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Dear Members

**Audit and Accounts Committee**

A meeting of the Audit and Accounts Committee will be held in the **Craddock Room, Civic Centre, Riverside, Stafford** on **Wednesday 16 November 2022 at 6.30pm** to deal with the business as set out on the agenda.

Please note that this meeting will be recorded.

Members are reminded that contact officers are shown in each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

**Officers from Grant Thornton will be available from 6.00pm.**

A handwritten signature in black ink, appearing to read "J. Dean".

Head of Law and Administration

## **AUDIT AND ACCOUNTS COMMITTEE -**

**16 NOVEMBER 2022**

**Chair - Councillor A M Loughran**

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### **Membership**

**Chair - Councillor A M Loughran**

M G Dodson	P W Jones
I D Fordham	A M Loughran
R A James	A Nixon

# Auditor's Annual Report Stafford Borough Council

2020-21

November 2022



# Contents

	We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.
	We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Executive summary

## Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made



### Financial sustainability

Stafford Borough Council has performed well in managing its financial position in recent years. And this continued in 2020/21. Despite ongoing uncertainty around funding in the medium term, and the challenges posed by COVID-19, the Authority has maintained a relatively strong financial position. The Authority implemented financial plans which have enabled a balanced budget to be set for 2021/22 and 2022/23. We note the implementation of an interim arrangement of a joint Chief Executive with Cannock Chase District Council with whom the Council already have extensive joint working arrangements. Further shared service proposals are being considered that should help the Council to navigate financial uncertainty in the medium term. Reserves have been set aside to provide transitional funding pending the development of a sustainable medium-term budget and the development of delivery of spending proposals that will support this. The use of reserves enables the phasing of financial efficiency proposals to minimise the impact of on services to residents. At the end of March 2021 at the Authority held general revenue reserves of £1.395 million and other usable Earmarked Reserves of £33.985 million. We note that financial reporting of budget performance to members was not as full or frequent as might be expected in 2021/22, and recommend that this be reviewed, in the context of upcoming financial challenges in the sector.

Our work has not identified significant weaknesses in arrangements to secure financial stability at the Authority, but we have raised improvement recommendations aimed at strengthening existing arrangements at the Council.



### Governance

For 2020/21 we have focussed on developing a detailed understanding of the governance arrangements in place at the Authority and the changes instigated as a response to the pandemic. Our work on both business-as-usual governance and adapted structures in response to the pandemic has not identified significant weakness in arrangements but we have raised improvement recommendations in relation to governance.



### Improving economy, efficiency and effectiveness

For 2020/21 the Council has generally worked well in securing economy, efficiency and effectiveness in its use of resources with particular focus on its shared services arrangements. We also note that in 2020/21 the Council initiated an upgrade to the financial ledger system which also includes migration to the cloud. The delivery of this throughout 2021/22 and into 2022/23 has suffered some delay, coinciding with the additional difficulty of delivering services under COVID-19 conditions. This has placed significant pressure on the capacity of the finance team and other functions. Our work has not identified significant weaknesses in arrangements, but we have made improvement recommendations in relation to delivering economy efficiency and effectiveness.

# Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



## Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 5 to 19. Further detail on how we approached our work is included in Appendix B.

# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans;
- plans to bridge its funding gaps and identify achievable savings;
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning; and
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## 2020/21 Financial outturn

Stafford Borough Council has a track record of achieving financial balance and continued this for 2020/21 having reported an underspend of £957,000 against its portfolio budget in its draft accounts. This underspend against budget was attributable to £481,000 in additional income and £476,000 savings on controllable costs.

The Council completed £5.0m of capital expenditure in 2020-21 representing 88.7% of the overall capital projects budget of £5.6m approved for the year. Slippage and projects delayed or rephased into future periods. Significant items included in this year's capital outturn include £2.5 million on Stafford Western Access Route, £0.9 million on Victoria Park Refurbishment, £0.7m on the provision of grants for disabled adaptations in homes, £0.4 million on Holmcroft Leisure Facilities and £0.2 million on financial management system.

Overall, the Council delivered its financial outturn in line with plan, taking into account the use of COVID-19 support funding which was used to help mitigate additional cost pressures relating to the pandemic.

## Reserves

The Council maintains general fund reserves to cover contingencies and emergencies. The 2020-21 Accounts estimated the required level of this reserves at £1.0 million. The general fund balance of the council increased by £0.169 million to close at £1.395 million at the end of 2020-21. In addition to the general fund reserves balance, the Council maintains earmarked reserves that are held for specific purposes including meeting future and known commitments, supporting future budgets and for carrying forward expenditure over a number of years. The earmarked reserves of the council increased by £14.991 million during 2020-21 to £33.985 million. The increase was primarily due to £9.437 million in relation to section 31 grants for business rates.

## 2021/22 Budget

The Budget and Council Tax for 2021/22 were set at the meeting of the full Council on the 26th January 2021 and 23rd of February 2021 with 59.7% of the general fund revenue are financed from Council tax and 40.3% from business rates and 1% from the Council Tax support grant. The level of net spending for the General Fund revenue budget was set at £13.617 million, and indicative requirement net spending for 2022-23 and 2023-24 of £13.550 million and £14.774 million. The net revenue budget for 2021/22 was set at £13.6 million, with council tax for a Band D property set at £162.30 which is an increase of 1.90% from the previous financial year end. The Council's tax base set at 47,994.06. Council at its meeting of the 26 January 2021 approved the General Fund Revenue Budget for 2021/22 and determined the Council Tax for the Borough. No changes were made to the business rates from the previous year. The Council anticipated to receive total gross business rate income of £5.261 million for the year, with approximately £3.687 million spent on capital investment, which includes a continuation of works in Stone and finalisation of improvements at Victoria Park in Stafford as part of a Heritage Lottery Scheme and a £19.748 million Future High Streets scheme (part grant funded approximately £14.3 million Future High Streets Fund) to redevelop the Town Centre, which was approved by the Cabinet.

## Financial planning and Medium-Term Financial Strategy

The Council plans its finances over a medium-term of 4 year rolling period for revenue and capital and includes all known financial pressures that it faces over the medium-term. The Council consults with key stakeholders including residents, and local business in arriving at the key assumptions for financial planning. The Medium-Term Financial plan (MTFP) is updated annually as part of the budget setting process and presented to the Cabinet and Council.

The MTFP was discussed and agreed by the Leadership Team, prior to approval by the Executive and finally Full Council. As noted within the governance section, as a result of the COVID-19 emergency, the Council had to re-prioritise its corporate strategic priorities which were agreed in 2018, however we are satisfied that the Council was clear on the importance of maintaining its existing service provision and financial standing during the pandemic whilst it developed its new strategic priorities and corporate plan. The existing framework and the close collaboration across the Heads of Services ensures that the financial plans took account of any changes within service or specialist areas.

The MTFP is based on a roll forward of the previous year's budget and is updated taking into account the previous year's outturn and any changes in service provision. The financial plan was built around current and projected service activity levels, levels of government funding and prudent expectations for business rate income. Adjustments are made to the MTFP to reflect the emerging pressures, identified through the budget monitoring process, and to reflect changes in corporate priorities and incorporate new projects/information. The financial plans adequately reflect the impact of key expenditure drivers such as population changes and demand for services and potential pressures in managing inflation cost pressures such as pay and non-pay budgets.

The Council approach to dealing with financial risk is to incorporate mitigating strategies into the MTFP, and these included including Revenue Budget, Capital Programme, and Council Tax and Business rates. The Council also uses reserves to incorporate risks into its plans. The Council highlights the risk areas that need to be taken into consideration by members with explanation of the risk and justification for setting aside reserves in a working balance report provided to the Cabinet to help decide on the minimum level of the General Fund balance.

## Cost Efficiency

The Council has a track record of delivering efficiency savings. The efficiencies achieved through the delivery of shared service arrangements with Cannock Chase District Council was a key part of the Council's cost efficiency measures. These have limited the need for further efficiency savings or service reductions in order to balance the budget in the years leading up to 2020/21. However, when the budget for 2021/22 was discussed at full Cabinet the Council recognised that it would need to consider further measures over the medium term.

We noted that the Council monitors financial performance at high level, through its scrutiny committees, but some corporate level financial monitoring information was temporarily not provided to members in Committee, Cabinet or at full Council during 2021-22 (including outturn report for 2020-21), to the same extent that we commonly see at other Councils. This was attributed to challenges encountered with the change in the finance systems and unplanned absences in key finance officers. This meant that the Council did not produce a detailed financial outturn report for Cabinet for 2020-21 or 2021-22. This has impacted on the production of the efficient budget and reduces the ability of Cabinet members, the wider Council and the public to challenge financial performance and hold the Council to account. This will become increasingly important as the financial environment worsens in the Local Government sector and if significant savings need to be delivered in future. An improvement recommendation has been made to build resilience into the financial management process.

**Overall, we are satisfied that the Council had appropriate arrangements in place to manage the risks it faces to financial resilience. We have not identified any risks of significant weakness, but we have identified an opportunity for improvement.**

# Improvement recommendations



## Financial sustainability

<b>1 Recommendation</b>	The Council should put in place a more detailed and regular process for the monitoring of budget performance by members, including quarterly reporting to Scrutiny Committees, Cabinet or Council throughout the year. The summary information provided must be sufficiently informative to enable performance against net spend by service, income, efficiency savings and any mitigating action taken by the Council to be properly examined and challenged.
<b>Why/impact</b>	Without regular and formal reporting, those charged with governance including members may be unaware of the position and are unable to ensure necessary action(s) is/are taken to ensure the Council continue to be run in a financial sustainable manner. Further, the council / cabinet may be unable to hold officers accountable as no report have been presented to cabinet / council to monitor financial performance against.
<b>Summary findings</b>	The Council temporarily did not provide detailed financial monitoring and outturn reports throughout financial year 2021/22 (including outturn report for 2020-21), to optimise the opportunity for review and challenge by members in a public forum. This was due to challenges encountered during finance systems change.
<b>Management comment</b>	The Council has a detailed and regular process for monitoring of budget information, although it is recognized this process was impacted during the 2021/22 financial year. From 2022/23 quarterly information has been reintroduced.



The range of recommendations that external auditors can make is explained in Appendix B.

# Governance



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Monitoring and Assessing Risk

The Council's Risk management policy and strategy are guided by the Council's governance framework. The Strategic Risk register (SRR) is maintained by the Leadership team and the progress is monitored by the Cabinet and the Audit and Governance committee and are categorised against the Council's priorities. Operational risks are identified and managed within the respective service areas. A strategic risk register is in place, which identifies and evaluates the risks faced by the Council in delivering its objectives. Risks are identified, linked to priorities, assessed and scored based on likelihood and the impact.

The Audit and Governance Committee receives reports from the Chief Internal Auditor on the systems that comprise the internal control framework. The Committee also monitors the performance and quality of the Internal Audit service to ensure that it complies with the required national standards and reports to the Cabinet biennially. All SRR and associated action plans are reviewed by the Committee and the Cabinet. The Risks summary illustrates the risks/opportunities using the traffic light method (Red, Amber and Green). As of the 31 March 2021, there were three items placed under the red risk status (high), six were amber(medium) and we note that appropriate mitigating actions were in place to manage them. The 3 key risks were:

- The Council's financial stability is adversely affected in the short and medium term
- The economy of the Borough is adversely impacted limiting the ability to deliver the Economic Growth Strategy for the Borough
- The Council's key contractors remain sustainable and continue to provide value for money

During 2020-21, an Economic Recovery and Renewal Strategy was put in place to set out the actions for the initial response and recovery from the consequences of the COVID-19 pandemic. In the longer term, Supporting Economic Recovery is a key priority in the new Corporate Business Plan and this sets out the corporate business objectives for 2021-24 which includes

1. To deliver sustainable economic and housing growth to provide income and jobs
2. To improve the quality of life of the local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing resilient communities that promote health and wellbeing
3. To tackle climate change by implementing our Climate Change and Green Recovery objectives
4. To be a well-run, financially sustainable and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives

The delivery of essential services, key projects such as the IT implementation, the introduction of new services, and work on recovery, resources have stretched the capacity of the officer team. Early in the first lockdown, key projects planned for 2020-21 were reprioritised and a number were either deferred or reshaped to reflect the impact of the pandemic. The Borough Council's priorities and capacity have been considered in preparing the new Corporate Plan for 2021-24 and the supporting delivery plans.

## Internal Assurance

Internal audit services at the Council are managed by the Chief Internal Auditor who is responsible for providing internal audit services for the Council and for Cannock District Council. A revised internal audit plan was approved by Committee in February 2021. The ongoing restrictions and a second lockdown impacted the team's ability to complete two out of the seventeen revised planned audit work for 2020-21 as members of the Internal Audit Team were deployed to support front line services and Covid response work for part of the year which impacted on performance. This included supporting the Community Hub Calls and validation work for Covid Grants.

Internal Audit routinely follow-up the recommendations that have been made and ensures any relevant areas where significant weaknesses have not been addressed by managers are brought to the attention of the Audit and Governance Committee. We noted that in 2020/21 five of nine of high/medium priority recommendations followed up during the year were implemented while four were yet to be implemented (after second follow up) - all four recommendation were in respect of Information Governance for which 2021-22 internal audit report had no information. Further, in 2020-21 two audits received limited assurance opinion:

- i. Critical information systems not supported by IT
- ii. Cyber and Network Security

These issues have been reported as significant governance issues within the 2020-21 Annual Governance Statement. We inquired with management as part of our VFM about successful cyberattacks against the Council and management confirmed there has been no successful attempts against the council. We have raised an improvement recommendation regarding this area (internal audit follow up and significant governance issues) aimed at strengthening the Council's approach to implementing internal audit recommendations.

Internal Audit operates on a risk-based audit plan and has adopted an exception-based reporting methodology, as such only those areas where weaknesses have been identified are reported. Internal Audit has taken a proactive approach in the prevention/detection of fraud and corruption. It is a member of the Midland's fraud subgroup and has carried out verification work of Covid grants and followed up on several alleged fraudulent applications.

We note that the results of the 2020-21 matches carried out from the Cabinet office National Fraud initiative data matching exercise was released January 2021 which occurs every 2 yrs – internal audit has confirmed that the data matches have been reviewed and identified no significant issues from the work carried out to date.

Internal audit confirmed they only review certain data matches, and the rest are done by other departments including Compliance Team, Finance, Housing and Licensing. "Internal audit review all employee matches and a sample of other matches each year .. no significant matches were uncovered in the last exercise". We have raised an improvement recommendation regarding this approach aimed at strengthening the Council's approach.

## Budget Setting Process

The Council is guided by Confidential Reporting framework, Anti-Fraud and Bribery and Anti-money laundering framework. Internal Audit issued a partial assurance opinion (the second-best opinion out of four possible options) in 2020-21. This opinion is defined by internal audit as "One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan".

The Council sets out the budget timetable to allow for flexibility in setting the Council tax, which must be set by the March, preceding the start of the new financial year. This is to ensure all precepts have been issued and all required calculations completed. The final budget is reviewed by the Cabinet and Submitted to the Council for approval.

The Council is responsible for the adoption of its budget and policy and the responsibility to implement lies with the Executive which is guided by the Budget and policy framework procedure rules in the Council's constitution.

Due to the pandemic, 2020-21 was a unique year for the Council. Officers acknowledged and have clearly reported to members that significantly greater financial challenges will be faced over the medium term. Officers are also conscious that the ongoing trajectory and the long-term impact of the pandemic is a significant unknown in accurately forecasting the Council's finances.

Despite the challenges, the Council set balanced budgets for 2021/22 and 2022/23. The process involves publishing the Council's budget proposals and its arrangements for consultation. The Corporate Scrutiny Committee and the Shadow Cabinet are consulted as part of this process for recommendation and final approval by the Full Council.

The Council uses the prudential indicator as a summary of its capital expenditure plans, which forms part of the budget cycle. Any changes to the forecast and any new growth bids are separately identified in future Budget Reports and reflected in this indicator and reported to full Council as set out in the treasury management policy and strategy. The budget was constructed based on the maintenance of existing service provision which reflects the Council's priorities and objectives on promoting prosperity and improving community wellbeing.

We were satisfied that the budget setting process has been adequate for 2020/21 and 2021/22 and that this was reflected in the financial positions reported in line with plan for both years.



### Monitoring and Ensuring Appropriate Standards

For 2020/21 the Council reviewed the effectiveness of its system of internal control and prepared an Annual Governance Statement (AGS). The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The AGS has been prepared using information from the sources of assurances from Heads of services and Leadership team, three statutory officers, the risk management reports, the annual internal audit report/opinion and external assurance reports.

All significant issues identified in the Annual Governance Statement are being monitored through reports presented to the Audit and Governance Committee. The governance framework has been in place at the Council for the year ended 31 March 2021 and up to the date of approval of the Annual Governance Statement. Members' interests are governed by the governance framework and all agendas at every council meetings require a declaration of interest of members in contract and other matters and restriction on voting by members.

We note that the Head of Governance and the Monitoring Officer, on behalf of the Council, undertakes reviews of the Council's governance arrangements on an ongoing basis. Work to support this includes a self-assessment review against the Code of Governance, reviews of the Constitution, Financial Regulations, the Scheme of Delegation and policies, processes and practices throughout the year. No new issues have been identified in 2020-21.

The Cabinet and its supporting Committees is responsible for monitoring the effectiveness of the governance framework through the consideration of regular performance and financial management reports and reviewing issues of strategic and corporate importance. The s151 Officer has overall responsibility for the financial management of the Council and the Monitoring Officer has overall responsibility for reporting on matters that are believed to be, or are likely to be, illegal or amount to maladministration, matters relating to the conduct of Members and officers, and the operation of the Council's constitution.

