partners the Council works with.

Following consultation with Corporate Management Team (CMT) in January 2020, The Partnership Framework and Toolkit was rolled out to Operational Management Team (OMT) in February 2020. This audit has identified potential enhancements to provide greater consistency and direction that management should implement before formally communicating the refreshed partnership governance arrangements more widely. These recommendations will also embed such partnership considerations into existing arrangements, such as the procurement and annual service planning processes, to trigger when and how to assess a new or current partnership.

In order to consider how well the partnership arrangement were operating in practice, a deep dive review of a selection of partnership arrangements from across the Council was undertaken. The following strategic partnership arrangements were selected:

- Association of South Essex Local Authorities (ASELA)
- Local Strategic Partnership (LSP)
- Castle Point Association of Voluntary Services (CAVS)

## Appendix D: Audit Opinion and Themes

### Assurance



As a result of reviewing how each of the above was structured, being monitored and reported on, recommendations have been identified to:

- improve the individual partnership working environments such as the formalising of partnership outcomes (e.g. via SLAs, especially where there is a financial element) applicable to the partner and defining where such updates will be reported / escalated to
- formalise the Council's exit from the LSP, update Cabinet on the decision made and undertake a review of the partnership to identify any lessons learned from the relationship that can be applied to other partnerships
- provide examples to aid the enhancement of the Partnership Framework and Toolkit for elements such as reporting and exit arrangements.

Management has made progress in developing partnership governance arrangements which were not previously in place, but recognise that further work is needed to embed working practices that will help provide efficient and effective arrangements to support the delivery of the corporate priorities, with partners seen as a key part of that.

**AUDIT COMMITTEE****3rd February 2022**

Subject: **Treasury Management and Investment Strategies 2022/23**

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**1. Purpose of Report**

The Council must comply with the Code of Practice - Treasury Management in the Public Services, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). As part of this Code the Council is required to approve an annual Treasury Management and Investment Strategy for the forthcoming financial year.

**2. Links to Council's priorities and objectives**

The scrutiny and approval of the Council's Treasury Management and Investment Strategy is an Enabler of the Council's four priority areas. Strategic financial management is essential in order to ensure that resources are available to support the Council's priorities and maintain or improve services.

**3. Recommendation**

That following scrutiny, the Treasury Management and Investment Strategies for 2022/23 are approved for onward submission to Council on 23 February 2022 as part of the overall Policy Framework and Budget Setting Report.

**Resolution required.**

---

**4. Treasury Management and Investment Strategies 2022/23**

4.1 The strategies for 2022/23 are attached as an appendix to this report.

4.2 In December 2021, CIPFA published updated Treasury Management and Prudential Codes, with implementation required for 2023/24 onwards. During the coming year, the Council will review the new codes and any implications, with any required changes being made as part of the 2023/24 Treasury Management and Investment Strategies.

**5. Corporate Implications****(a) Legal implications**

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance, including:

- The Local Government Act 2003, and associated Statutory Instruments;
- The CIPFA Prudential Code for Capital Finance in Local Authorities;
- The CIPFA Code of Practice for Treasury Management in the Public Services.

The Council continues to comply with all the relevant statutory and regulatory requirements.

**(b) Financial implications**

Setting Treasury Management and Investment Strategies are cornerstones for effective treasury management and essential for sound management of the Council's finances. They are an integral part of the Budget Framework. All implications arising from this strategy have been incorporated into the budget due to be approved by Council in February 2022.

**(c) Human resource and equality implications**

There are no new implications.

**(d) Timescale for implementation and risk factors**

The Code of Practice for Treasury Management states that the Council must receive a report on annual strategy and plan in advance of the year. The Council complies with this by submitting the strategies to the annual Council budget-setting meeting in February. Failure to do this effectively or in a timely manner, could adversely affect the security of investments and increase reputational risk for the Council.

**Report Author:** Nancy Kariwo, Accountant

## STRATEGY / POLICY FRONT COVER

**Name of Strategy / Policy:** Treasury Management Strategy

**Date last updated:** February 2022

**Date last revised and reasons for revision:**

Previously revised February 2021. Current revision is because the Strategy has to be reviewed and approved by Council annually.