### Conclusion

**Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified some improvement recommendations.**

# Improvement recommendations



## Governance

<b>2 Recommendation</b>	Internal audit recommendations including those raised but yet to be implemented due to the pandemic should be implemented promptly. Some of these recommendations include:
	<ul style="list-style-type: none"> <li>i. Critical Information Systems not supported by IT</li> <li>ii. Cyber and Network Security</li> <li>iii. Information Governance</li> </ul>
<b>Why/impact</b>	Internal audit forms part of the Council's risk management framework. Internal audit recommendations not followed up may impact on the ability of the council to achieve its corporate objectives. Internal audit recommendations should be implemented timely and internal audit appropriately resourced to ensure timely follow up on implementation of audit recommendations.
<b>Summary findings</b>	Our review of internal audit reports and the AGS identified the following: <ul style="list-style-type: none"> <li>i. Two systems received a limited assurance internal audit opinion in 2020-21, namely critical information systems not supported by IT and Cyber and Network Security.</li> <li>ii. The Council is behind in implementing some internal audit recommendations including those that were being followed up the second time, to wit, IG recommendations.</li> <li>iii. The internal audit report Internal audit report dated July 2021 highlights that 5 or 56% of the total internal audit recommendations followed up had been implemented while 4 or 44% of recommendations had not been implemented at all. All four recommendations yet to be implemented had been followed up previously.</li> </ul>
<b>Management comment</b>	The internal audit team currently undertakes additional follow-ups to chase up recommendations not implemented. In addition, once the new audit software is in place, the Chief Internal Auditor will report to Leadership Team twice a year on outstanding recommendations to encourage implementation of them.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



## Governance

<b>3 Recommendation</b>	The Council may wish to action the one area of significant non-compliance with standards raised by the Public Sector Internal Audit Standards PSIAS in relation to PSIAS 1110 <i>Organisational Independence</i> of the internal audit. The standards require the "Chief Audit Executive" to report functionally to the Board and indicate that this includes the Audit Committee Chair and Chief Executive commenting on the Performance Development Review.
<b>Why/impact</b>	Greater independence of the internal audit service will further strengthen the control environment of the Borough Council.
<b>Summary findings</b>	The Council's internal audit team currently reports into the Head of Governance and Corporate Services.
<b>Management comment</b>	The Head of Governance & Corporate Services will seek input from the Chairs of both Councils Audit Committee before undertaking the performance development review of the Chief Internal Auditor.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



## Governance

<b>4 Recommendation</b>	The Council may wish to ensure a adequate follow-up on the NFI datasets released by the Cabinet Office NFI team and report to the appropriate committee of the BC on the work undertaken and outcomes of work undertaken.
<b>Why/impact</b>	Without monitoring the work undertaken on the datasets flagged as suspicious for further review by the Cabinet Office NFI team, likelihood of the council's officers carrying out reviews is highly unlikely especially when these officers already have other competing and important day jobs to fulfil.
<b>Summary findings</b>	Cabinet Office estimates that fraud and error is likely to be in the range of 0.5% and 5% for the £503 billion of government expenditure where fraud and error is not measured (source: <a href="#">Fraud and Error - The Committee of Public Accounts - House of Commons (parliament.uk)</a> ). The council participates in the National Fraud Initiatives NFI data matching exercise carried out centrally by the Cabinet Office and aims to identify potential fraud cases by matching various datasets from the council's transactions against other similar information nationally. However, there is no evidence that the datasets released to the BC is followed up adequately as the BC does not have a dedicated counter fraud officer and relies on the various departments to review the datasets without any formal reporting or monitoring of the review.
<b>Management comment</b>	The Chief Internal Auditor has oversight of the NFI work and will report to Leadership Team and the Audit Committees on the findings from this work.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improving economy, efficiency and effectiveness



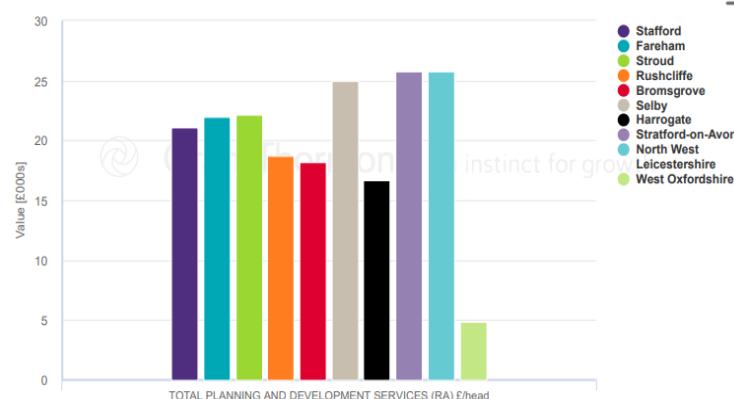
## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Reviewing the cost efficiency of services

The Council works collaboratively with many other local authorities across the region. However, there is currently limited formal benchmarking of the costs of various service across the region to help identify opportunities for further efficiency.

Using publicly available data based on 2020/21 we found that generally, the Council compares favourably to other councils in terms of service unit cost, however there may be areas where cost efficiency could be considered – for example, the chart below shows the total planning and development services cost per capita is above average when compared to similar organisations and provides an example of how greater use of benchmarking might be used to help the Council to investigate and understand areas of potential improvement.



## Procurement

Strategic Procurement is undertaken on behalf of the Council by Staffordshire Borough Council. Payment processing is managed locally by the Shared Services Finance team. We note the Council has implemented a no-Purchase order no-Payment process – this means that only invoices with valid PO numbers are processed for payment. However, in the absence of regular monitoring, there is a risk that some invoices are received without a valid PO and have a PO created retrospectively, which undermines the effectiveness of the control. The issue has been raised as an improvement recommendation.

## Finance and ICT Systems Implementation

We note that the Council is in the final stages of migrating to a new Finance and ICT system. There have been significant difficulties in implementing the transition and completion has been significantly delayed. This has been attributed to technical difficulties which have become harder to deal with as the implementation has taken place during COVID-19 conditions.

The issues with implementation have fallen primarily within the financial year 2021/22 and therefore we have not raised it as a significant issue in this report, which is primarily concerned with 2020/21. However, we do note the significant strain on internal management capacity during 2021/22, and particularly in finance, which has reduced capacity to deal with business-as-usual financial operations. This is compounded by reliance on a small number of individuals, whose knowledge and experience would be difficult to replace should these individuals not be available.

We will continue to monitor progress in completing the implementation, and in due course it is clear that a lessons learned review of the business case and the implementation plan would be a valuable opportunity to manage risks with future projects.

## Shared Services

Stafford Borough Council and Cannock Chase District council have been sharing a wide range of services since 2010 based on an initial business case and memorandum of understanding agreed by both Councils in 2009. The first phase primarily focussed on support services commencing with the Monitoring Officer role and subsequently Finance, Internal Audit, Risk and Resilience, Legal, Information Technology and Human Resources being shared. In addition, two front facing services, Building Control and Revenues and Benefits, were also shared. The first phase of shared services has been successful in:

- delivering a combined total of on-going savings in the order of £1m.
- creating a critical mass shared services has also allowed the delivery of further savings following the outsourcing of leisure services by both Councils and efficiency savings which allowed the services to be delivered in-house.
- All services went through a transformation process to align and re-engineer processes. An example is the improvements in performance for turnaround times in the Revenues and Benefits service and numerous policies, regulations and guidance notes have been aligned across the two Councils.
- Increasing resilience - this was particularly successful for Building Control and the operation of its trading account.
- Alignment of some ICT systems - this mainly relates to the IT infrastructure and those services that have been shared. This generated financial savings, efficiency savings and resilience (in terms of business continuity) for both Councils.

## The Future of the Shared Service

We note that the decision for the Chief Executive of Stafford Borough Council to cover this role on a shared service basis was made during 2021/22. Discussions were held by each Leadership Team, Cabinet and Group Leaders regarding the rationale and objectives, with each Council and its Cabinet retaining control over delivery of each Council's services, including the level of budgetary provision for services and policy due to the post of Managing Director becoming vacant on 28 February 2021.

The Borough Council agreed to the secondment of its Chief Executive, Tim Clegg, to Cannock Chase Council to provide services as Joint Chief Executive and Head of Paid Service from 1 June 2021, for a period of 14 months, an interim report will be prepared after 8 months in relation to the potential for a wider shared service between Stafford and Cannock Chase Councils.

The full costs in relation to the Joint Chief Executive post and the Independent adviser who will support the development of the second stage of the business case will be split on a 50/50 basis as set out in the report to Council.

It has been recognised that to provide the resilience required and to increase the strategic capacity of both organisations, it would be desirable to restructure and bring both Leadership Teams together into one senior team that would support both organisations. This will be considered further as part of the second stage of the business case. A Shared Services Board has been proposed to oversee the preparation of the Business Case outline will have a non-decision-making arrangement.

The vision for a wider sharing of services is:

- each Council should retain its distinct and local identity, including decision making powers, service priorities, direction and accountability
- to deliver improved outcomes for local people at the same or reduced cost than could be achieved if services continued to operate separately
- One Team supporting two Councils
- Transformation of services and processes through process reengineering, smarter working and the use of improved technology

The current arrangements are based on a hybrid model. Stafford Borough Council takes the lead on Human Resources, Legal Services and Technology and Reprographics while Cannock Chase District Council leads the Building control, Finance and Revenue and Benefits and Audit, Insurance and Risk, Civil contingencies and Procurement. Cannock Chase Council does however manage its own housing stock and in accordance with legislation its Housing Revenue Account is a ring-fenced service and hence is outside the scope of sharing. Other potential functions that require further deliberation include the local planning function and elections.

## Conclusion

**Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. For 2020-21, we have not raised the issues with Finance IT migration as a significant issue as this relates to the 2021-22 financial year. However, we have raised some improvement recommendations aimed at ensuring the Council resolves this issue which we will revisit in our 2021-22 VFM review.**

# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>5 Recommendation</b>	Stafford Borough Council should monitor the use of retrospective purchase orders (POs). Retrospective POs are POs raised on receipt of invoices and may not have benefitted from appropriate input from the Strategic Procurement team.
<b>Why/impact</b>	Monitoring of retrospective POs will enable the Council obtain value for money from procurement activities as well as ensuring value for the services outsourced to the County council.
<b>Summary findings</b>	Strategic procurement services of the Borough Council is outsourced to Staffordshire County Council, but payments of invoices are carried out for Stafford BC by the Shared Services led by Cannock Chase District Council on a 'no PO no Pay' basis which requires only invoices with valid POs to be processed for payment while the system rejects invoices without a valid PO. The aim of Procurement team's involvement in procurement activities is to drive value for money by ensuring Stafford BC obtains economy in its procurement activities. An effectively designed procurement process is one whereby procurement team inputs into the purchasing cycle at the point of sourcing a supplier and the process should culminate into the creation of and approval of a PO.  Interview with officers within Finance department highlighted that in practice, in the absence of regular monitoring, there is a risk that some invoices are received without a valid PO and have a PO created retrospectively, which undermines the effectiveness of the control.
<b>Management comment</b>	The Finance Team will aim to run a report to identify those POs that are raised after the invoice has been received. The Internal Audit Team will use this and do their own checks to assess the situation and to advise whether controls over the setting up of new suppliers could be improved.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>6 Recommendation</b>	The Council should review the capacity of the Finance team with a view to ensuring resilience and removing risks which could arise from unplanned absences of individuals whom the Council rely on for financial information.
<b>Why/impact</b>	Quality of good financial information include timeliness, understandability and usefulness. Financial information must be provided to decision makers on time to enable them make informed decisions. When information are neither provided or provided too late, it may be difficult for TCWG to discharge their duties effectively.
<b>Summary findings</b>	Stafford Borough Council collaborates with Staffordshire County Council on procurement and Cannock Chase District Council on a number of areas including finance, governance and legal. During 2021-22, the Council was unable to present a number of reports to Those Charged with Governance TCWG including cabinet and council. Some of the reports not presented include quarterly revenue monitoring report and outturn report.
<b>Management comment</b>	A review will be undertaken, although it is considered the delay in reporting was impacted more by system changes than capacity of the finance team.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>7 Recommendation</b>	The Council should undertake an independent review of the issues that led to difficulties with the implementation of the new finance ledger which resulted in the inability of the Borough Council to produce some time-critical business management information for decision makers as well as statutory reports of the council. One area of focus for the review should be aimed at learning lessons that could be used to improve on the council's project and contract management procedures.
<b>Why/impact</b>	The reputation of the Council and its ability to deliver efficient finance processes could be impacted, and the Council may be more susceptible to fraud risk and increased likelihood of errors from inability to review control accounts.
<b>Summary findings</b>	<p>The Council (under the Shared Services arrangements) changed finance systems from TotalFinance to Civica with a go-live date of 1 April 2021 for the new system. The key drivers for the change were:</p> <ul style="list-style-type: none"> <li>I. Total Finance initially informing the BC of their intention to withdraw from the market (although they have since reneged on this plan), and</li> <li>II. Additional systems capabilities were required for example in order to comply with the government's Making Tax Digital MTD initiatives.</li> </ul> <p>Interview with the Chief Accountant confirms that whereas transaction processing activities such as invoice processing has gone live on the new system, the council is yet to fully go live on reporting eighteen months post go-live date. This issue has impacted on the ability of the finance team to prepare routine finance reports.</p>
<b>Management comment</b>	The Council has produced quarterly reports from 2022/23 quarter 1. A lessons learnt review of system implementation will be done in due course, although it is felt that priority needs to be given in the first instance in providing key budget and financial management information.



The range of recommendations that external auditors can make is explained in Appendix B.

# COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

The impact of Covid-19 is likely to be long-lasting and difficult to predict, although separate provision exists within the MTFP the potential impact of COVID 19 for 2021-22 to 2023-24. The Council is likely to face both cost pressures and loss of income from sales fees and charges, business rates and Council Tax. The Council has summarised the potential net impact of COVID-19, please see table below:

Impact of COVID19				
	2020-21	2021-22	2022-23	2023-24
	£'000	£'000	£'000	£'000
	1,583	849	400	200
	2,008	715	358	179
	<b>3,591</b>	<b>1,564</b>	<b>758</b>	<b>379</b>

Cost pressures mainly relate to the potential increase in the Management Fee to Inspiring Healthy Lifestyles (IHL) reflecting the impact on their income. The aftermath of the pandemic is likely to have impacts on the leisure industry post 2021-22 and hence it is likely that the terms and conditions of the previously agreed (in principle) extension of the contract by 10 years from February 2022 will need to be reviewed.

Covid-19 had an impact on the Council's priorities for 2020-21 and some of the projects planned were paused to divert resources to support the response to the pandemic. The Council is addressing the impact of Covid 19 pandemic by monitoring the financial impact of COVID-19, implementing an Interim Financial strategy, refreshing the Medium-Term Financial Plan, determining of financial recovery strategy and reviewing changes to be made.

A separate COVID 19 contingency estimate was provided for each of the three years with estimates based upon best, worst case and a middle ground scenarios with several main income streams, pre covid, subjected to demand, in particular parking, bereavement services and planning. The Council has limited means to address issues of demand, however, income is an area that receives budget monitoring attention with new or diverse forms of income being explored.

The major impact for 2020/21 on the Council was delivery of the Covid 19 grants from the Government to businesses and these were administered by the Council in line with the guidance received from Central Government. The Borough Council has already distributed more than £35.0 million in grants to hundreds of local businesses who have suffered financial hardship during the pandemic and supported more than 7000 residents.

The Council received £26.464 million towards the Small Business Grant Fund (SBGF) and Retail, Leisure and Hospitality Grant Fund (RLHGF) and paid out sums of £0.10 million or £0.025 million for each eligible business with eligibility criteria specified by Government, the Council acted as an agent in administering these grants on the 1 April 2020. The Discretionary Grant Fund of £1.116 million was introduced, and the eligibility was determined by the Council and therefore acted as a principal for this source of funding. The final grants paid to businesses in relation to SBGF and RLHGF in October 2020 was in total of £25.916 million of which £1.664 million was returned to Central Government.

The Council received £16.376m towards the Local Restrictions Support Grant (LRSG) to cover the period from August 2020 to 31 March 2021. The non-discretionary element was £16.250m and the discretionary stood at £0.126m. All except one tranche of grant funding (the Christmas Support Payments for Wet Led Pubs) remained open for final payments beyond 31 March 2021. The total amount spent was £10.969m and £5.407m remained unspent. Once all rounds of LRSG are finally closed there will be a reconciliation and remaining funds will be repaid to Central Government.

# Opinion on the financial statements



## Audit opinion on the financial statements

We gave an unqualified opinion on the financial statements on 4 May 2022

## Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 21 April 2022.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

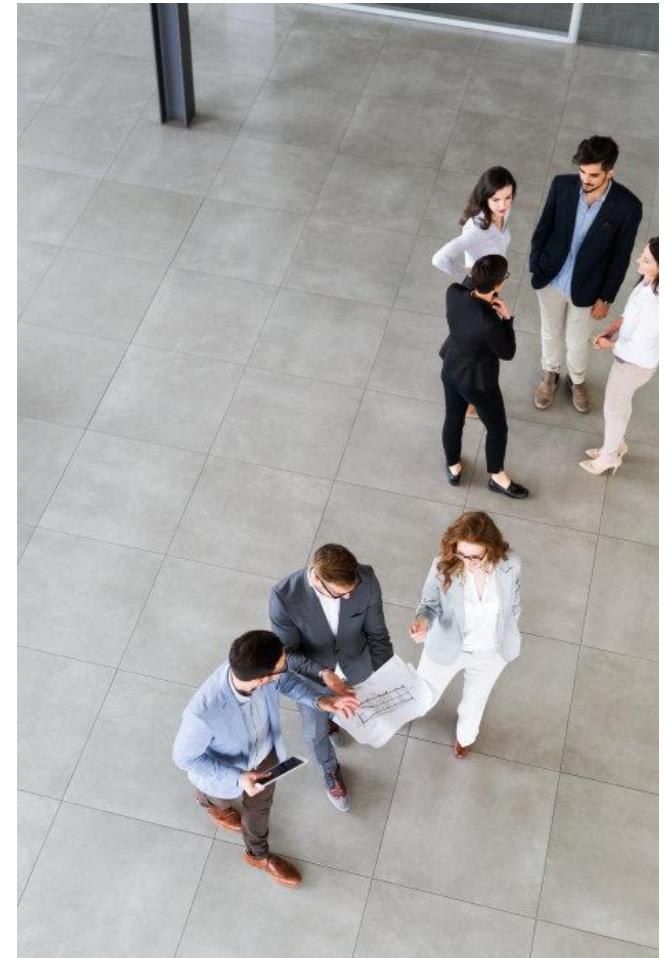
Our work found no reporting issues.

### Preparation of the accounts

The Council provided draft accounts later than the national deadlines given their focus was on the implementation of the new financial ledger, however, they worked well with the auditors to complete the financial statements audit.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



# Appendices

# Appendix A - Responsibilities of the Council



## Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

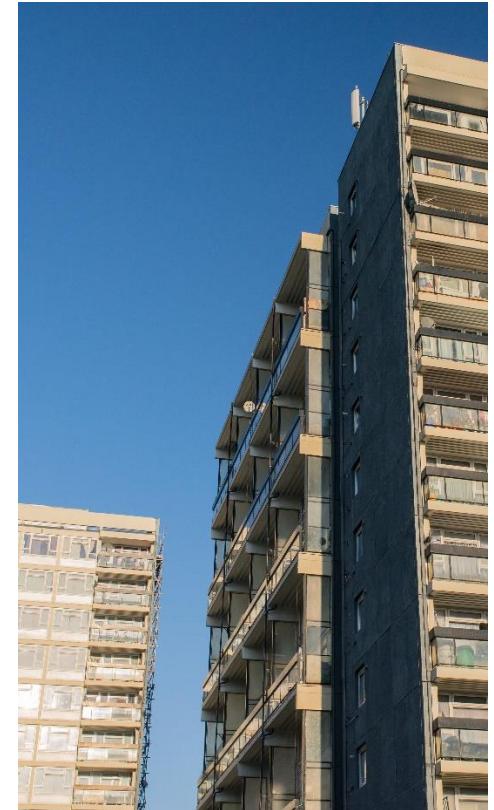
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	FS – 7 Gov – 11, 12 & 13 3E's – 16, 17 & 18



## **Agenda Item 3(b)**

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 16 November 2022

**Report of:** Deputy Head of Finance

**Contact Officer:** Emma Fullagar

**Telephone Number:** 01543 464334

**Ward Interest:** Nil

**Report Track:** Audit and Accounts 16/11/2022 (Only)

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# **Treasury Management Mid-Year Report 2022/23**

## **1 Purpose of Report**

- 1.1 To update members on Treasury Management activity and performance during the first half of the 2022/23 financial year.
- 1.2 To provide an economic update and a background to the latest economic forecasts of interest rates; both detailed in the **APPENDIX**.

## **2 Recommendation**

- 2.1 To note the report, the treasury activity and the Prudential Indicators for 2022/23.

## **3 Key Issues and Reasons for Recommendation**

- 3.1 To report the Treasury Management activity and performance during the first half of the 2022/23 financial year.

## **4 Relationship to Corporate Business Objectives**

- 4.1 Treasury Management and investment activity link in with all of the Council's priorities and their spending plans.

## **5 Report Detail**

### **Background**

- 5.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2020/21, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and Treasury Management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

## 5.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Accordingly, a significant function of Treasury Management is ensuring that cash flows are adequately planned and controlled to meet this objective. Any surplus monies are invested with low risk counterparties, and managed appropriately so that sufficient levels of liquid cash are available to meet any payment obligations as well as offer headroom for unexpected circumstances. Such considerations underpin the day-to-day operations of Treasury Management when determining investment-related outcomes rather than the sole factor of yield that aims to generate higher return on investments with little or no regards to financial risks.

5.3 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.4 Accordingly, CIPFA defines "Treasury Management" as:

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

## Introduction

5.5 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Accounts Committee.

5.6 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2022/23 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and Prudential Indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23.

### **Treasury Management Strategy Statement and Annual Investment Strategy Update**

5.7 The Treasury Management Strategy Statement, (TMSS), for 2022/23 was approved by this Council on 01/02/2022. There has been one policy change. As the cash balances significantly grew during the course of 22/23, a recommendation to increase the investment limits on the Money Market Fund (MMF) counterparties rose from £6m to £9m was made to Council. It was argued that such proposal would facilitate greater control and of the cashflows and management and thus mitigate any breaches the TMSS. Council accepted this recommendation on 13 September 2022.

<b>Prudential Indicator 2022/23</b>	<b>Original Prudential Indicator</b> £'000	<b>Revised Prudential Indicator</b> £'000
Authorised Limit	9,893	9,893
Operational Boundary	6,893	6,893
Capital Financing Requirement	6,705	6,705

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

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

## **Prudential Indicator for Capital Expenditure**

- 5.9 This table shows the estimates for capital expenditure and the changes since the capital programme was agreed at Budget time.

<b>Capital Expenditure by Portfolio</b>	<b>2022/23 Original Estimate £'000</b>	<b>2022/23 Estimates £'000</b>
Community	2,408	2,408
Environment	150	150
Leisure and Culture	2,406	2,406
Planning and Regeneration	14,519	14,519
Resources	50	50
<b>Total</b>	<b>19,533</b>	<b>19,533</b>

- 5.10 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

<b>Capital Expenditure</b>	<b>2022/23 Original Estimate</b> £'000	<b>2022/23 Estimates</b> £'000
<b>Total Spend</b>	<b>19,533</b>	<b>19,533</b>
Financed by:		
Capital Receipts	1,164	1,164
Capital Grants/contributions	14,552	14,552
Revenue	2,389	2,389
<b>Total Financing</b>	<b>18,105</b>	<b>18,105</b>
<b>Borrowing Need</b>	<b>1,428</b>	<b>1,428</b>

**Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary**

- 5.11 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

## Prudential Indicators – CFR and Operational Boundary

- 5.12 We are on target to achieve the original forecast Capital Financing Requirement.

	<b>2022/23 Original Estimate</b> £'000	<b>2022/23 Estimates</b> £'000
<b>Prudential Indicator – Capital Financing Requirement</b>		
<b>Total CFR</b>	6,705	6,705
<b>Net movement in CFR</b>	<b>2,720</b>	<b>2,720</b>
<b>Prudential Indicator – the Operational Boundary for external debt</b>		
<b>Operational Boundary</b>	<b>6,893</b>	<b>6,893</b>
Borrowing	1,428	1,428
Other long-term liabilities*	3,080	3,080
<b>Headroom</b>	<b>2,385</b>	<b>2,385</b>

\* On balance sheet finance leases etc.

## Limits to Borrowing Activity

- 5.13 The first key control over the treasury activity is a Prudential Indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	<b>2022/23 Original Estimate £'000</b>	<b>2022/23 Estimates £'000</b>
Borrowing	1,428	1,428
Other long-term liabilities*	3,080	3,080
<b>Total debt</b>	<b>4,508</b>	<b>4,508</b>
<b>CFR* (year-end position)</b>	<b>6,705</b>	<b>6,705</b>

\* Includes on balance sheet finance leases etc.

- 5.14 The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this Prudential Indicator.
- 5.15 A further Prudential Indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

<b>Authorised limit for external debt</b>	<b>2022/23 Original Estimate £'000</b>	<b>2022/23 Estimates £'000</b>
<b>Authorised limit</b>	<b>9,893</b>	<b>9,893</b>
Borrowing	1,428	1,428
Other long-term liabilities*	3,080	3,080
<b>Headroom</b>	<b>5,385</b>	<b>5,385</b>

\* Includes on balance sheet finance leases etc.

## **Annual Investment Strategy 2022/23**

- 5.16 In accordance with CIPFA's Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by detailed in **APPENDIX 2** with the accompanying forecast interest rate in near time horizon, Bank rate was 0.1% in December 2021 and increased to 0.5% in February 2022. It should be observed that there is a relationship with inflation and interest rates. Rise in inflation will invariably lead to a rise in interests. The same wisdom holds true from the opposite situation. Holding true to this relationship, the persistent rise of inflation has correspondingly increased the bank rate: 0.75% in March 2022; 1% in May 2022; 1.25% in June 2022, 1.25% and 2.25% on 22nd September 2022. Based on current market conditions and intelligence, it is projected Bank Rate to year-end is around 3% to 5%. Accordingly, with some active management of the Council's investment portfolio and a greater diversification of fund types across different time horizon along with other interest-bearing instruments, the Council's surplus cash can be optimally worked in order to higher investments returns that, in turn, can be used to revenue budgets whilst being consistent with the spirit of CIPFA's requirements (namely, security, liquidity and then yield) and honouring the Council's tolerance to risk.
- 5.17 The Council held £74m of investments as at 30 September 2022 (£64m at 31 March 2022).
- 5.18 A full list of investments held as at 30 September 2022 is in **APPENDIX 1**.

### **Investment Counterparty criteria**

- 5.19 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the Treasury Management function.

### **Borrowing**

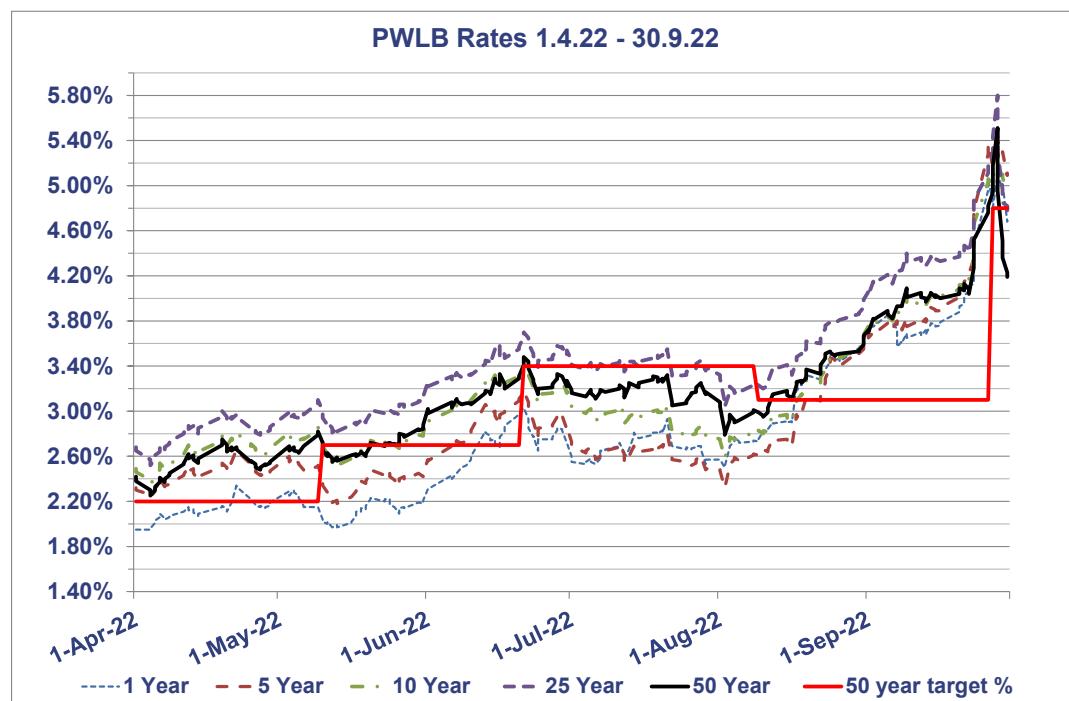
- 5.20 The Council's capital financing requirement (CFR) for 2022/23 is £6.705m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).

The balance of external and internal borrowing is generally driven by market conditions. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

- 5.21 It is anticipated that borrowing might be undertaken during this financial year, subject to capital slippage into 2023-24 and the trajectory of borrowing rates for the remainder of 22/23.
- 5.22 Gilt yields and PWLB rates were on a rising trend between 1 April and 30 September.

The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to 4.80% in September.

### PWLB RATES 01.04.22 - 30.09.22



### HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.22 – 30.09.22

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.35%	5.80%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
<b>Average</b>	2.81%	2.92%	3.13%	3.44%	3.17%
<b>Spread</b>	3.16%	3.26%	2.99%	3.28%	3.26%

## 6 Implications

### 6.1 Financial

Included in the report

### 6.2 Legal

Nil

### **6.3 Human Resources**

Nil

### **6.4 Human Rights Act**

Nil

### **6.5 Data Protection**

Nil

### **6.6 Risk Management**

The Council regards security of the sums it invests to be the key objective of its Treasury Management activity. Close management of counterparty risk is therefore a key element of day to day management of treasury activity. The practices designed to ensure that risks are managed effectively are set out in the Treasury Management Practices available on the Council's website.

### **6.7 Community Impact Assessment Recommendations**

**Impact on Public Sector Equality Duty:**

**Wider Community Impact:**

## **7 Previous Consideration**

Nil

## **8 Background Papers**

Available in Financial Services

Appendix 1: Current Investment List at 30 September 2022.

Appendix 2: Economic Update (provided by Link Asset Services as of 30 September 2022)

Appendix 3: Interest Rate Forecast (provided by Link Asset Services as of 30 September 2022)

## **APPENDIX 1**

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 16 November 2022

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### **Treasury Management Mid-Year Report 2022/23**

**Current Investment List as at 30 September 2022**

<b>Counterparty</b>	<b>Start Date</b>	<b>Maturity</b>	<b>Value (£)</b>	<b>Rate (%)</b>
Al Rayan Bank Plc	22/08/2022	22/02/2023	6,000,000	2.30
Nationwide B/S	19/04/2022	19/10/2022	6,000,000	0.88
National Westminster Bank Plc	19/04/2022	19/10/2022	2,000,000	1.30
Skipton B/S	06/05/2022	04/11/2022	3,000,000	0.75
Helaba Bank	19/05/2022	19/12/2022	5,000,000	1.40
National Bank of Kuwait	20/09/2022	20/10/2022	6,000,000	2.05
Bank of Scotland Plc	06/06/2022	06/12/2022	6,000,000	0.40
Skipton B/S	20/06/2022	19/12/2022	3,000,000	1.50
National Westminster Bank Plc	04/08/2022	04/01/2023	4,000,000	2.10
*Deutsche Managed GBP LVNAV Platinum		*MMF	3,000,000	1.78
***Handelsbanken		***Call	3,000,000	0.70

*Morgan Stanley GBP Liquidity Institutional Plus		*MMF	6,000,000	2.18
*Federated Hermes Short-Term GBP Prime Class 3		*MMF	6,000,000	2.08
*Invesco Liquidity GBP Institutional		*MMF	9,000,000	2.12
**Santander UK		**Call180	6,000,000	1.21
			<b>74,000,000</b>	

\*MMF - Money Market Fund (Instant Access)

\*\*Call 180 days' Notice Account

\*\*\*Call Account (No Notice. Instant Access)

## APPENDIX 2

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 16 November 2022

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## Treasury Management Mid-Year Report 2022/23

### Economics update

- The second quarter of 2022/23 saw:
  - GDP in Q1 2022/23 revised upwards to 0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
  - Signs of economic activity losing momentum as production fell due to rising energy prices;
  - CPI inflation ease to 9.9% y/y in August but domestic price pressures showing little sign of abating in the near-term;
  - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;  
Gilt yields surge and sterling fall following the “fiscal event” of the former Prime Minister, Liz Truss, and former Chancellor, Kwasi Kwarteng on the 23<sup>rd</sup> September.
- The UK economy grew by 0.2% in July following an upward revision to Q1’s GDP data (+0.2% q/q), though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rise of £4.6bn.

- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3m/y rate of average earnings growth rose from 5.2% in June to 5.5%.
- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below \$90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7ppts to CPI inflation in October when the Ofgem unit price cap increases, typically, to £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level until April 2023 at which time a Treasury-led will be initiated, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- The former Prime Minister and former Chancellor appeared to make a step change in government policy. The government's huge fiscal loosening from its significant tax cuts will add to these domestic inflationary pressures and will leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. Following the resignation of Kwasi however, on 17 October 2022, the new Chancellor, Jeremy Hunt, made a fiscal statement reversing almost all tax measures announced at the Mini-budget on 23 September 2022, other than those that have already been legislated. Mini-budget measures that have already been legislated for and which have not been reversed include the reversal of the April 2022 increase in National Insurance rates of 1.25% from 6 November 2022; the cancellation of the proposed 1.25% Health and Social Care Levy; and the reductions in Stamp Duty Land Tax (SDLT) thresholds.
- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened, adding further upward pressure to interest rates. Whilst the pound fell to a record low of \$1.035 on the Monday following the government's "fiscal event", it has since recovered to around \$1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3 November and the government will lay out a credible medium-

term plan in the fiscal statement on 17 November. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

- Since the fiscal event, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023 (up from our previous forecast peak of 2.75%). The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% priced into the financial markets at present.
- Gilt yields rose sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31 October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14<sup>th</sup> October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28 September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long-end beyond 14<sup>th</sup> October or it decides to delay quantitative tightening beyond 31 October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- The S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

## MPC meetings 4 August and 22 September 2022

- In August, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 1.75%, and on 22 September moved rates up a further 50 basis points to 2.25%. The increase reflected a split vote - five members voting for a 50 basis points increase, three for 75 basis points and one for 25 basis points. The MPC continues to grapple with getting inflation back on track over a three-year horizon.
- Moreover, the UK now has a new Prime Minister, a new Chancellor and new economic policies that seek to grow the UK economy faster than at any time since the 1980s. The central planks to the government's new policies are tax cuts and regulatory simplification. It is too early to say whether such policies will boost growth in the ways intended, but what is clear at this juncture is that the lack of scrutiny of the various projections, ideally by the Office of Budget Responsibility (OBR), and an emphasis upon borrowing to fund the significant cost of the proposals scared the markets.
- Subsequently, the Government has announced that the OBR will scrutinise their spending plans on 23 November, after the MPC next meets on 3 November. Naturally, the Bank Rate forecast set out below will be dependent on a more joined-up set of communications from the Bank of England and the government than that which we have seen or heard so far. In addition, the fiscal governance aspects referred to in the OBR's upcoming review in November will need to be suitably couched in reassuring language and analysis to persuade the markets that fiscal rectitude has not been abandoned.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 300 basis points in the year to date and is expected to increase rates further before the end of the year. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan. Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.
- What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

## APPENDIX 3

**Committee:** Audit and Accounts Committee

**Date of Meeting:** 16 November 2022

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## Treasury Management Mid-Year Report 2022/23

### Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points) which has been accessible to most authorities since 1 November 2012.