### Links to Council Priorities:

Priority	Linked Yes / No?
Public Health & Well-Being	No
Environment	No
Transforming Our Community	Yes
Efficient & Effective Customer-Focused Services	No

### Links to Other Strategies and Policies

*Financial Planning and Capital Strategy* (incorporated in the *Policy Framework and Budget Setting for 2022/23*).

### Action Plan in this document?

Implementation of the 2018 DLUHC Investment Guidance that includes sections on non-financial investment, risk assessment, borrowing in advance of need and proportionality.

### Name of lead officer responsible for implementing the action plan:

Chris Mills is responsible for the Strategy and for ensuring adequate monitoring and reporting.

### Name of lead Member and Member body responsible for monitoring implementation of the action plan:

Councillor W Johnson – Cabinet Member for Resources.  
Audit Committee and Cabinet receive mid-year and annual reports.

**Equality impact assessment undertaken? No**

**Sustainability appraisal undertaken? No**

**Policy register on S Drive updated? Yes**



## **Castle Point Borough Council**

# **Treasury Management Strategy for 2022/23**

Produced by: Financial Services Manager.

Subject to Annual Review

**Approved by:**

- Audit Committee: February 2022
- Cabinet & Council: February 2022

## 12 Treasury Management Strategy

### Definition of Treasury Management

- 1 Treasury management is:  
*“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 2 The Council includes the following Treasury Management clauses within its Constitution, as recommended by the Code of Practice:

The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMP’s) setting out how the organisation will seek to achieve those policies and objectives, prescribing how it will manage and control those activities.
- Will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP’s.
- Delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Strategic Director (Resources), who will act in accordance with the Council’s policy statement and TMP’s and CIPFA’s Standard of Professional Practice on Treasury Management.
- Nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

### Treasury Management Strategy for 2022/23

- 3 The Strategy has been formulated after considering the advice of the Council’s consultants, Link Treasury Services (Link). All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement.

### Balanced budget requirement

- 4 It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. This means that the Council is required to ensure the affordability of existing and new projects, both revenue and capital, within the projected income of the Council for the foreseeable future.

### Brexit, COVID-19, economic uncertainty, and interest rates

- 5 The United Kingdom left the EU on 31st January 2020 and the transition period ended on 31st December 2020 with a trade agreement but there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU, that now needs to be formalised on a permanent basis.  
Brexit may reduce the economy’s potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis. The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions. There is relatively little UK domestic risk of significant increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and significant increases in Bank Rate are likely to be some years away given the underlying economic expectations.

- 6 Over the last two years, the COVID-19 outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021. The forecast Bank Rate now includes four increases, one in quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.
- 7 The Council adheres to strict investment criteria. As it remains difficult to predict longer-term rates accurately, the interest rates used to forecast investment income for the Council's budget process remain prudent. The Council may also be restricted in where it can invest funds. Officers will continue to seek the best return possible whilst always complying with the Council's policies and procedures and without compromising security and liquidity.

### Current debt position and requirements for 2022/23

- 8 A summary of external debt that is expected to be outstanding as at 31 March 2022 is as follows:

<b>Table 12.1 External debt outstanding</b>	
<b>Source</b>	<b>Total at 31/03/22 £000's</b>
Public Works Loan Board – General Fund	12,450
Public Works Loan Board – Housing Revenue Account	29,451
<b>Total</b>	<b>41,901</b>

- 9 The Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **1.08%** to **4.10%** per annum. The Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.49%** per annum. If loans are repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and the unexpired period at the time of repayment. Currently as interest rates are low, premature repayment of all loans would incur a huge premium in excess of **£9m**.
- 10 The proposed programme of capital expenditure due to be approved by Council in February 2022 is not currently anticipated to trigger a requirement for new borrowing in 2022/23. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.
- 11 Internal borrowing is the use of the Council's own temporary investments for capital expenditure and is when the Capital Financing Requirement (CFR) exceeds the level of external borrowing. This position is known as "under-borrowed". At the end of 2022/23 for the General Fund this is expected to be **£6.2m** due partly to capital expenditure on the Knightswick Shopping Centre and associated public realm works. As cash balances are relatively high and interest earned on investments is lower than the rate at which the Council can take out loans, borrowing internally is an efficient use of resources that also lowers the overall cost of funding for the projects. By the end of 2022/23 the HRA will be under-borrowed by approximately **£500k**. The position fluctuates from year to year depending on various factors such as the level of capital expenditure, and a prudential indicator in the Capital Strategy ("Gross Debt and the Capital Financing Requirement") monitors and reports on this position.
- Borrowing Strategy**
- 12 The uncertainty over future interest rates increases the risk associated with treasury activity. As a result, the Council will take a fairly cautious approach to its Treasury Management Strategy.
- 13 If a need to borrow should arise, the Strategic Director (Resources), under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing

interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.