The latest forecast on 27 September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation - as measured by wage rises - under control, but its job is that much harder now.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View 27.09.22		Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
<b>BANK RATE</b>		4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings		4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings		4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings		5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB		5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB		4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB		5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB		4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

Link Group Interest Rate View 09.08.22		Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
<b>BANK RATE</b>		2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
3 month ave earnings		2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20
6 month ave earnings		2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30
12 month ave earnings		3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40
5 yr PWLB		2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10 yr PWLB		3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80
25 yr PWLB		3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10
50 yr PWLB		3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80

Link Group Interest Rate View 21.06.22													
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	
<b>BANK RATE</b>	1.75	2.25	2.75	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	
3 month ave earnings	2.00	2.50	2.80	2.80	2.80	2.80	2.60	2.50	2.30	2.30	2.20	2.20	
6 month ave earnings	2.50	2.80	3.00	3.00	2.90	2.90	2.80	2.70	2.60	2.50	2.40	2.30	
12 month ave earnings	3.10	3.20	3.20	3.20	3.00	2.90	2.80	2.60	2.50	2.40	2.40	2.40	
5 yr PWLB	3.20	3.30	3.30	3.30	3.30	3.20	3.10	3.00	3.00	3.00	2.90	2.90	
10 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.30	3.20	3.20	3.20	3.10	3.10	
25 yr PWLB	3.70	3.70	3.70	3.70	3.70	3.70	3.60	3.50	3.50	3.40	3.40	3.30	
50 yr PWLB	3.40	3.40	3.50	3.50	3.40	3.40	3.30	3.20	3.20	3.10	3.10	3.00	

LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months. Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

## SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our central forecast for interest rates was previously updated on 9 August and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the “fiscal event” has complicated the picture for the MPC, who will now need to double-down on counteracting inflationary pressures stemming from the government’s widespread fiscal loosening.
- Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us - but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- The CPI measure of inflation will peak at close to 10.4% in November 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.
- Regarding the “provisional” plan to sell £10bn of gilts back into the market each quarter, this is still timetabled to take place but not until October at earliest.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)
- On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

## PWLB RATES

- The yield curve has shifted upwards since our August update and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.25% to 5.75%. The yield curve is currently inverted.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

**The balance of risks to the UK economy:** -

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

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- **The Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.
- **The Government** acts too quickly to cut taxes and/or increases expenditure in the light of the cost-of-living squeeze.
- **The pound weakens** because of the UK's growing borrowing requirement resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** continue to rise strongly and pull gilt yields up even higher than currently forecast.

**Agenda Item 3(c)**

**Committee:** Audit and Accounts

**Date of Meeting:** 16 November 2022

**Report of:** Head of Governance

**Contact Officer:** Stephen Baddeley

**Telephone Number:** 01543 464415

**Ward Interest:** Nil

**Report Track:** Cabinet 03/11/2022  
Audit and Accounts 16/11/2022

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## **Strategic Risk Register**

### **1 Purpose of Report**

- 1.1 To set out details of the Council's Strategic Risk Register as at 30 September 2022

### **2 Recommendation**

- 2.1 That the Committee notes the Strategic Risk Register and considers the progress made in the identification and management of the strategic risks.

### **3 Key Issues and Reasons for Recommendations**

All Strategic Risks and associated action plans have been reviewed and the Council's current risk profile is summarised in the table below:-

Risk Status	Number of Risks 1 April 2022	Number of Risks 30 Sept 2022
Red (High)	3	3
Amber (Medium)	5	5
Green (Low)	0	0
<b>TOTAL</b>	<b>8</b>	<b>8</b>

## 4 Relationship to Corporate Business Objectives

- 4.1 This report supports the Council's Corporate Priorities as follows:-
- (a) Risk management is a systematic process by which key business risks/opportunities are identified, prioritised and controlled so as to contribute towards the achievement of the Council's aims and objectives.
  - (b) The strategic risks set out in the **APPENDICES** have been categorised against the Council's priorities.

## 5 Report Detail

- 5.1 The Accounts and Audit Regulations 2015 state that:-
- "A relevant body must ensure that it has a sound system of internal control which:-
- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
  - (b) ensures that the financial and operational management of the authority is effective; and
  - (c) includes effective arrangements for the management of risk."
- 5.2 Risk can be defined as uncertainty of outcome (whether positive opportunity or negative threat). Risk is ever present and some amount of risk-taking is inevitable if the council is to achieve its objectives. The aim of risk management is to ensure that the council makes cost-effective use of a risk process that has a series of well-defined steps to support better decision making through good understanding of risks and their likely impact.

### Management of Strategic Risks/Opportunities

- 5.3 The Council's approach to risk management (including its risk appetite) is set out in the Risk Management Policy and Strategy (March 2016).
- 5.4 Central to the risk management process is the identification, prioritisation and management of strategic risks/opportunities. Strategic Risks are those that could have a significant impact on the Council's ability to deliver its Corporate Business Plan Objectives.
- 5.5 The risk register has been updated as at 30 September 2022 and a summary is attached as **APPENDIX 1**.
- 5.6 The risk summary illustrates the risks/opportunities using the "traffic light" method i.e. :-

RED	risk score 12 and above (action plan required to reduce risk and/or regular monitoring)
AMBER	risk score 5 to 10 (action plan required to reduce risk)
GREEN	risk score below 5 (risk tolerable, no action plan required)

5.7 As part of this review -

- Risk C1 "*The funding available to the Council from central Government resulting from changes to Business Rates, New Homes Bonus etc. will not be known until the autumn at the earliest. This together with increases in inflation and interest rates makes accurate budget planning difficult, resulting in a risk of over commitment of financial resources or inappropriate use of reserves.* Has had its risk score increased from 12 (Red) to a 20 (Red) to recognise the risks increasing due to increased costs of fuel and uncertainties over future financial settlements.

## 6 Implications

### 6.1 Financial

Nil

### 6.2 Legal

Nil

### 6.3 Human Resources

Nil

### 6.4 Human Rights Act

Nil

### 6.5 Data Protection

Nil

### 6.7 Risk Management

As set out in the report and appendices

### 6.8 Community Impact Assessment Recommendations

#### Impact on Public Sector Equality Duty:

The Borough Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation

**Wider Community Impact:**

No wider community impact.

**7 Previous Consideration**

Cabinet – 3 November 2022 – Minute No CAB35/22

**8 Background Papers**

File available in Internal Audit and Risk Section

**Stafford Borough Council**  
**Summary of the Strategic Risk Register as at 30 September 2022**

**Summary of Red Risks**

Risk No.	Risk Description	Risk Impact / Consequences	Risk Date	Gross Risk Score	Residual (Net) Risk Score April 2022	Residual (Net) Risk Score September 2022	Direction of Travel
C1	The funding available to the Council from central Government resulting from changes to Business Rates, New Homes Bonus etc. will not be known until the autumn at the earliest. This together with increases in inflation and interest rates makes accurate budget planning difficult, resulting in a risk of over commitment of financial resources or inappropriate use of reserves.	This could result in the Council being unable to achieve the objectives and priorities of the Council, to provide desired levels of service and have an impact on major redevelopment proposals	May 2020	20 RED	12 RED	20 RED	↑
C2	The economy of the Borough is adversely impacted limiting the ability to deliver the Economic Growth Strategy for the Borough	This could potentially lead to business failure or inability to grow; failure to secure investment in infrastructure and major projects; adverse impacts on the rural economy; unemployment; and adverse impacts on town centres and the wider visitor economy	May 2020	15 RED	15 RED	15 RED	↔

Risk No.	Risk Description	Risk Impact / Consequences	Risk Date	Gross Risk Score	Residual (Net) Risk Score April 2022	Residual (Net) Risk Score September 2022	Direction of Travel
C5	The Council's key contractors remain sustainable and continue to provide value for money	This could result in additional cost to the Council and may limit the delivery of the services	May 2020	20 RED	15 RED	15 RED	↔

### Summary of Amber Risks

Risk No.	Risk Description	Risk Impact / Consequences	Risk Date	Gross Risk Score	Residual (Net) Risk Score April 2022	Residual (Net) Risk Score September 2022	Direction of Travel
C4	Failure to work in partnership to sustain support to vulnerable residents.	Existing service provision may not meet the need because of the increases in the range of vulnerabilities that people are experiencing.	May 2020	12 RED	9 AMBER	9 AMBER	↔
C6	Reduced Organisational resilience may lead to reduced resources to support Council's service delivery and transformation in the aftermath of the pandemic	This could result in projects being delayed or not delivered. There is also a risk to employees' health & wellbeing.	May 2020	20 RED	9 AMBER	9 AMBER	↔

Risk No.	Risk Description	Risk Impact / Consequences	Risk Date	Gross Risk Score	Residual (Net) Risk Score April 2022	Residual (Net) Risk Score September 2022	Direction of Travel
C7	Failure to repel or recover from a Cyber-attack including targeted ransomware, malware, and Distributed Denial of Service (DDoS) attacks. The move to home working has increased the vulnerability to malware issues.	This could result in the Council not being able to deliver services	May 2020	20 RED	9 AMBER	9 AMBER	↔
38b	Failure to minimise the impact on the environment from the construction and operation of HS2	This could result in a reduction in the air quality, excessive noise/vibration from the construction activities which may have an impact on people's health and wellbeing	2014	15 RED	10 AMBER	10 AMBER	↔
40b	Failure to deliver Westbridge Park Open Space transformation	This could affect the Council's ability to deliver its Health and Wellbeing agenda, which may impact on people's health.	2016	20 RED	6 AMBER	6 AMBER	↔

## GREEN RISKS

There are no current Green Risks

**DELETED RISKS**

Risk No.	Risk Description	Risk Impact / Consequences	Risk Date

↓	Risk has decreased	↔	Risk level unchanged	↑	Risk has increased
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**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

Risk:	The funding available to the Council from central Government resulting from changes to Business Rates, New Homes Bonus etc. will not be known until the autumn at the earliest. This together with increases in inflation and interest rates makes accurate budget planning difficult, resulting in a risk of over commitment of financial resources or inappropriate use of reserves.
Risk Owner:	Head of Finance
Cabinet Member:	Cllr Mike Smith
Overall Progress Summary:	<p>The medium-term financial stability of the Council is dependent upon its ability to set a 2023-24 budget that does not draw upon reserves, and the impact of changes arising from the future funding regime for local government. Details in relation to the implementation of 50% Business Rates Retention and Fair Funding and Business Rates Reset are still awaited.</p> <p>The funding available to the Council from central Government resulting from changes to Business Rates, New Homes Bonus etc. will not be known until the autumn at the earliest. This together with increases in inflation and interest rates makes accurate budget planning difficult, resulting in a risk of over commitment of financial resources or inappropriate use of reserves.</p> <p>A consultation document in relation to the Future of New Homes Bonus was published in February 2021 (a response from the Council was submitted in advance of the closing date). The Council is awaiting details of the financial Settlement for 2023-24, including New Homes Bonus, to be provided by Central Government, likely in the Autumn. Even under the existing New Homes Bonus rules, there will be a loss to the Council in 2023-24 compared to 2022-23 as a result of a past multi-year award dropping out in 2023-24.</p> <p>It is therefore clear that the Government's plans for reviews of Business Rates, New Homes Bonus and Fair Funding have a potentially significant impact on the Budget and Medium-Term Financial Strategy (MTFS); and currently there is little information as to outcomes. This uncertainty creates financial risk for the Council. This could result in savings being delivered, in anticipation of a poor Settlement, that are not required; or conversely, sub-optimal decisions taken in haste to balance the Budget if the Settlement is worse than expected.</p> <p>In addition to Government policy, there are risks related to inflation and interest rates, both of which have risen since the last financial plan, with predictions they will be more persistent than previously thought by</p>

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

	<p>economists. The Council's ability to increase its income in line with rising expenditure is restricted, even if it is willing to do so. Therefore this places a further potential burden on the Budget and MTFS.</p> <p>The rapidly rising cost of living will have a direct impact on our residents and businesses. This, in turn, has the potential to place additional burdens on already stretched Council services. It may also lead to reduced income from fees and charges as residents limit their discretionary spending, and non-payment of Council Tax and Business Rates.</p> <p>A paper on Good Financial Management was agreed in March, to reinforce budgetary control. A paper on Financial Planning 2022-26 has been discussed informally with Cabinet, designed to start implementing measures required to set a balanced 2023-24 Budget.</p>
Links to Corporate Business Plan	<p>Objective 4</p> <p>To be a well-run, financially sustainable, and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives</p>
Consequences of Risk:	<ul style="list-style-type: none"> <li>• Unable to provide desired levels of service</li> <li>• Short term action necessary to deliver savings that require the suspension or termination of services and priorities</li> <li>• Diminished reserves that enforce risk aversion and failure to invest</li> </ul>
Gross Risk Score (Without Controls in Place)	Likelihood: 4 Impact: 5 Total Score: 20 - RED
Key Controls in Place:	<ul style="list-style-type: none"> <li>• Medium term financial plan in place</li> <li>• Annual Financial Plan and Medium-Term Financial Strategy 2022-25 in place</li> <li>• The Revenue Budget for 2022-23 was approved and financial planning for 2023-26 has begun</li> <li>• Working Balances maintained</li> <li>• Savings plan being undertaken to re-align resources to Corporate Plan</li> <li>• Corporate Budget Monitoring in place, with approval of the paper on Good Financial Management</li> <li>• Evaluation of consultations on changes to government funding regimes</li> </ul>
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 4 Impact: 5 Total Score 20 - RED

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Update Financial Plan in relation to the deferral of 50% Business Rates Retention and Fair Funding by a year	Head of Finance	<p>Reflected in Financial Plan reported to Cabinet and Council.</p> <p>Scenarios developed reflecting potential treatment of growth and levy</p> <p>Details awaited of new timescale for implementation</p>
Refresh Medium Term Financial Plan based upon alternative scenarios of short /medium- and long-term impact of in relation to external funding sources	Head of Finance	<p>Ongoing</p> <p>Financial planning paper 2022-26 considered internally in June 2022.</p> <p>Updated high-level Financial Plan 2023-26 to be drafted for informal Cabinet in September 2022.</p> <p>Budget report to be drafted for formal Cabinet on 1 December 2022.</p>
Lobby Ministry of Housing, Communities and Local Government (MHCLG) via MP/ District Councils Network (DCN) and Local Government Association (LGA) re financial impact of proposals on SBC	Chief Executive / Head of Finance and Leader	Ongoing contact with M.P.s, DCN, West Midland Chief Executives, LGA and directly with ministers.
<p>Determine feasibility of extending Business Rates Pool into 2023-24</p> <p>Liaise with Staffordshire &amp; Stoke-on-Trent Business Rate Pool Members re options to maintain viable pool for 2023-24</p> <p>Include Pool proposals in Financial Plan 2023-26</p>	Head of Finance	Pool Established for 2022-23. Future Pooling is dependent on Government proposals in its review of Business Rates.

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

<b>Actions Planned</b>	<b>Timescale/ Person Responsible</b>	<b>Progress/Comments</b>
Draft a plan for budget savings to ensure that resources are aligned to the Council's priorities and are operating as efficiently as they can be	Chief Executive / Head of Finance	To be implemented in 2022-23 to form part of 2023-24 Budget Process

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

<b>Ref No:</b>	C2
Risk:	<b>The economy of the Borough is adversely impacted limiting the ability to deliver the Economic Growth Strategy for the Borough</b>
Risk Owner:	Head of Development
Cabinet Member:	Cllr Beatty
Overall Progress Summary:	Immediate and longer terms interventions identified and being implemented; minor disruption to major projects and Future High Streets Fund bid updated to reflect impact of Covid-19. Local Plan progression under regular review. Emerging pressures linked to global supply chain issues and costs of goods, services and labour impacting on contracts/delivery.
Links to Corporate Business Plan	Objectives 1, 2, 3
Consequences of Risk:	<ul style="list-style-type: none"> <li>• The Council's ability to deliver the objectives as set out in the Economic Growth Strategy is adversely impacted potentially leading to business failure or inability to grow; failure to secure investment in infrastructure and major projects; adverse impacts on the rural economy; unemployment; and adverse impacts on town centres and the wider visitor economy;</li> <li>• Adverse impact on growth in revenue from Business Rates and Council Tax</li> <li>• Failure to maximise the economic benefits associated with HS2 related development</li> <li>• Increase in demand on Housing and Revenues services</li> </ul>
Gross Risk Score (Without Controls in Place)	Likelihood: 3 Impact: 5 Total Score: 15 - Red
Key Controls in Place:	<ul style="list-style-type: none"> <li>• Project plans and governance arrangements for the Garden Community, Stafford Town Centre Transformation and Stafford Station Gateway projects</li> <li>• SGRIP group well established and key stakeholders are represented and engage fully</li> <li>• Visitor Economy Strategy being developed by the Staffordshire Destination Management Partnership hosted by Staffordshire County Council</li> <li>• The Economic Growth and Strategic Projects Team has a dedicated Enterprise Growth Manager working directly with the private sector and dedicated Project Managers to implement the major schemes</li> <li>• Homes England are fully appraised of emerging development schemes that will require additional Government funding to attract private investment and tackle viability issues</li> </ul>

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

	<ul style="list-style-type: none"> <li>The new Local Plan remains ambitious and will act as a portfolio for development; key evidence base studies are being updated to reflect recent economic changes</li> <li>Investment Plan to draw down and guide implementation of £4.6m UKSPF allocation prepared and submitted for approval;</li> <li>Bidding for external funding e.g. LUF2, and putting in place plans to utilise separate funding allocations to support programmes/projects.</li> </ul>
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3 Impact: 5 Total Score: 15 - Red

<b>Actions Planned</b>	<b>Timescale/Person Responsible</b>	<b>Progress/Comments</b>
Deliver the opportunities for growth through the new Local Plan process	2022-23 Strategic Planning and Placemaking Manager	The first stage of the new Local Plan was consulted upon in February and March 2020. An updated timetable was published in November 2021 for the Local Plan process. Regulation 18 Preferred Options document due to be considered by Cabinet on 6 <sup>th</sup> October and if approved will be subject of a consultation exercise. The results of this will duly inform the Reg 19 Draft Plan in 2023.
Continue with major projects as programmed but keep timescales under review	In accordance with individual project plans Economic Growth and Strategic Projects Manager	Scheduled works under review to identify potential delays. Emerging issues with supply chain for construction and costs associated with same – being kept under review and considered within procurement exercises. Internal and external stakeholders engaged early to minimise delays as programmes progress.