- 14 Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. Any new borrowing would result in additional annual interest charges to either the General Fund or Housing Revenue Account, as well as the need to set aside sums from those funds for future repayment of the principal amount borrowed. In effect, borrowing does not finance capital expenditure, instead it merely provides the cash to enable the expenditure to take place. Therefore, the financial impact on the longer-term budget positions for both the General Fund on the Medium-Term Financial Forecast (MTFF) and the Housing Revenue Account on the HRA Business Plan, must be taken into careful consideration in all borrowing decisions. As shown within the MTFF and HRA Business Plan the General Fund has annual funding gaps to be closed, and the HRA also faces challenges, such as the lasting impact of changes in central government policies including imposed 4-year rent reductions, as detailed within previous HRA budget setting reports.
- 15 On 9 October 2019 the PWLB increased their margin over gilt yields by 100 basis points to 180 basis points on loans to local authorities, making borrowing from the Government more expensive. However, on 25 November 2020 the Government reversed this. The PWLB allows local authorities to register for a preferential “certainty rate” for borrowing, which is currently **0.20%** below the standard rate or **0.80%** above gilt rates. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows it to access the preferential rate should the need arise. Although there are no current plans to borrow before 2024/25, the Council routinely registers for the preferential rate.
- 16 The weighted average maturity of the Council’s General Fund **£13.35m** debt is quite long at **17** years. **£0.90m** matures every year for the next 8 years, currently with no requirement to refinance. **£5.25m** of the debt portfolio does not mature before 2052. Therefore, there is little refinancing risk for the General Fund.
- 17 The Housing Revenue Account debt of **£36.5m** taken out in March 2012 as part of the HRA self-financing changes is set to mature at different times between 2021/22 and 2041/42 with **£7m** repaid in 2021-22. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1m** above the **£36.5m**. The autumn 2018 budget announced that the borrowing cap would be removed so that local authorities would be allowed to undertake additional borrowing to enable investment in building new homes. However, as stated above, any additional borrowing would still have to be affordable within the 30-year HRA Business Plan and be subject to a full assessment of the financial viability of any scheme.

#### **Borrowing in advance of need**

- 18 The Council has some flexibility to borrow funds in advance for use in future years. The Strategic Director (Resources) may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so. Furthermore, councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. They must also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.
- 19 DLUHC guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Strategic Director (Resources) does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:
- It will be limited to no more than £3m of the expected increase in borrowing need (CFR) over the three-year planning period; and
  - The Council would not look to borrow more than 18 months in advance of need.

- 20 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus funds arising from borrowing in advance of need will be invested in accordance with the Council's Investment Strategy.

### **Treasury management indicators**

- 21 The Council is required to calculate several Treasury Management Indicators as part of the Treasury Management Code of Practice. The indicators are reported in the following paragraphs.

### **Borrowing maturity structure**

- 22 The Prudential Code for Capital Finance in Local Authorities requires the Council to set upper and lower limits for the maturity structure of fixed rate borrowing. These limits are designed to help the Council minimise its exposure to large fixed rate sums falling due for refinancing. The proposed limits, expressed as percentages of total projected fixed rate borrowing, are as follows:

<b>Table 12.2 Maturity structure of fixed rate borrowing</b>				
<b>Maturity</b>	<b>General Fund</b>		<b>Housing Revenue Account</b>	
	<b>Upper limit</b>	<b>Lower limit</b>	<b>Upper limit</b>	<b>Lower limit</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Within 1 year	50	0	50	0
Within 2 years	50	0	50	0
Within 5 years	60	0	60	0
Within 10 years	80	0	80	0
After 10 years	100	0	100	0

### **Borrowing – limits of fixed and variable rate exposure**

- 23 The Prudential Code also requires the Council to set upper limits for fixed and variable interest rate exposure. These indicators identify the maximum limits for both fixed and variable interest rates based upon the Council's debt position net of investments. The proposed limits are as follows: -

<b>Table 12.3 Upper limits of fixed and variable exposures</b>						
	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Upper limit – fixed rates	55	47	47	46	42	41
Upper limit – variable rates	(29)	(20)	(18)	(16)	(14)	(12)

### **Borrowing - interest rate sensitivity**

- 24 Any borrowing decisions will need to take account of any changes in interest rates. There are two possible scenarios: -
- a sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low.
  - a sharp fall in rates – if this is expected, any borrowing will be postponed (waiting for borrowings to become cheaper) and rescheduling from fixed to variable rate funding will be considered.

### **Debt management objectives**

- 25 A summary of the Council's debt management objectives for 2022/23 is therefore as follows: -

- to borrow, if necessary, in order to finance cash flows arising from capital expenditure in accordance with the Prudential Code;
- to reduce, if possible, the amount of long-term borrowing without incurring net losses for early redemption.
- to manage the debt maturity profile in order to avoid a high level of repayments in any one year.
- to borrow at the best interest rates achievable in relation to estimated future rates.
- to monitor and review the level of any variable interest rate loans, in order to take advantage of interest rate movements;
- if possible, to reschedule debt in order to take advantage of potential savings as interest rates change;
- to avoid as far as possible, excessive overdrawn bank balances by achieving a balanced daily cash position, unless market borrowing proves favourable by comparison;
- to ensure that overall borrowing is within the authorised limit for external debt and that this is monitored on a regular basis.

# 13 Investment Strategy

## Investment guidance

- 1 This Council's investment policy has regard to the following:
  - DLUHC's Guidance on Local Government Investments ("Guidance")
  - CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code")
  - CIPFA Treasury Management Guidance Notes 2018

## Investment principles

- 2 The primary policy objective of the Council's treasury management and investment activities is the security of funds, and to avoid exposing public funds to inappropriate and unquantified risk. The Council's investment priorities are:
  - Firstly – the **security** of capital (protecting the capital sum invested from loss) and
  - Secondly – the **liquidity** of its investments (keeping sufficient money readily available for expenditure when needed).

Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities. All investments will be in sterling.

- 3 Under the guidance investments made by local authorities are classified into two main categories:
  - Investments held for treasury management purposes
  - Other investments

All of the Council's temporary investments are held for treasury management purposes and the interest received contributes to the General Fund budget, as shown in the table below. Investments are not split between General Fund and Housing Revenue Account (HRA) but held as one portfolio with a proportion of the overall interest received applied to the HRA, calculated on the levels of HRA reserves and balances. For 2022/23 this amount is forecast to be **£5k**.

<b>Table 13.1 General Fund investment income</b>						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£000's	£000's	£000's	£000's	£000's	£000's
Forecast investment income	132	211	235	255	298	300

- 4 The guidance maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

## Financial investments

- 5 Under the guidance financial investments fall in to three categories:
  - **Specified investments** - high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
  - **Loans** – for example to local enterprises, charities etc. The Council has none.
  - **Non-specified investments** – all others, may be less secure.

Specified investment instruments identified for use in the financial year are listed in table 13.2. Non-specified Investments are any other type of investment, i.e. not defined as specified above, are listed in tables 13.3 and 13.4.

### **Non-financial investments**

- 6 Non-financial investments are assets an organisation holds primarily or partially to generate a profit, essentially for commercial activities. The Council does not currently hold non-financial investments, but may consider doing so, if they support the priorities of the Council as detailed in the Corporate Plan, after taking expert external advice and a thorough appraisal by officers, scrutiny by the appropriate committee and approval by Council. The Council would have to carefully assess whether such assets retain sufficient value to provide security of investment, and if they do not, the Strategy must provide details of the mitigating actions taken to protect the capital.

### **Liquidity**

- 7 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2022/23 to range between **£34m** and **£52m**.

### **Risk assessment and risk appetite**

- 8 As the Council's primary policy objective of treasury management is to avoid exposing public funds to inappropriate and unquantified risk, the Council has a very cautious approach to investing, reflected in the internal guidance which ensures the following:
- 1 a very high average credit weighting for the portfolio, typically AA
  - 2 a diversified portfolio
  - 3 a weighted average maturity of approximately 250 days
  - 4 strict stepped limits on lower-rated, but still high grade (A-rated) investments of up to **£3m**.
  - 5 Officers monitor market information including financial updates from the Council's treasury adviser on a daily and weekly basis, to keep as well-informed as possible to make the best decisions. The internal guidance can be amended by the S151 Officer, with advice from treasury officers, at very short notice. This is for flexibility and to adapt to changing circumstances in the current time of economic uncertainty, firstly to protect the security of the Council's temporary investments and secondly to achieve liquidity and yield.