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

<b>Actions Planned</b>	<b>Timescale/Person Responsible</b>	<b>Progress/Comments</b>
Future High Street Fund programme to be delivered	2021-2024 Economic Growth and Strategic Projects Manager	Programme governance in place and inception meetings took place April 2021. Ongoing programme monitoring taking place via the Programme Delivery Team and Project Board
Implementation of a discretionary financial support grant scheme (funded by Government) to mitigate the impacts of Covid 19	Until March 2022 Economic Growth and Strategic Projects Manager  Completed	The Additional Restrictions Grant allocations paid out in full, completed by March 2022.

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

<b>Ref No:</b>	C4
Risk:	<b>Failure to work in partnership to sustain support to vulnerable residents</b>
Risk Owner:	Head of Development/ Interim Head of Corporate Business and Partnerships
Cabinet Member:	Cllr Pert
Overall Progress Summary:	<ul style="list-style-type: none"> <li>• The Community Wellbeing Partnership and other organisations including parish councils and community groups continue to support vulnerable residents in the borough and services commissioned have been sustained.</li> <li>• The council is supporting a local CIC to set up a food distribution HUB that will work in partnership with foodbanks across the borough.</li> <li>• Work is underway to look at what local support taking place to support residents with the cost of living increase.</li> <li>• Council webpages continue to be updated and they now encompass a broad range of signposting information for residents under the 'Talk to Us' pages and also information for community groups and parish councils.</li> <li>• A comprehensive evaluation of activities has been conducted which has informed response activities during the lockdown. Meetings are taking place with partner organisations including parish councils and community groups – who continue to support vulnerable residents in the borough.</li> <li>• The council assumed the role of anchor organisation for the borough until the end of March 2022; vulnerable residents are signposted to local provision, Council webpages have been updated and now encompass a broad range of signposting information for residents under the 'Talk to Us' pages and also information for community groups and parish councils.</li> <li>• Webinars have been specifically designed for community groups, parish councillors and elected members based on their feedback received during the evaluation of the Community HUB; these remain available on line to watch again.</li> <li>• There is an open invitation to parish councils to ask for support from SBC when they are developing their resources. The Stepping Stones programme supports people in regaining their confidence to exercise at home, increase strength and mobility and independently leave the</li> </ul>

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

	house to go on a short walk, with encouragement to share and engage with others online and in person. Involvement with parish councils with setting up walks in their local area and published walk guides are being prepared.
Links to Corporate Business Plan	<p>Objective : 1 and 2</p> <ul style="list-style-type: none"> <li>• To deliver sustainable economic and housing growth to provide income and jobs</li> <li>• To improve the quality of life of local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing strong communities that promote health and wellbeing.</li> </ul>
Consequences of Risk:	<ul style="list-style-type: none"> <li>• Potential of core support services being withdrawn, for example, substance misuse services, domestic abuse, mental health, impacting on a person's health and wellbeing and potentially on their housing situation.</li> <li>• Vulnerable people at risk of not receiving help and support therefore increasing issues such as poverty, poor housing conditions, homelessness, rough sleeping, family breakdown, loneliness and isolation, suicide, safeguarding issues relating to child abuse, domestic abuse, exploitation, mental health, drugs and alcohol, self-medicating, anti-social behaviour</li> <li>• Relationships with partners at risk because of failure to deliver services because of financial and resource difficulties therefore affecting community confidence and resilience</li> <li>• Socio- economic impact in terms of job losses, closure of premises and the level of funding available for community groups may impact on reductions in service provision, increases in support needs, tenancies not being sustained, increases in hazards for health</li> </ul>
Gross Risk Score (Without Controls in Place)	Likelihood: 4 Impact: 3 Total Score: 12 - RED

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

Key Controls in Place:	<ul style="list-style-type: none"> <li>• Community Wellbeing Partnership in place that can escalate any issues to Local Strategic Partnership</li> <li>• Locality Deal Funding allocation in place for a three-year period</li> <li>• Commissioned services in place to support with mental health and substance misuse, antisocial behaviour, and domestic abuse.</li> <li>• Service level agreements in place with voluntary sector organisations.</li> <li>• Representation at County, Regional and National level multi-agency partnership meetings in respect of Voluntary Sector, Parish Councils, Community Safety, Economic Growth, Housing, DFG's, Rough Sleeping and Homelessness, Anti-social Behaviour, Earned Autonomy, Food Bank Forum, Domestic Abuse;</li> <li>• Needs assessments in place for health, community safety, homelessness that identify areas of concern in the Borough to enable the targeting of resources</li> <li>• Multi-agency place based model of support in place in Doxey, Rising Brook and Highfields</li> <li>• Multi-agency Vulnerability HUB in place</li> <li>• Parish Council Forum in place</li> <li>• Continued financial support for businesses in place until March 2022 and ongoing involvement in County-wide redundancy task force</li> <li>• VCSE organisations such as Rising Brook Baptist Church and Stone Community HUB supporting residents with food parcels and prescriptions.</li> <li>• Food schemes and food banks in place, foodbank forum meets on a regular basis</li> <li>• Additional support for DFG delivery being put in place.</li> <li>• Proactive work to identify those at risk of eviction, when ban is fully lifted.</li> <li>• Additional units of refuge accommodation operational</li> <li>• Multi-agency strategies in place for Community Safety and Wellbeing, Economic Growth</li> </ul>
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3 Impact: 3 Total Score: 9 - AMBER

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

<b>Actions Planned</b>	<b>Timescale/Person Responsible</b>	<b>Progress/Comments</b>
Community Wellbeing Partnership in place that meets on a bimonthly basis	Ongoing Corporate Partnerships Officer	<p>The partnership has recently received the community safety strategic assessment refresh that includes a number of recommendations for consideration. Work is underway to look at what services are required to support this utilising the Locality Deal Funding allocated to the council from the Staffordshire Commissioner.</p> <p>Locality Deal Funding from the Staffordshire Commissioner extended from 12 months to 3 years commencing April 2022 this will provide sustainability in terms of commissioning.</p>

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

<b>Actions Planned</b>	<b>Timescale/Person Responsible</b>	<b>Progress/Comments</b>
Multi-agency Vulnerability HUB is in place and meets on a weekly basis.	On-going Community Safety Lead	The HUB receives referrals that relate to a broad range of vulnerabilities that are being experienced by individuals and provides the opportunity for partners to discuss the issues and to identify appropriate support and action.
Service Level Agreements in place that support six voluntary sector organisations and also two additional schemes in place that provide funding to community groups.	On-going Corporate Business Officer	Service Level Agreements monitored on a quarterly basis.  Panels set up and in place for sports grants and the small grants scheme.

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

Housing Options prepared for increase in demand as a result of backlog of evictions from the pandemic, the cost of living increases impact on housing security and, the impact of Ukrainian refugee resettlement feeds through into the homelessness service.	September 2020 onwards Health and Housing Manager	Early options support for households who have been identified as being in rent arrears prior to action being taken. Enhanced training of options officers with partner agencies to ensure they are prepared to deal with the changing caseload (for example repossession). Additional support for Citizens Advice around housing debt and representation at possession proceedings. Staff undertaking mediation training to ensure greatest chance of keeping people in their properties. <i>The service is looking to use the Homeless Prevention Fund flexibly to respond to the challenges as they arise.</i> With rising emergency accommodation demand, the team are exploring the option of taking on additional temporary accommodation. The corporate work on food distribution hubs and
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## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

Actions Planned	Timescale/Person Responsible	Progress/Comments
		<p>Warm Spaces will provide some support many residents who are being impacted adversely by the cost of living increases. The team are supporting Ukrainian refugees who are no longer able to stay in their current homes, they are mediating with hosts and family members to try and ensure smooth move on, rather than crisis moves. Where this isn't possible the team are supporting the families to progress through the homelessness application process if they are unable to find their own accommodation.</p>

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

Actions Planned	Timescale/Person Responsible	Progress/Comments
Warmer Homes Stafford (WHS) commissioned service to be prepared for increased demand as economic impact of the pandemic, combined with spiralling costs in the energy market for home heating and as temperatures decline with the onset of winter create additional challenges for vulnerable residents living in cold homes.	Ongoing Health and Housing Manager	WHS delivery partner and fuel poverty charity Beat the Cold have successfully secured a further contract to March 2025. They have increased their staff numbers to manage the significant upturn in enquiries made to the service. The Council have a project ongoing to improve the energy efficiency of properties in the private rented sector with EPCs of F or G, this will have a positive impact on tenants in these properties. The Council are also working with Housing Plus on delivery of the Social Housing Decarbonisation Fund programme, looking to improve the energy efficiency of a number of their worst performing properties in regards to thermal efficiency.

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

<b>Ref No:</b>	<b>C5</b>
Risk:	<b>The Council's key contractors remain sustainable and continue to provide value for money</b>
Risk Owner:	Head of Operations
Cabinet Member:	Cllr Smith
Overall Progress Summary:	<ul style="list-style-type: none"> <li>• Risk is not at the same level with all contractors.</li> <li>• We are concentrating on the monitoring and financial support to the Leisure contractor which currently carries the highest risk.</li> <li>• Services being re-introduced following the lifting of Government Covid-19 restrictions/return of work force.</li> <li>• Prioritisation of service reintroduction on “open book” process.</li> <li>• The other emergent issue has been the significant increase in energy prices coupled with rising inflation arising from marked increases in the prices of fuel, goods and services.</li> </ul> <p>Mitigation of this risk over the past two years has largely sat outside the control of the Council as Covid-19 restrictions has been a national issue and the response depended on the Government’s plans for easing lockdown and providing support to businesses. During the periods of lockdown and associated restrictions the Council has worked with its contractors to support them in implementing their recovery plans (in accordance with Cabinet Office Action Note PPN04/20 Procurement Policy Note - Recovery and transition from COVID –19). However, the recent and forecast rises in energy prices, taken together with rising inflation, has emerged as a significant risk, particularly to the Leisure contractor. At the time of writing, the Government had announced plans to provide a level of support to the business community but any detailed proposals to support this sector were awaited.</p>
Links to Corporate Business Plan	<p>Objective 2:</p> <ul style="list-style-type: none"> <li>• To improve the quality of life of local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing strong communities that promote health and wellbeing</li> </ul> <p>Objective 4:</p> <ul style="list-style-type: none"> <li>• To be a well-run, financially sustainable, and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives</li> </ul>

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

Consequences of Risk:	<ul style="list-style-type: none"> <li>• Varying degree of risk dependant on contract</li> <li>• Potential for an individual contract failure resulting in a defined Council service not being delivered</li> <li>• Financial loss</li> <li>• Reputational damage locally and nationally</li> </ul>
Gross Risk Scout (Without Controls in Place)	Likelihood: 4 Impact: 5 Total Score: 20 - RED
Key Controls in Place:	<ul style="list-style-type: none"> <li>• Regular engagement with key personnel associated with each contractor</li> <li>• Regular discussion at Leadership Team and Cabinet level</li> <li>• “Open book” financial monitoring introduced on selected contracts</li> <li>• Corporate Budget Monitoring</li> <li>• Contract monitoring</li> <li>• Sharing of information with other authorities who have same contractors</li> </ul>
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3 Impact: 5 Total Score: 15 - RED

<b>Actions Planned</b>	<b>Timescale/Person Responsible</b>	<b>Progress/Comments</b>
All contracts being monitored by appropriate Head of Service/Service Manager.	Monthly/Quarterly Contract meetings take place between Council officers and representatives of major contractors Heads of Service Service Managers Contracts and Procurement Manager	Regular virtual meetings with contractors. Contracts exhibiting greatest risk are additionally being monitored by the Council’s Contract and Procurement Manager

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

<b>Actions Planned</b>	<b>Timescale/Person Responsible</b>	<b>Progress/Comments</b>
Assistance with financial management being offered by the Council to individual contractors	On-going open book process with Freedom Leisure Chief Executive Head of Finance Head of Operation Chief Accountant	Management payments being made in advance to assist with cash flow. Additional payments may be made subject to an "Open book" process to assist cashflow. Workshop planned with Leisure contractor to review service delivery in light of external financial pressures.
Information sharing with other Councils and Local Government Association	Responses given when requested to Government Departments and network partners Heads of Service Contracts and Procurement Manager	Contact with other Councils that have contracts with SBC contractors

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

<b>Ref No:</b>	<b>C6</b>
Risk:	<b>Reduced Organisational resilience may lead to reduced resources to support Council's service delivery and transformation.</b>
Risk Owner:	Chief Executive
Cabinet Member:	Cllr Smith
Overall Progress Summary:	The majority of services are operating normally. However some services are experiencing capacity issues due to vacancies and problems in recruiting new staff and others have taken on additional duties over the last few months e.g. support for Ukrainian families. The Council currently has a number of interim Heads of Service covering key work areas. This is temporary pending the decision on whether to proceed with shared services. Officer capacity continues to be reviewed and work prioritised. Going forward, the management structure will be reviewed as part of the development of a business case for further sharing of services and a Chief Executive with Cannock Chase Council.
Links to Corporate Business Plan	<p>Objective 4:</p> <ul style="list-style-type: none"> <li>• To be a well-run, financially sustainable and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives</li> </ul>
Consequences of Risk:	<ul style="list-style-type: none"> <li>• Service delivery/Projects impacted by delays, reduced quality of delivery or projects not delivered</li> <li>• Increased costs due to delays and project inertia</li> <li>• Customer expectation not met and satisfaction levels with service delivery reduced</li> <li>• Inability to recruit appropriately qualified individuals in some specialist areas to support organisational delivery</li> <li>• Increased risk to employees' health, safety and wellbeing due to volume of work and increased pressures</li> <li>• Failure to meet health and safety standards could lead to prosecution.</li> <li>• Failure to embed legacy of efficiency gains from pandemic working practices</li> </ul>
Gross Risk Scout (Without Controls in Place)	Likelihood: 3 Impact: 5 Total Score: 15- RED
Key Controls in Place:	<ul style="list-style-type: none"> <li>• Continuing Sickness Absence and Welfare Monitoring by Managers in line with Council Policies</li> </ul>

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

	<ul style="list-style-type: none"> <li>• Co-ordinated support and guidance to managers and employees by Human Resources</li> <li>• Use of Occupational Health, external Counselling support services and on-line employee assistance programme</li> <li>• Regular discussion at Leadership Team &amp; Management meetings.</li> <li>• Delivery Plan in place for each of the corporate business objectives.</li> <li>• Regular performance reports submitted to scrutiny.</li> <li>• Organisation business flow in place, discussed at Leadership Team.</li> </ul>
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3 Impact: 3 Total Score 9- Amber

<b>Actions Planned</b>	<b>Timescale/Person Responsible</b>	<b>Progress/Comments</b>
Monitor the performance and delivery of the Corporate Business Plan	Interim Head of Corporate Business and Partnerships  Ongoing	Delivery Plans are being monitored by Leadership Team, Cabinet and the three Scrutiny Committees. In addition there is an organisation business flow in place that is discussed at Leadership Team on a regular basis.
Continued monitoring of impact of health and wellbeing of staff.	Interim Head of HR – on-going	This activity remains a priority. on-going absence and well-being reporting via Managers/HR Services
Development of shared services business case	Chief Executive Deputy Chief Executive Head of Human Resources/ Interim Head of Corporate Business and Partnerships  November 2022	Stage 2 of the business case for shared services will consider capacity and resilience of management structures for the future. Proposals will be developed for consideration by Cabinet and Council.

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

<b>Ref No:</b>	C7
Risk:	<b>Failure to repel or recover from cyber-attack including targeted ransomware, malware and Distributed Denial of Service attacks</b>
Risk Owner:	Head of Technology
Cabinet Member:	Cllr Smith
Overall Progress Summary:	Work has been completed and actions are in progress. However, the environment means that new risks and challenges are always developing, and attacks are becoming more sophisticated. The Technology Infrastructure Team has achieved Cyber Essentials Plus. About Cyber Essentials - NCSC.GOV.UK
Links to Corporate Business Plan	<p>Objective 4:</p> <ul style="list-style-type: none"> <li>• To be a well-run, financially sustainable and ambitious organisation, responsive to the needs of our customers and communities and focussed on delivering our objectives</li> </ul>
Consequences of Risk:	<ul style="list-style-type: none"> <li>• Data, Systems and Applications inaccessible</li> <li>• Inability to deliver Council services</li> <li>• Cybercrime/ Fraud/ Ransom demands/ Financial harm</li> <li>• Reputational damage locally and nationally</li> <li>• Data Loss and breach of Data Protection Act (DPA)</li> <li>• Financial Loss</li> </ul>
Gross Risk Scout (Without Controls in Place)	Likelihood: 4 Impact: 5 Total Score: 20 - RED
Key Controls in Place:	<ul style="list-style-type: none"> <li>• Information Risk Management Regime – Assess the risks to our information assets, effective governance structure, Leadership Team engagement with cyber risk, produce supporting information management policies.</li> <li>• Secure configuration – Corporate policies and processes to develop secure baseline builds</li> <li>• Network Security – Protection and secured perimeter of external security threats and untrusted networks</li> <li>• Managing user privileges – All users of ICT systems provided with privileges suitable for their role</li> </ul>

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

	<ul style="list-style-type: none"> <li>• User education and awareness – Security policies that describe acceptable and secure use of ICT assets</li> <li>• Incident management – Incident response and disaster recovery capabilities that address the full range of incidents that can occur</li> </ul>
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 3 Impact: 3 Total Score 9 - AMBER

<b>Actions Planned</b>	<b>Timescale/Person Responsible</b>	<b>Progress/Comments</b>
Cyber Security Group being created	June 2022 Head of Technology	
Information Risk Management- Continuous review and work on our information risk management regime	Ongoing/ Head of Technology	Policies under review.
Monitoring – External and Internal checks. Threat and vulnerability assessment and remediation including Annual IT Health Check by CLAS approved consultant with remedial work carried out	Ongoing/ Head of Technology	Annual Health check completed in November 2021. Follow-up check is planned for November 2022.
Application Security Assessment and Remediation action taken	Annually Head of Technology	The health check will produce an action plan to feed into this.
Limit the access to critical systems and data by non-corporate devices.	Head of Technology	Almost all remote connections to the network are now via corporate laptops.
Exploring options to improve security for sharing information with external partners	Ongoing Head of Technology	Further use of Teams to provide secure access to data for our partners.
The move to home working has increased the vulnerability to malware issues. The use of cloud technology has reduced the likelihood due to the data being segregated across systems and devices.	On-going Head of Technology	Email mailboxes are now held in the cloud. Data files will also be moved during 2022/23
Laptops and servers will use Protective Domain Name Service.	Dec 22 Systems Manager	Complete - for internal laptops In progress - for remote

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

<b>Ref No:</b>	<b>38b</b>
Risk:	<b>Failure to minimise the impact on the environment from the construction and operation of HS2</b>
Risk Owner:	Head of Operations and Head of Development
Cabinet Member:	Cllr Winnington and Cllr Beatty
Overall Progress Summary:	<p>Information obtained by officer's participation in HS2 working groups to address noise, environmental, air quality and planning elements of the route alignment, during construction and subsequent operation, has assisted them in providing an input into the Council's petitioning document. Continued liaison between the Council's Development Manager and Regulatory Services Manager has enabled better shared understanding of the issues/risks; and the use of appropriate mechanisms to try and address the areas of concern.</p> <p>The hybrid bill has received Royal Assent</p> <p>Officers are now working closely with HS2 on the processing of relevant planning proposals and the mechanism associated with section 61 notices under the Control of Pollution Act 1974 which require contractors to state mitigation measures for adverse effects of the construction phase.</p> <p>Section 61 notices have been received by Officers and reviewed, negotiated and subsequently approved.</p>
Links to Corporate Business Plan	<p>Objective 2:</p> <ul style="list-style-type: none"> <li>• To improve the quality of life of local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing strong communities that promote health and wellbeing</li> </ul>
Consequences of Risk:	<ul style="list-style-type: none"> <li>• A reduction in the air quality from the construction activities. This could arise directly from the construction sites and indirectly from changes in the volume, composition, and location of traffic on the highway network.</li> <li>• Excessive levels of Noise and vibration from construction and operation activities could lead to a significant effect on the residential amenity to domestic premises close to the proposed line.</li> <li>• The negative effects associated with the off-site disposal to landfill of solid waste that will be generated by the construction and operation of the proposed scheme.</li> <li>• The adverse effect of contaminant mobilisation.</li> </ul>

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

Gross Risk Scout (Without Controls in Place)	Likelihood: 3 Impact: 5 Total Score: 15 - RED	
Key Controls in Place:	<ul style="list-style-type: none"> <li>• Lead officers across Operations and Development nominated</li> <li>• Close working relationship with Staffordshire County Council and other District Council's in Staffordshire on the route</li> <li>• Partnership in forums and working groups to maintain influence with major construction leads</li> </ul>	
Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 2 Impact: 5 Total Score 10 - AMBER	
<b>Actions Planned</b>	<b>Timescale/Person Responsible</b>	<b>Progress/Comments</b>
Continued participation in HS2a Environmental Health Sub-Group covering Noise, Air Quality and land contamination implications	Attendance at Quarterly meetings Regulatory Services Manager	Have attended and participated in all scheduled meetings
As we receive Section 61 Notices the Council has provided a response and approval	Section 61 notices are received on an on-going basis Regulatory Services Manager Head of Development	All section 61 notices received have been reviewed and approved following negotiation with the applicant. Significant increase in submission of such Notices anticipated in Qs 3 & 4.

## STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022

<b>Ref No:</b>	<b>40b</b>
Risk:	<b>Failure to deliver Westbridge Park Open Space transformation</b>
Risk Owner:	Head of Development
Cabinet Member:	Cllr Trowbridge
Overall Progress Summary:	Tilling Drive development mainly complete though certain outstanding reinstatement works to be carried out. Engagement with contractor taking place. . Works on compensatory sporting provision are complete and balance of sale receipt now received and forms part of Stone Leisure budget. Conversations are ongoing with Alleynes School.
Links to Corporate Business Plan	Objective 2: <ul style="list-style-type: none"><li>• To improve the quality of life of local people by providing a safe, clean, attractive place to live and work and encouraging people to be engaged in developing strong communities that promote health and wellbeing.</li></ul>
Consequences of Risk:	<ul style="list-style-type: none"><li>• Reputational damage</li><li>• Impact on delivery of Health and Wellbeing agenda.</li><li>• Unable to deliver corporate plan objectives</li></ul>
Gross Risk Scout (Without Controls in Place	Likelihood: 4 Impact: 3 Total Score: 12 - RED
Key Controls in Place:	<ul style="list-style-type: none"><li>• Programme Board in operation which manages financial and legal controls</li><li>• Project Plan in place and continually monitored and reviewed.</li><li>• Professional experts brought in as required (Consultants)</li><li>• A detailed consultation exercise has been completed on the future play and leisure needs for Stone and a Masterplan for Westbridge Park developed.</li><li>• Cabinet approved the revised Stone Leisure Strategy in October 2021 with work on the detailed designs now to commence.</li><li>• Tender exercises undertaken for both the main works and wheeled sports elements, Preferred bidders identified and engagement taking place with both parties in respect of outstanding pre works matters, design, planning etc.</li></ul>

**STAFFORD BOROUGH COUNCIL - STRATEGIC RISK REGISTER AS AT 30 SEPTEMBER 2022**

Residual/Net Risk Score (i.e. with controls in place)	Likelihood: 2 Impact: 3 Total Score: 6 - AMBER	
<b>Actions Planned</b>		
Following development of the Masterplan for Westbridge Park detailed designs and a funding strategy to be developed for Phase 2 of the Stone Leisure Strategy.	Q4 2020-21 to Q3 2022-23 Head of Development/Leisure Projects Manager	Tender process for main works and wheeled sports element undertaken and preferred bidders identified. Engagement taking place between SBC and respective bidders to address outstanding matters prior to entering into contract.
Discussions to be had with Alleynes school about support available following their failed bid for Department of Education funding to decommission the swimming pool and alternative use for the space.	Q1-2 / Head of Development & Chief Executive	The Council and the School are in discussion concerning the future use of the former pool building and other facilities.

**Agenda Item 3(d)**

<b>Committee:</b>	Audit and Accounts Committee
<b>Date of Meeting:</b>	16 November 2022
<b>Report of:</b>	Chief Internal Auditor and Risk Manager
<b>Contact Officer:</b>	Stephen Baddeley
<b>Telephone Number:</b>	01543 464415
<b>Ward Interest:</b>	Nil
<b>Report Track:</b>	Audit and Accounts 16/11/2022 (Only)

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## **Internal Audit Progress Report - November 2022**

### **1 Purpose of Report**

- 1.1 To present to the Audit and Accounts committee for information a progress report on the work of Internal Audit up to 31 October 2022

### **2 Recommendation**

- 2.1 That the Committee notes the progress report

### **3 Key Issues and Reasons for Recommendation**

#### **Key Issues**

- 3.1 Attached is a progress report showing the audits which have been issued between 1 April 2022 and 31 October 2022.

#### **Reasons for Recommendations**

- 3.2 The report has been prepared for Members information.

### **4 Relationship to Corporate Business Objectives**

- 4.1 The system of internal controls reviewed by Internal Audit is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities. Management are responsible for the control environment and should set in place policies, procedures and controls to help ensure that the system is functioning appropriately

## 5 Report Detail

- 5.1 This report is a summary of the Internal Audit work between 1 April 2022 and 31 October 2022 and is a report of progress against the audit plan. **APPENDIX 1** contains progress monitoring information.
- 5.2 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers.
- 5.3 The table below gives a summary of the level of assurance for each of the audits completed in the period. More detailed information on each of the reports issued is contained in **APPENDIX 1**.

<b>Number of Audits</b>	<b>Assurance</b>	<b>Definition</b>
1	<b>Substantial</b> ✓	All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively.  No action is required by management.
5	<b>Partial</b> ▲	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below.  Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
1	<b>Limited</b> !	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher.  Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.

<b>Number of Audits</b>	<b>Assurance</b>	<b>Definition</b>
<b>0</b>	<b>No Assurance</b> 	<p>One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks.</p> <p>Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan.</p>
<b>0</b>	<b>N/A</b>	<p>One piece of work was issued where it was not appropriate to issue an Assurance due to the narrow scope of the work.</p>

5.4 **APPENDIX 2** lists the audits that were in progress but had not been completed to draft report stage by the end of the quarter.

5.5 **APPENDIX 3** shows information relating to follow-ups.

## **6 Implications**

### **6.1 Financial**

Nil

### **6.2 Legal**

Nil

### **6.3 Human Resources**

Nil

### **6.4 Human Rights Act**

Nil

### **6.5 Data Protection**

Nil

### **6.7 Risk Management**

Nil

## **6.8 Community Impact Assessment Recommendations**

### **Impact on Public Sector Equality Duty:**

Nil

### **Wider Community Impact:**

The Borough Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation

## **7 Previous Consideration**

Nil

## **8 Background Papers**

Internal Audit Reports

**APPENDIX 1****Progress Monitoring**

<b>Number of Audits in Plan for 2022-23</b>	<b>Audits Completed to Draft</b>	<b>Audits In Progress</b>	<b>Percentage of Plan In Progress or Completed to Date</b>
22	7	10	77%

<b>Level of Assurance</b>	<b>No Assurance</b>	<b>Limited</b>	<b>Partial</b>	<b>Substantial</b>	<b>N/A</b>
<b>Number of Audits Issued in Year to date</b>	0	1	5	1	0

N/A is where the nature of the review did not enable an opinion to be issued on the area under review. This is normally where the focus is narrow or where a project is at an early stage of progress.

**APPENDIX 2****Audits Completed since the last update**

<b>Audit</b>	<b>Head of Service</b>	<b>Status</b>	<b>Number of High/Medium Recommendations</b>	<b>Assurance</b>	<b>Comments and Key Issues</b>
Change Control	Technology	Draft	5	Limited !	<ul style="list-style-type: none"> <li>• Whilst there is a process for Change Requests the Council have not developed a Change Control Policy covering all aspects of the process and roles/responsibilities.</li> <li>• The Council uses the same process for all changes and does not have a formal process for reviewing, approving and implementing emergency changes</li> <li>• Change Control documentation was not being completed in full and often omitted who had initially requested the change to be made.</li> <li>• Testing plans and roll-back arrangements were often not documented before changes were made.</li> <li>• There are no formal terms or reference for the Change Approval Board and meetings are not documented.</li> <li>• There are no procedures or risk assessments for assessing the technical feasibility or impact of the change.</li> </ul>

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
IT Strategy Resources and operational plans	Technology	Final	5	Partial ▲	<ul style="list-style-type: none"> <li>• There is no coherent current IT Strategy and elements are planned to be spread across 3 documents.</li> <li>• There is a need for a single IT Strategy Document to be developed following consultation with key stakeholders that is aligned with Corporate Objectives.</li> <li>• The Strategy should work towards the creation of a single approach to IT requirements across both Councils</li> <li>• The strategy should be supported by detailed delivery plans which identify resource requirements, with timescales identified to allow progress to be monitored.</li> </ul>

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Replacement Customer Relationship Management System, Project	Technology	Final	7	Partial ▲	<ul style="list-style-type: none"> <li>• A Project Initiation Document should be pulled together in anticipation of the contract award and project formally commencing</li> <li>• A detailed project plan is required to allow progress to be monitored.</li> <li>• A Project Team/Steering Group needs to be set-up and meetings minuted/actions recorded.</li> <li>• Further delays should be avoided unless outside the control of the Council to avoid unnecessary costs from the extension of the use of the existing system.</li> <li>• The project should regularly report progress to key stakeholders.</li> </ul>
Garden Waste & Blue Bag introduction	Operations	Draft	1	Partial ▲	<ul style="list-style-type: none"> <li>• Site visits to the Materials Recycling Facility only take place if issues are raised and no records of the visits are made. Visits should be carried out regularly and records of the findings/observations maintained.</li> </ul>

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments and Key Issues
Document Retention & IT Records	Technology	Draft	3	Partial ▲	<ul style="list-style-type: none"> <li>The Council does not have a protective marking scheme in place for IT Records</li> <li>The Council does not have adequate processes in place that Service Area requirements for the classification, retention and destruction of data are known and understood</li> <li>There is no retention policy for emails or Microsoft Teams conversations.</li> </ul>
Corporate Complaints, Ombudsman & MP Letters	Law & Administration	Draft	3	Partial ▲	<ul style="list-style-type: none"> <li>There is a need to create centralised folders to securely store the complaints, MP Letters and Ombudsman enquires rather than using Outlook as this limits access to one person.</li> <li>There is a need to remind officers of the timescales for responding to comply with the policy.</li> <li>Letters need to be issued when complaints are delayed explaining why there is a delay and giving an estimated response time.</li> </ul>
Project Governance Arrangements	Corporate Business & Partnerships	Final	0	Substantial ✓	

**APPENDIX 3****Audits in Progress**

<b>Audit</b>	<b>Head of Service</b>
Leisure Contract Monitoring Arrangements	Operations
Procurement	Governance & Corporate Services
Building Control	Economic Development
Payroll	HR
NNDR 2021-22	Finance
Council Tax 2021-22	Finance
Covid Business Grants	Finance
s106 Monitoring & Delivery	Development
IT Health Check / IT Assurance / Vulnerability Scanning / Cyber Assurance Arrangements	Technology

<b>Audit</b>	<b>Head of Service</b>
IT Third Party Supplier Management and External Data Sharing (including access controls)	Technology

**APPENDIX 4****Follow-ups Completed since the last update.**

Audit	Head of Service	Original Assurance	Recommendations Implemented	Recommendations In Progress	Recommendations Not Implemented	Total	Revised Assurance	Comments/Key Issues
Cyber & Network Security	Technology	Limited !	4	0	1	5	Partial ▲	Not all staff have completed the Cyber Security Training and IT have not yet taken action to chase or disable access for those who have failed to complete the training.
Critical Information Systems not Supported by IT	Technology	Partial ▲	2	1	0	3	Partial ▲	The Technology Strategy has not been updated and reissued. The last Strategy covered the period up to 2021.

Audit	Head of Service	Original Assurance	Recommendations Implemented	Recommendations In Progress	Recommendations Not Implemented	Total	Revised Assurance	Comments/Key Issues
Debtors	Finance	Partial ▲	2	3	0	5	Partial ▲	<ul style="list-style-type: none"> <li>A joint Credit Control policy has been drafted but not yet issued due to delays in the new finance system.</li> <li>The Finance Team have still not resolved the additional cover for the actioning of recovery.</li> <li>Write-offs of debts were still not being actioned promptly and regularly due to resource limitations and prioritisation on the recoverable debts.</li> </ul>
Tree Management	Operations	Partial ▲	1	0	0	1	Substantial ✓	

**Agenda Item 3(e)**

<b>Committee:</b>	Audit and Accounts
<b>Date of Meeting:</b>	16 November 2022
<b>Report of:</b>	Head of Governance
<b>Contact Officer:</b>	Stephen Baddeley
<b>Telephone Number:</b>	01543 464415
<b>Ward Interest:</b>	Nil
<b>Report Track:</b>	Audit and Accounts 16/11/2022 (Only)

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## **Internal Audit External Quality Assessment 2022**

### **1 Purpose of Report**

- 1.1 To present to the Audit and Accounts committee for information the External Quality Assessment Report recently completed for the Internal Audit Function.

### **2 Recommendation**

- 2.1 That the Committee notes the contents of the External Quality Assurance Report and the Action Plan agreed by the Chief Internal Auditor.
- 2.2 That the Committee notes the conclusion of the Assessor that the section "generally conforms" with the Public Sector Internal Audit Standards.