### **Credit ratings**

- 9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Tables 13.2 to 13.4 also set out the Council's minimum credit ratings that it considers appropriate for each category of investment.
- 10 The Brexit agreement hopefully reduced the possibility that credit rating agencies will downgrade the sovereign rating for the UK from the current level of AA. All three agencies have the UK on stable outlook. Investments are placed with institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.

### **Monitoring of credit ratings**

- 11 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Treasury Services, also alert the Council to changes in ratings as they occur.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.

## Amendments to the 2022/23 Investment Strategy

- 12 The portfolio of investments maintained by the Council is very cautious and the yield is below that earned by some other councils. In recent years, a number of new investment types have been added to the counterparty list but due to uncertainty caused by Covid-19 the Council has opted to not make any investments with the new counterparties so far. This is anticipated to change in 2022/23, with appropriate investments being made which should enhance returns. For 2022/23, it is not proposed to amend the counterparty lists.

One minor change is proposed to the Non-specified investments in table 13.3 below, with the counterparty limit for term deposits with local authorities being increased from **£4m** to **£5m**. By making this small increase, it opens up a segment of the market which the Council has not previously had access to. Many local authorities only deal in amounts of **£5m** upwards, with yields on offer being greater than for amounts below **£5m**. The additional risk associated with this proposed change is assessed as being minimal given it is extremely unlikely that a local authority would default on a loan or be allowed by Government under any intervention to do so. This has recently been demonstrated with a small number of local authorities being permitted by Government to take extraordinary steps under Ministerial Direction to balance their books.

**Table 13.2 Specified Investments for the Financial Year 2022/23**

Investment	Counterparty limit	Security / Minimum Credit Rating	Maximum period of investment
<b>Debt Management Agency Deposit Facility (DMADF)</b> (this facility is at present available for investments up to 6 months)	No limit	The Debt Management Office is an agency of the UK Government	6 months (DMO imposed time limit)
<b>Treasury Bills</b> issued by the UK Government (currently maximum 6-month duration)	No limit	The Debt Management Office is an agency of the UK Government	364 days
<b>Term Deposits</b> with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 33% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	364 days
<b>Term Deposits</b> with institutions, part nationalised by the UK Government	The lesser of £5m or 33% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Money Market Funds</b> (i.e. a collective investment scheme as defined in SI 2004 No 534) CNAV, LVNAV and VNAV These funds do not have a maturity date	The lesser of £5m or 33% of total investments	Fitch, Moody's or Standard and Poors AAA (Minimum of two ratings)	n/a (repayable on demand)
<b>Current accounts, notice accounts or term deposits</b> with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days (Call deposits repayable on demand)
<b>Forward deals</b> with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Certificates of Deposit</b> issued by UK institutions	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

<b>Covered bonds</b> (maximum 364-day period includes borrower extension option)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
<b>Reverse repurchase agreements "repos"</b> (a form of secured lending with enhanced security)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

<b>Table 13.3 - Non-specified Investments for the financial year 2022/23</b>			
<b>Investment</b>	<b>Counterparty limit</b>	<b>Security / Minimum Credit Rating</b>	<b>Maximum period of investment</b>
<b>Term deposits</b> with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 25% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	2 years
<b>Current accounts, notice accounts or term deposits</b> with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	2 years
<b>Property Funds</b>	The lesser of £4m or 25% of total investments	Unrated	n/a
<b>Bond funds</b>	The lesser of £4m or 25% of total investments	Unrated	n/a
<b>Multi-Asset funds</b>	The lesser of £4m or 25% of total investments	Unrated	n/a
<b>Equity Funds</b>	The lesser of £4m or 25% of total investments	Unrated	n/a

- All Specified Investments listed above must be sterling denominated.
- All investments are managed in-house.
- No shares or loan capital is held by the Council
- None of the investments are classified as capital expenditure

### **Country, group and sector limits**

- 13 The Council selects counterparties according to credit quality as well as the additional information in paragraph 16 below. Group and sector limits do not form part of the formal Investment Strategy, but are used within the temporary, stricter investment guidance described in paragraph 18.

### **Money Market Funds**

- 14 As has been the practice for several years, the Council continues to place a high proportion of its investments in Money Market Funds. By March 2019 the valuation method for the Council's Money Market Funds changed from constant net asset value to low volatility net asset value. Constant net asset value funds aim to preserve a stable value (such as £1) per share at which investors either subscribe or redeem, but under money market fund regulations they are being replaced with low volatility net assets funds where the underlying investments may have to be priced at market value, so potentially investors could get back slightly more or less than the £1 invested, although this is very unlikely with AAA-rated funds. The Council has assessed the implications, but it is not expected that there will be any significant impact on the value of investments.

### **Markets in Financial Instruments Directive (MiFID)**

- 15 From 3rd January 2018 changes in legislation required the Council to opt up to professional status (rather than the default status of a retail client) with several of its counterparties to continue using a range of secure and diversified investments and not be limited solely to simple bank deposits. Organisations classified as professional have a good understanding of financial products but do not have the same protection as retail clients or ordinary consumers.

### **Use of additional information other than credit ratings**

- 16 Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example equity prices, Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

### **Bail-in legislation**

- 17 To avoid a Government bailout (i.e. where Governments inject monetary support into institutions to keep them solvent) that occurred during the financial crisis, bail-in legislation is now fully implemented in the UK. In future large investors or creditors may contribute to the rescue of failing banks rather than taxpayers, as some or all their deposits are converted into equity which could be worth less than the original investment. Consequently, the potential risk of depositing with banks may have increased, however this is reflected in the credit ratings.

### **Internal stricter guidance**

- 18 The Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. These will remain in place for as long as they are required and are reviewed regularly, considering information and advice supplied by Link. Changes to the internal guidance are approved by the Strategic Director (Resources).

### **Use of derivative instruments**

- 19 Local authorities can use any hedging tools such as derivatives, but only for the management of risk and the prudent management of financial affairs. When an authority intends to use derivative instruments the policy for their use must be clearly detailed in the annual Treasury Management Strategy. The Council does not currently use derivatives, but should this change then the Treasury Management Strategy will be amended prior to their use. The Council will seek proper advice when entering into arrangements to use such products to ensure that it fully understands those products.

### **Investments defined as capital expenditure**

20 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as Non-specified Investments. As already stated, the Council does not currently intend to invest in Non-specified Investments.

21 Investments in Money Market Funds are not treated as capital expenditure.

22 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure, should it occur.

### **Provisions for credit-related losses**

23 If any of the Council's investments appeared at risk of permanent loss due to default (i.e. a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

### **Investment strategy to be followed in-house**

24 The Council's in-house managed funds are mainly cash-flow derived. It is expected that at least approximately **80%** of the Council's funds will be invested for periods of less than 365 days although this will be reduced should it be deemed appropriate. There are core funds of approximately **£10m** that it is very unlikely will be required for cash flow purposes for another 2 to 5 years. The recent changes to the treasury strategy will allow some or all of these funds to be invested longer-term, at higher rates, to provide additional investment income for the Council.

### **Investment treasury indicator and limit**

25 These limits, relating to funds invested for greater than 365 days and shown in the table below, are set with regard to the Council's liquidity requirements. They are designed to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

<b>Upper limit for principal sums invested for longer than 365 days</b>			
<b>£m</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Principal sums invested for longer than 365 days	£15m	£15m	£15m
Current investments as at <b>31.03.2022</b> in excess of 1 year maturing in each year	£2m	£0m	£0m

### **The Council's banking arrangements**

26 The Council's banking operations are with Lloyds Bank PLC with the current contract expiring on 31<sup>st</sup> March 2025.

### **Risk benchmarking**

27 The most recent version of the CIPFA Treasury Management Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.

28 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the Mid-Year or Annual Report. Use of these benchmarks will be reviewed and they may be amended or added to if necessary.

- 29 **Security** – The Council's maximum-security risk benchmark for the current portfolio is:
- A credit-rating score of **6.4** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.
- 30 **Liquidity** – In respect of this area the Council seeks to maintain:
- The bank overdraft facility was reviewed for the new banking contract that started in April 2020 and it was decided it was not cost effective for the Council to have one permanently in place
  - Liquid short-term deposits of at least **£1m** available with a day's notice
  - Weighted Average Life benchmark is expected anything up to 270 days, with a maximum of 1 year
- 31 **Yield** – Local measures of yield benchmarks are:
- Investments – returns above SONIA (Sterling Overnight Index Average), rate. The Council previously used LIBID but this measure has been discontinued by the Bank of England in favour of SONIA.