### **3 Key Issues and Reasons for Recommendation**

#### **Key Issues**

- 3.1 The Internal Audit Section is required by the Public Sector Internal Audit Standards to have an External Quality Assessment review carried out every 5 years and the results of the review must be presented to the Audit Committee. This forms part of the Quality Assurance and Improvement Programme.

#### **Reasons for Recommendations**

- 3.2 The results of the External Quality Assessment must be communicated to the Audit Committee.

## **4 Relationship to Corporate Business Objectives**

- 4.1 The system of internal controls reviewed by Internal Audit is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities. Having an effective Internal Audit Function helps the Council to achieve its objectives.

## **5 Report Detail**

- 5.1 The Public Sector Internal Audit Standards (PSIAS) require the Council to have an External Quality Assurance (EQA) review carried out every 5 years in addition to annual internal self-assessment reviews. This is the second EQA the first was completed in November 2016 reported to Audit & Accounts Committee in March 2017
- 5.2 The Head of Governance and Corporate Services acted as sponsor of the EQA to provide independence to the process. Robin Pritchard of Business Risk Solutions was appointed to carry out the review following a quotation exercise. Robin is an experienced Internal Audit Practitioner and has sufficient knowledge and experience to effectively carry out the review.
- 5.3 The overall outcome of the review was that "The Internal Audit Shared Service is delivering to a standard that generally conforms with the Public Sector Internal Audit Standards." The report also stated that the function was "demonstrating a high standard of delivery within its peer group". This is overall a very positive and pleasing report showing that the Internal Audit Function is effective and performing well when compared to other Local Authority Teams.
- 5.4 The review did highlight some areas where Internal Audit could improve as well as highlighting some areas of good practice. The full report is attached at **APPENDIX 1** and includes some benchmarking of the function against other Internal Audit teams.
- 5.5 The agreed actions are set out in the report as well as being summarised in the EQA Improvement Plan at **APPENDIX 2**. The Recommendations in relation to Compliance with the PSIAS in the first table will be prioritised and implemented in the next 12 months. The Best Practice Suggestions contained in the other two tables will be considered for review and implementation once the recommendations have been implemented. Progress against the Action Plan will be reported to Committee at least annually as part of the Annual Review of the Effectiveness of Internal Audit included in the Annual Report.

## **6 Implications**

### **6.1 Financial**

Nil

**6.2 Legal**

Nil

**6.3 Human Resources**

Nil

**6.4 Human Rights Act**

Nil

**6.5 Data Protection**

Nil

**6.7 Risk Management**

Nil

**6.8 Community Impact Assessment Recommendations**

**Impact on Public Sector Equality Duty:**

Nil

**Wider Community Impact:**

The Borough Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation

**7 Previous Consideration**

Nil

**8 Background Papers**

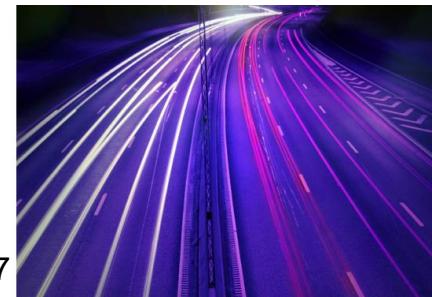
Evidence File supplied to the Reviewer - held by Chief Internal Auditor and Risk Manager.



# External Quality Assessment

Internal Audit Shared Services

Executive report – September 2022



# Contents

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# External Quality Assessment

Cannock Chase DC and Stafford BC Shared Internal Audit Service

Opinion: The Internal Audit Shared Service is delivering to a standard that  
**generally conforms** with the  
Public Sector Internal Audit Standards.

## **Key matters arising from the review:**

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of the Councils particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Ensuring clear logic within the use of inherent and residual risk assessments through working papers for each assignment to focus on agreed management objectives, significant risks and relevant key controls that will support the content of the assurance provided in the final audit report would enhance the focus of engagements.
- Consideration should be given to increasing the prominence of the basis for expressing internal audit recommendations and opinions in line with risk impact definitions recognised by the Council within the Risk Management Policy within all aspects of the internal audit process
- Review the narrative used within the Annual Opinion in the Head of Internal Audit Annual Report to reflect the strategic planning process and therefore the knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.
- Review the approach to performance of the Quality Assurance Improvement Programme (QAIP) and include outcomes as a part of the reporting processes to management.

## **Good Practice identified during the review**

- An Internal Audit Charter setting out the role and responsibilities of Internal Audit within the Councils guides delivery and establishes the basis of the Head of Internal Audit's Annual Opinion.
- The service has developed a documented internal audit methodology and supporting templates that delivers a consistent risk-based service.
- Self-assessment identifies areas in which future development will be beneficial and is based upon the development of job descriptions, performance appraisals, the establishment of a training needs and client feedback.
- Routine reporting informs clients and the Audit Committee regarding progress regarding completion of the internal audit plan, findings and the follow up of recommendations.

# Executive summary

Internal Audit Services are delivered by a shared service in-house team and supported by externally contracted support services for both IT and general audit work. The service has provided some support under contract to Inspiring Healthy Lifestyles who are the CCDC Leisure services Contractor. Services are managed by Stephen Baddeley as Chief Internal Auditor and Risk Manager, who assumes the role of Chief Audit Executive for the purposes of this review.

The service has responded to the changes of focus in professional standards by developing a risk based approach with regard to planning and the completion of assignment work; the Internal Audit Manual has been updated in May 2020 to reflect the requirements of the Public Sector Internal Audit Standards (PSIAS) and better align content to its current methodology.

From an internal audit perspective, considerable advantage is to be gained from increasing development and recognition of the client Risk Management processes, which reflect a 'Three lines of Defence approach' and therefore provide a basis for risk-based internal audit as required by the standards. The timeliness of review and the lack of effectiveness with which they operate at an operational level restricts the benefit of the approach to internal audit. Nevertheless, the approach does support internal audit to communicate with clients at a strategic and assignment level and therefore provides an appropriate framework within which internal audit is conducted. The degree to which risk appetite is embedded within assessment can be developed in order that internal audit can provide an assurance opinion in relation to risk management, governance and control . Clear alignment with the risk matrix will enable internal audit plans and assignments to focus on the value of 'Control Risk' and thereby increasingly focus its attention on key controls and the assurances available to mitigate risk. Continuing to develop this thread will enhance both the efficiency and effectiveness of internal audit as well as its benefit to the Council.

Consequently, with a constantly changing risk environment, particularly as the service responds to the changing needs of the Councils, post COVID-19, there is a need and opportunity for the internal audit service to continue to enhance delivery through acting as a catalyst to ensure that robust risk management systems are operational, increasing its awareness of the assessment of risk and as a consequence informing its own approach. This will help ensure that internal audit focuses on the most appropriate areas and can demonstrate that it continues to provide a service that effectively contributes towards the achievement of the Council stated objectives, through the provision of independent assurance.

Current services are assessed to '**generally conform**' with the PSIAS standards with the service demonstrating a high standard of delivery within its peer group. A series of specific recommendations are made in the report that follows which reflect building on the existing strengths in relation to resources, competency and delivery in order to enhance future services and as a result enhance the benefit of the service to clients.

# Overall assessment

1	<b>RESOURCES</b>	<span style="background-color: green;"></span>	<b>Excelling</b> – Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations.
2	<b>COMPETENCY</b>	<span style="background-color: yellow;"></span>	<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where further development would be beneficial.
3	<b>DELIVERY</b>	<span style="background-color: yellow;"></span>	<b>Established</b> – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.

# Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with management and the Audit Committee (AC).	The combination of the Charter, supported by the Internal Audit Manual is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1100	Independence and objectivity	A process is in place regarding the identification and management of potential conflicts and/or declarations of interest.
1311	The service has conducted internal assessment exercises regarding its performance.	Performance review is embedded within quality control procedures and supported by a staff appraisals process which identifies and supports performance development needs. Further quality assurance is undertaken which has highlighted a number of areas where the team feel development would be beneficial.
2020	Active engagement at Member and management level	Represents the establishment of a good understanding of key issues through routine interaction with Officers and Members.
2030	The need for appropriate internal audit resources is supported by support from appropriate other external sources.	This represents a firm basis for the successful delivery of the internal audit plan and the use of support, if required.
2040	A detailed internal audit manual is in place which aligns with the PSIAS.	Provides for a consistent methodology, within which the service is delivered through a series of templates.
2060	Reports are produced using a standard template which is consistently applied.	Demonstration of a consistent approach to communication which is well received by management and the AC's – effective follow-up ensures that issues are not lost.
2300	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.	Effective supervision and review of progress ensures a consistent approach and delivery of the approved methodology.
2400	Internal auditors must communicate results of engagements.	102 The internal audit team routinely conducts exit meetings with regard to the findings emerging from engagements.

## Part one

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# Compliance with the Public Sector Internal Audit Standards

Business Vision and Mission, Governance arrangements, Recognition of standards, Charter, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action	
1	<p><b>Internal Audit Charter (IAC)</b></p> <p>The IAC requires an annual assurance opinion to be provided to the Audit Committee regarding governance, risk management and control.</p> <p>The Annual Opinion for 2020/21 stated 2.1 that “Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide <b>partial assurance</b> that the Council’s governance arrangements including risk management and systems of internal control were operating adequately and there were no instances where any breakdown of control resulted in a material discrepancy”.</p> <p>Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks which each client is facing and information from other assurance sources.</p>	<p>The annual internal audit planning process is based upon a continuous assessment of the risk environment faced by each client, therefore the opinion is not based on the current years work as stated. It would be more accurate to reflect on the full knowledge of the CAE.</p> <p>Additionally, the opinion is based upon wider knowledge of significant risks and the various sources of assurance that exist, including the risk management processes and this should be clarified.</p> <p style="text-align: right;"><b>PSIAS 1000</b></p>	
2	<p><b>Performance appraisal</b></p> <p>The self-assessment identified that the CAE's appraisal which is undertaken by the Head of Governance &amp; Corporate Services could beneficially involve both Chairs of Audit Committees input.</p>	<p>Inviting observations from both Chairs of Audit Committee in advance of the performance appraisal undertaken by the Head of Governance would be good practice.</p> <p style="text-align: right;"><b>PSIAS 1110</b></p>	

# Competency

Issue identified	Recommended action
<p><b>1. Audit Universe</b></p> <p>The current internal audit planning model reflects use of a “standard audit universe” to which are applied a number of factors which represent a judgement of risk from an internal audit perspective. This is provided for in circumstances where the client risk management system cannot be relied upon.</p> <p>Further development of this approach through increasing alignment with each clients risk environment at strategic and operational levels would enhance internal audits’ ability to demonstrate a commitment to helping each Council achieve its objectives.</p>	<p>The development of a comprehensive internal audit plan that reflects the significant risks that are recorded with each Councils risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance.</p> <p>Internal Audit works with each client manager at the time of an engagement to identify significant risks; it would be opportune to increasingly recognise and promote the value of ‘Control Risk’ at an operational level and transparently integrate this within the planning process.</p> <p>It would be beneficial therefore to increasingly align development of the internal audit planning system with each Councils risk management processes in order to ensure that resources are consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level.</p> <p>It may be that such an approach would also help embed effective risk management within each clients governance processes.</p>

PSIAS 2000/2010

# Competency continued

Issue identified	Recommended action
<p><b>2. Purpose of the system subject to review</b></p> <p>Audit Planning Memorandum currently contain a statement which reflects the 'purpose' of the area subject to review in line with PSIAS requirements, which recognise the value of focusing on management objectives.</p>	<p>The inclusion of 'purpose' is regarded as good practice however it may be beneficial to increasing capture the nature of the significant risks being faced within the area under review as this will assist with the discussions with client managers of the identification of the significant risks which may impact upon achievement of established objectives and upon which the assurance opinion should be based.</p> <p style="text-align: right;"><b>PSIAS 2201</b></p>
<p><b>3. Use of the risk matrix</b></p> <p>The current methodology requires identification at the commencement of an audit of the significant risks to be considered. The gross risk is then assessed with input from management in terms of its likelihood and impact.</p> <p>The review then aims to identify appropriate policies, procedures and controls, concluding with an opinion based upon the residual risk scores in each area.</p> <p>The logic of this process represents good practice.</p>	<p>File review revealed that the methodology is not consistently applied within each assignment and when used as the basis for reporting.</p> <p>Contractors files use the same process.</p> <p>It would be beneficial to provide further instruction to the internal audit team to ensure that the methodology is consistently applied as this will help embed risk management and enhance the profile of internal audit.</p> <p>The feedback from the client survey indicates that the Shared Service might provide increased focus on significant risk and introducing best practice within the audit approach and these may be areas where increased understanding of risk throughout the process may produce results which are regarded as adding value by clients.</p> <p style="text-align: right;"><b>PSIAS 2010</b></p>

# Competency continued

	<b>Issue identified</b>	<b>Recommended action</b>	
4.	<p><b>Internal Audit templates</b></p> <p>The internal audit methodology has been reviewed over time and includes a number of templates which are no longer used.</p> <p>Inclusion of these blank templates within engagement folders may confuse the introduction and training of new staff and complicate the administrative process.</p>	<p>It would be opportune following the EQA to remove these templates from use and update the internal audit manual accordingly.</p> <p>Highlighting the essential templates which are to be completed will be beneficial to demonstrating effective and timely supervision of assignments.</p> <p style="text-align: right;"><b>PSIAS 2040</b></p>	
5.	<p><b>Supervision</b></p> <p>Templates require sign-off by nominated supervisors at key stages of the audit process.</p> <p>Review identified that this is not always consistently evidenced on each working paper and in some cases authorisation is not shown as a specific date.</p>	<p>Ensure supervisory processes provide robust evidence of review as required within the approved practices outlined in the internal audit manual.</p> <p style="text-align: right;"><b>PSIAS 2340</b></p>	
6.	<p><b>QAIP policy</b></p> <p>The service introduced a quality improvement policy in 2015 in accordance with the requirements of the standards. The policy focused on consistent internal review of engagements, an annual assessment against the standards and the EQA review on a five year cycle.</p> <p>Industry best practice now reflects an extension of the quality review process to include consideration of wider performance in the form of KPI's, resources, skills and training requirements.</p>	<p>It would be beneficial to update the policy in line with best practice and as required summarise any outcomes within the Head of Internal audit's Annual Report.</p> <p>An example QAIP policy has been provided.</p> <p style="text-align: right;"><b>PSIAS 1300</b></p>	

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

	Issue identified	Recommended action	
1.	<p><b>Governance</b>            The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements.            Current planning includes various aspects of the governance process including Ethics, Conflicts of Interests and Members expences.</p>	<p>In Local Government each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to map internal audit activity to the content of the Code in order to provide assurance at a level which contributes directly to the Annual Governance Statement through the Head of Internal Audit Annual Report.</p> <p style="text-align: right;"><b>PSIAS 2110</b></p>	
2.	<p><b>Risk Management</b>            Internal Audit last reviewed risk management as an assignment in 2016/17 providing a partial assurance opinion.</p>	<p>The standards require an annual opinion to be made in the Head of Internal Audit's Annual Report. It would therefore be beneficial to support the opinion with evidence to support this level through a combination of the assurances gained at both a strategic level and at an operational level within engagements.</p> <p style="text-align: right;"><b>PSIAS 2120</b></p>	

# Delivery continued

	<b>Issue identified</b>	<b>Recommended action</b>
3.	<p><b>Release of draft and final reports</b></p> <p>Reports are currently issued to clients by the auditor responsible for the engagement following approval by the CAE. The same arrangement exists in relation to the use of external contractors.</p> <p>Approval for release is authorised under cover of an email.</p>	<p>Consideration should be given to showing the process for approval of each report by redesign of the existing timetable to show:</p> <ul style="list-style-type: none"> <li>• The author and when the report was drafted</li> <li>• Approval for the release of the draft report by the CAE and date: and</li> <li>• Approval for release of the final report by the CAE and the date.</li> </ul> <p style="text-align: right;"><b>PSIAS 2420</b></p>
4.	<p><b>Internal Audit Risk Based Strategy</b></p> <p>The teams approach to assessment of the perceived risk at inherent and residual levels within an engagement is reflected in the grading of recommendations and opinions which are then used in reporting.</p> <p>Audit Engagement Plans and Reports do not contain an explanation of how the Internal Audit Team relate the levels of risk evaluation to the conduct of the audit, although reports do contain a link to where this information is available.</p> <p>It would be beneficial to include a summary of the process within all client communications as this would help embed both internal audit's approach and improve familiarity with risk management throughout each client.</p>	<p>Definitions of the grading of risks and the basis for opinions should be included within the Internal Audit Manual, Audit Engagement Plans and Audit Reports as this would help to ensure a consistent approach and understanding of risk is embedded throughout both internal audit and each Council.</p> <p style="text-align: right;"><b>PSIAS 2420</b></p>

## Part two

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BUSINESS  
RISK  
SOLUTIONS

Suggested enhancements for consideration

# Suggested Enhancements for consideration

	Issue identified	Recommended action
1.	<p><b>Job descriptions</b>            Current job descriptions are in a consistent form and are reviewed annually as part of the PDR process but mostly updated when a new appointment is made.</p>	<p>Whilst practice meets the standards, which require regular update of job descriptions, it may be beneficial to review all job descriptions at the same time to ensure that any inter-dependencies are fully reflected.</p> <p style="text-align: right;"><b>PSIAS 1210</b></p>
2.	<p><b>Client surveys</b>            Progress has been made in obtaining feedback from auditees following each audit through discussions with client managers and within the annual planning process.</p> <p>This provides informal confirmation from clients regarding the Teams ability to deliver upon its responsibilities and particularly add value.</p> <p>The External Contractor requests clients to complete a short survey on Survey Monkey which is not shared with the CAE.</p>	<p>Internal Audit may find it useful to utilise Survey Monkey or similar technology for collecting feedback, and capture similar feedback in relation to the contractors performance, as this can prove to be an efficient means of gathering an early response.</p> <p>Feedback should be included as part of the QAIP process.</p> <p style="text-align: right;"><b>PSIAS 2000</b></p>
3.	<p><b>Internal Audit Charter and Manual</b>            Reference is made in both documents regarding the need for independence and objectivity and the Code of Ethics, with the Nolan principles also being referred to in the Internal Audit Manual.</p> <p>The standards place significant emphasis on these issues.</p>	<ul style="list-style-type: none"> <li>a) Reference to these matters should be given a higher profile in both documents.</li> <li>b) The standards require regular review of the Internal Audit Charter, and while few changes are routinely made it may be beneficial to include a copy of the document as an Appendix to the Annual Report, as this may help maintain the role and value of internal audit with new managers and Members.</li> </ul> <p style="text-align: right;"><b>PSIAS 1000</b></p>