### **Treasury management adviser**

- 32 Link Treasury Services, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council's current treasury adviser. The company provides a range of services through a formal contract, which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets. Officers hold meetings with the advisers at least twice a year, as well as ad-hoc when required for specific purposes, and receive various briefing documents on a continual basis. The four-year contract expires in 2022 and is regularly monitored to ensure the quality of advice and service is consistent with the schedule of services agreed with Link.
- 33 Whilst Link provide support to the internal treasury function, under current market rules and the CIPFA Treasury Management Code, the final decision on all treasury matters remains with the Council.

### **Member and officer training and experience**

- 34 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Link both to maintain and improve their knowledge and expertise. All treasury staff have accountancy or treasury qualifications and many years' experience in local authority treasury across the team.

### **Investment activity reporting and publication**

- 35 Officers prepare a mid-year monitoring report on investment activity each autumn and an end of year report as part of its Annual Treasury Report after the close of each financial year. This does not preclude more frequent reporting should changes or circumstances dictate, including changes to the Treasury Management and Investment Strategy if required. The Investment Strategy is published annually on the Council's website.

### **Code Update**

- 36 The 2017 edition of the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes reaffirmed CIPFA's previous view that "throughout the public services the priority for treasury management is to protect capital rather than to maximise return." The Council complies with this view, as shown in the principles stated in paragraph 2 above.

Please note that CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. CIPFA has stated that there will be a soft introduction of the Codes with Local Authorities not being expected to have to change their current TMSS/AIS reports for 2022/23

unless they wish to do that: full implementation is required for 2023/24. We will make any necessary changes in future reports

- 37 The 2017 edition also included:
- Three key principles of Treasury Management, which are unchanged from the previous publication.
  - Four clauses that CIPFA recommends all public services formally adopt. These are as stated in paragraph 2 of section 12 of this report.
  - Twelve main practices, which cover matters such as risk management, performance measurement, decision making, approved instruments, cash flow management, and others. The requirements of these twelve practices feature throughout sections 12 and 13 of this report. Elements of these practices have been updated or expanded upon in the 2017 edition but have no fundamental impact on current procedures undertaken by the Council's officers in performing their treasury management and investment duties.

#### **Changes in accounting standards**

- 38 Implemented in 2018/19 IFRS9 on Financial Instruments, specified how an entity should classify and measure financial assets and financial liabilities and the CIPFA 2018/19 Code of Practice on Local Authority Accounting set out how it applies to Councils. Officers consulted with auditors and treasury advisers and made a thorough assessment of the changes required and they were not material to the Financial Statements, and only affected presentation and disclosure of the financial instruments and liabilities.



# **Castle Point Borough Council**

## **Update on audit progress for Audit Committee**

Year ended 31 March 2021

24 January 2022



Audit Committee Members  
Castle Point Borough Council  
Kiln Rd, Thundersley  
Benfleet  
SS7 1TF

24 January 2022

Dear Audit Committee Members

**Update on audit for the year 2020/21**

Further to our Provisional Audit Plan dated 9 April 2021 and updated audit timetable dated 22 October 2021, which set out how we intend to carry out our responsibilities as auditor, the purpose of this document is to communicate to you our audit progress.

We started our audit procedures for 2020/21 of Castle Point Borough Council in November 2021. We are well progressed in the audit and are currently working closely with management to complete our audit procedures, with the aim of completing by the end of February 2022.

This report is intended solely for the information and use of the Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

We hope you will find this document helpful to understand the progress made to date. We look forward to discussing this report with you on 3 February 2022.

Yours sincerely

*Debbie Hanson*  
*Ernst & Young LLP*

Debbie Hanson  
For and on behalf of Ernst & Young LLP



# Audit progress update

## Scope update

In our Provisional Audit Planning Report presented to the Audit Committee in April 2021, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this Plan, with the following exceptions.

**Changes in materiality:** In our Provisional Audit Planning Report, we communicated that our audit procedures would be performed using a planning materiality calculated at 2% of the Council's prior year gross expenditure on provision of services. We have recalculated our materiality based on the draft financial statements for 2020/21. The basis for our materiality remains same. The table below shows our materiality amounts for planning and final audit procedures.

	Planning Materiality (PM) (2% of gross expenditures)	Performance Materiality/ Tolerable Error (TE) (75% of PM)	Significant Audit Differences (5% of PM)
Planning	£1,019K	£764K	£51K
Final audit	£1,010K	£757K	£50K

**Changes to our risk assessment:** Subsequent to our Provisional Audit Plan, we have made following changes to our risk assessment;

**Recognition of grant income associated with Covid-19 (new high inherent risk):** The Council has received significant additional funding in the form of grants as a result of the Covid-19. There is a risk of incorrect recognition and treatment of these grants in relation to whether the Council is acting as principal or agent and whether any conditions or restrictions attached to the grants have been appropriately reflected in the accounting treatment.

**Auditing accounting estimates:** a revised auditing standard has been issued in respect of the audit of accounting estimates (ISA 540). The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. We have planned additional audit procedures to comply with the revised auditing standards in certain high inherent risk areas, e.g. valuation of assets (including investment properties) and valuation of the pension liability.

## Audit progress update (continued)

### Status of audit and outstanding areas

We are well progressed in the audit of Council's financial statements for the year ended 31 March 2021. We are performing the procedures as outlined in our Provisional Audit Planning Report and the changes in our scope as detailed earlier. The main outstanding areas are debtors and creditors sample testing, payroll and employees cost testing, elements of income and expenditure testing, value for money, going concern and final conclusion tasks. Once the work is completed it will be subject to Manager and Associate Partner review.

As the audit is ongoing and most of the areas are still subject to Manager and Associate Partner review, we will continue to challenge the remaining evidence provided and the final disclosures in the accounts which could influence our final audit opinion.

### Expected timeline for sign off

Subject to the availability of pending information in the areas detailed above and satisfactory completion of our audit procedures, we are aiming to complete our audit procedures in February 2022, and plan to issue our audit results report and audit opinion in April 2022, following the April 2022 Audit Committee meeting.

### Audit differences

#### Corrected and uncorrected differences

At the date of this report, we have not identified any audit differences (corrected or uncorrected). We have however identified a small number of minor disclosure differences in notes to the financial statements (casting, referencing, classification etc) which we will ask management to amend in the final draft financial statements.

Until we complete all of our audit procedures, as noted in the status of audit above, along with our final Manager and Associate Partner review, further adjustments may be identified.

## Update on our fees

As part of our reporting on our independence, we set out below a summary of the fees due for the year ended 31 March 2020 and 2021.

We confirm that we have not undertaken any non-audit services for the year ended 31 March 2020 or 2021.

Description	Planned Fee 2020/21 £	Proposed Fee 2019/20 £
Total Scale Fee - Code work	43,324	43,324
Proposed scale fee increase (Note 1)	28,872	28,872
Proposed additional fee for work to address risks including impact of Covid (Note 2)	TBC	12,791
Total audit fees	TBC	84,987

*\* All above fees are excluding VAT*

### Note 1:

As reported in our Provisional Audit Planning Report, the scale fees noted above do not include the scale fee review (i.e. for £28,872) which is currently underway with PSAA to agree whether the scale fees for Local Government need to be rebased to account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. Discussions with PSAA regarding the scale fees remain ongoing.

### Note 2:

For both 2019/20 and 2020/21, the scale fee will also be impacted by a range of factors and risks, for example the valuations of land and buildings, investment properties and pension obligations which resulted in additional work.

For 2019/20, Covid-19 also impacted on the work required. As a result of Covid-19, we identified increased risk and work required in a number of areas, including the higher risk related to the valuation of the bad debt and NNDR provision and going concern disclosures as well as the work to address the material uncertainty relating to the valuation of land and buildings and investment properties due to Covid-19. As part of our response to this risk, we engaged EY Real Estate to review the acquisition and subsequent valuation of the Knightswick Shopping Centre and the valuations of investment properties. The proposed additional fee also includes the cost of additional work required to address VFM significant risks. We have now quantified the impact on our audit fee and have discussed it with management and submitted to PSAA for their approval. The proposed additional fee is currently under review with PSAA.

For 2020/21, we will quantify the impact of additional risks and the ongoing impact of Covid on our fee once we have completed our audit procedures. PSAA will again need to determine the fee variation.

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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