# Suggested Enhancements for consideration

	<b>Issue identified</b>	<b>Recommended action</b>
4.	<p><b>Key Performance Indicators</b></p> <p>Completion of the Internal Audit Plan is regarded as the current focus of performance monitoring, although other indicators based on recommendations and opinions made in the year are recorded in the Head of Internal Audit's Annual Report.</p> <p>Good practice elsewhere utilises a range of quantitative and qualitative measures to demonstrate performance against the Internal Audit Charter.</p>	<p>Consideration could be given to devising a more comprehensive list of indicators and a summary of client feedback received. This may include:</p> <ul style="list-style-type: none"> <li>• Reports issued to agreed timescales</li> <li>• Recommendations accepted/not accepted by risk rating</li> <li>• Recommendations acted upon in a timely manner</li> <li>• Client satisfaction</li> <li>• Staffing levels and qualifications</li> <li>• Planned training completed</li> </ul> <p style="text-align: right;"><b>PSIAS 1310</b></p>
5.	<p><b>Training</b></p> <p>The Internal Audit Team has developed a comprehensive training and skills matrix which includes reference to mandatory requirements although this has not been maintained.</p> <p>As the internal audit planning process is base on a continuous review of each Councils assurances needs and devises a forward looking plan based on need and priority, it would be beneficial to consider the future training needs of internal audit staff and include these in future resource planning.</p>	<p>Consider the benefits of using the priorities included in internal audit planning process to identify potential courses or seminars which may provide increased understanding of the risk environment that will be reviewed.</p> <p>Ensure that training records are maintained and used to inform the QAIP.</p> <p style="text-align: right;"><b>PSIAS 1210</b></p>
6.	<p><b>Fraud Survey</b></p> <p>The Internal Audit Team participates in the CIPFA Fraud Survey which reflects good practice regarding the consideration of fraud risk within the PSIAS.</p>	<p>When completed it would be beneficial to align outcomes with the significance of fraud risk in relation to achievement of the management objectives agreed within each engagement.</p> <p style="text-align: right;"><b>PSIAS 2120</b></p>

# Suggested Enhancements for consideration

	<b>Issue identified</b>	<b>Recommended action</b>
7.	<b>Confidentiality and liability</b> There is an occasional need to share an internal audit report outside of the organisation and in which case the legal implications should be considered.  Current reports contain a statement regarding confidentiality and Freedom of Information.	The Internal Audit Team should consider the need to also include an appropriate limitation of liability clause in reports which may be shared with third parties, including external audit.  <b>PSIAS 2440</b>

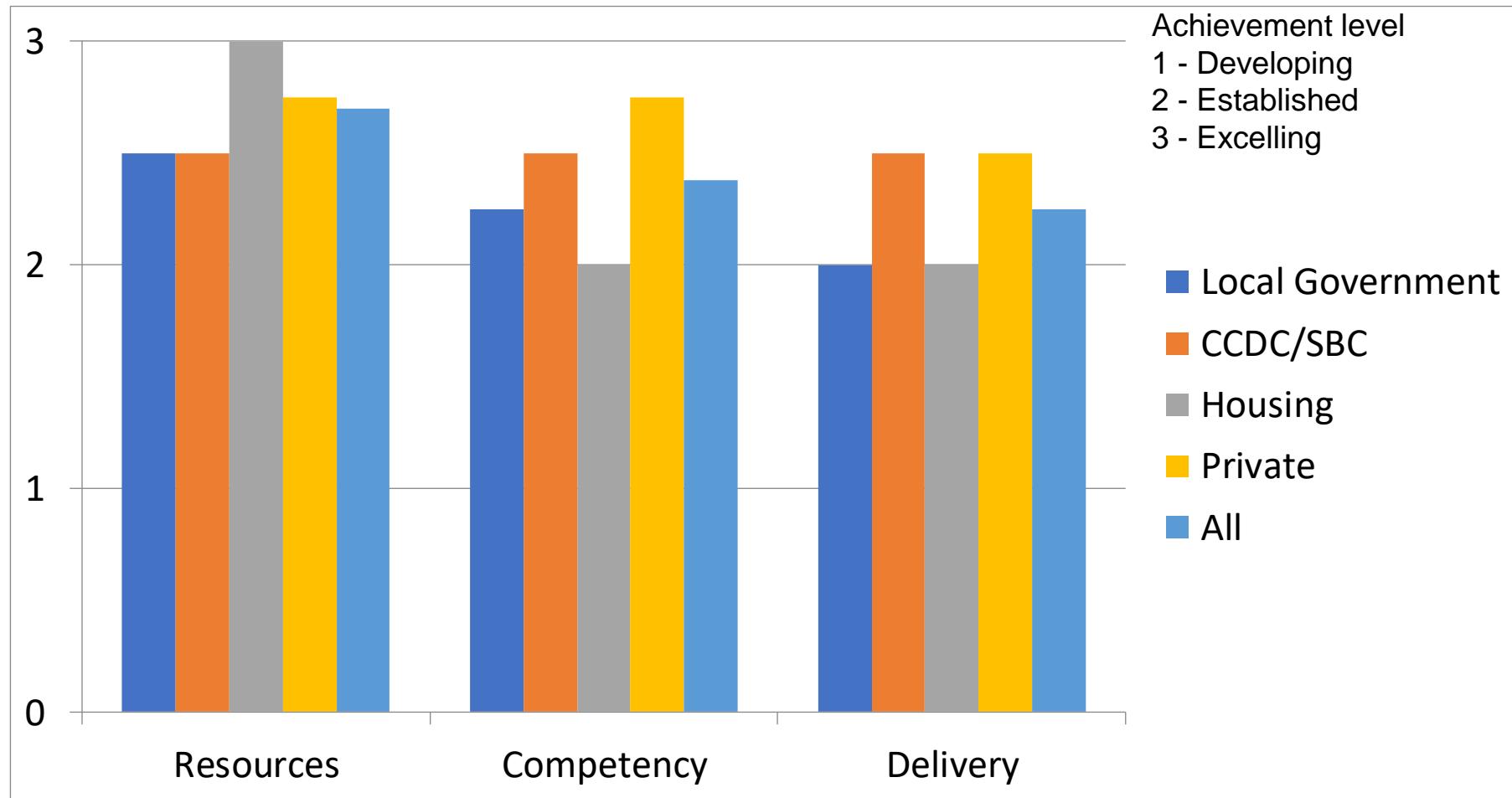
# Part three

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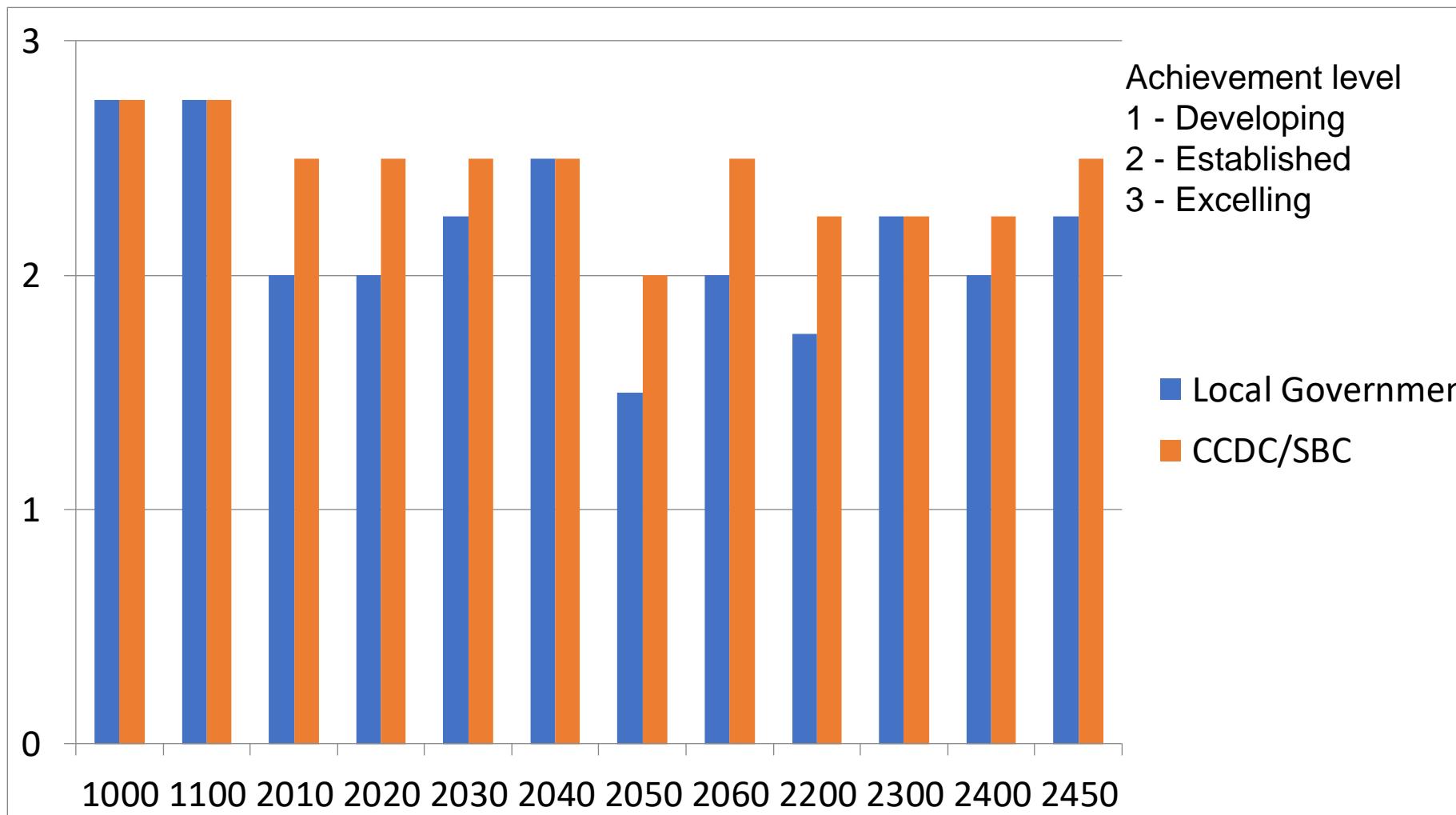
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## Benchmarking

# Benchmarking - Sector analysis



# Benchmarking - Industry analysis



# Appendix

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1. Summary of client feedback
2. Key IPPF/PSIAS standards assessed
3. Basis for EQA
4. Grading of recommendations

# Summary stakeholder feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve.	100	
Internal Audit considers the viewpoints of the organisation when planning and undertaking reviews and aims to provide a good balance between assurance and good practice with opportunities for improvement.	100	
Internal audit has a presence in the organisation which is visible and approachable.	100	
The Internal Audit team provides a flexible and reliable service which adds value through the assurance audits and additional work it undertakes.	100	
Internal Audit makes you aware of any significant issues that occur during an audit on a timely basis and you have the opportunity to respond or provide additional information.	100	
Internal audit has the skills to provide appropriate assurance and advice to meet our needs?	100	
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	100	
<b>Average</b>	<b>100</b>	

**Conclusion:**

Feedback from stakeholders confirms that the Internal Audit Shared Service is considered to provide a good quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded. Respondents were less positive regarding the emphasis placed on significant risk and the increasing need to add value through provision of advice regarding new ideas and best practice elsewhere.

# Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

# Basis for EQA

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## Compliance with IPPF/PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

# Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
Review	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- In grading our recommendations, we have considered the wider environment in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists, as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.

**APPENDIX 2****EQA Improvement Plan****PSIAS Areas for Improvement**

These recommendations will be the focus of the work and will be looked at for implementation in the next 12 months.

<b>Source</b>	<b>Recommendations</b>	<b>Comments</b>	<b>Person Responsible for Implementation</b>	<b>Timescale</b>
PSIAS 1000	Wording of the Annual Opinion to be reviewed to clarify that it is based on the full knowledge of the Chief Internal Auditor and not just the work carried out by Internal Audit. This includes knowledge of significant risks and information from other assurance providers.	This will be reviewed and updated for the next Annual Report	Chief Internal Auditor & Risk Manager	June 2023
PSIAS 2000/2010	Internal Audit will look to continue to improve the alignment of the internal audit planning system with each Councils risk management processes to focus resources on the most significant risk areas and target assurance.	This will be looked at and developed as part of the implementation of the Internal Audit software/system currently being implemented and as part of the next Annual Plan.	Chief Internal Auditor & Risk Manager	March 2023
PSIAS 2340	Ensure file reviews are always adequately evidenced and carried out in line with the Audit Manual processes.	Processes will be improved and record keeping enhanced with the introduction of the Internal Audit System. In the interim, reminders will be issued to those who review files.	Chief Internal Auditor & Risk Manager	March 2023

<b>Source</b>	<b>Recommendations</b>	<b>Comments</b>	<b>Person Responsible for Implementation</b>	<b>Timescale</b>
PSIAS 1300	The Quality Assurance and Improvement Programme should be reviewed and updated in line with current best practice.	A review and update will be carried out and a revised QAIP presented to Audit Committee	Chief Internal Auditor and Risk Manager	June 2023
PSIAS 2110	Internal Audit Activity should be mapped to the Council's Code of Governance to improve assurance provision for the Annual Governance Statement via the Annual Audit Report	This will be reviewed and updated for the next Annual Report and Audit Plan if possible	Chief Internal Auditor and Risk Manager	June 2023
PSIAS 2120	Internal Audit should carry out a formal review of Risk Management to support the Chief Internal Auditors opinion on its effectiveness.	A review if Risk Management will be added to the Internal Audit Plan for 2023-24. Reviews had not been included over the last few years as the Chief Internal Auditor is aware of the current Risk Management Processes not being fully effective.	Chief Internal Auditor and Risk Manager	2023-24 Audit Year

## Good Practice Suggestions

These are suggestions for improvement and will be considered and where possible implemented in the medium term from 2023-24.

## Best Practice Suggestions in relation to the PSIAS

Source	Suggested Enhancements	Comments	Person Responsible for Implementation	Timescale
PSIAS 1110	Inviting observations from both Chairs of Audit Committee in advance of the performance appraisal undertaken by the Head of Governance would be good practice.	This will be done for the next performance appraisal	Head of Governance and Corporate Services	Next PDR Cycle
PSIAS 2201	Increasing the capture of the nature and type of significant risks as part of the audit planning process within each review may be beneficial	Consideration will be given to how this may be done	Chief Internal Auditor and Risk Manager	June 2024
PSIAS 2010	Ensure that the file review methodology is consistently applied, including where Contractors carry out reviews on behalf of the in-house team.	The Internal Audit System being implemented will improve consistency. Discussions will be held with Contractors relating to them following our internal processes	Chief Internal Auditor and Risk Manager	March 2024
PSIAS 2010	Help to ensure audits are seen as providing added value to the clients	Consideration will be given to how this may be done	Chief Internal Auditor and Risk Manager	June 2024

Source	Suggested Enhancements	Comments	Person Responsible for Implementation	Timescale
PSIAS 2040	A review of documents should be carried out to ensure only current templates are available to auditors.	As part of the implementation of the Internal Audit System all documents and processes will be reviewed to ensure only current process/documents are loaded onto the system.	Chief Internal Auditor and Risk Manager	March 2024
PSIAS 2420	Consider redesigning the report template to capture key information about the approval for issue of both draft and final reports.	This will be looked at and developed as part of the implementation of the Internal Audit system currently being implemented	Chief Internal Auditor and Risk Manager	March 2024
PSIAS 2420	Consider providing information on the grading of risks with the Audit Brief and Reports. Not just providing a link to the information in the Audit Report.	This will be looked at and developed as part of the implementation of the Internal Audit system currently being implemented	Chief Internal Auditor and Risk Manager	March 2024

## Other Best Practice Suggestions

Suggested Enhancements	Comments	Person Responsible for Implementation	Timescale
It may be useful to review all Job Descriptions whenever any one is altered to ensure any interdependencies are fully reflected.	When any Job Description is reviewed all will be examined to ensure they remain consistent	Chief Internal Auditor and Risk Manager	Ongoing
Consider reintroducing client feedback surveys and including the results in the QAIP process.	This will be looked at and developed as part of the implementation of the Internal Audit system currently being implemented	Chief Internal Auditor and Risk Manager	March 2024
Improve the profile of Nolan Principles and the Council's Code of Ethics in the Internal Audit Charter and Audit Manual	A review and update will be carried out and a revised presented to Audit Committee	Chief Internal Auditor and Risk Manager	June 2024
Consider attaching the Internal Audit Charter as an Appendix to the Annual Report each year to increase its profile amongst Members and Management.	This will be considered for the next Annual Report	Chief Internal Auditor and Risk Manager	June 2024
Consider developing a more comprehensive list of Key Performance Indicators for the team - these should include qualitative and quantitative measures	This will be looked at and developed as part of the implementation of the Internal Audit system currently being implemented	Chief Internal Auditor and Risk Manager	March 2024
Consider using the Internal Audit Planning process to better identify courses/seminars to assist auditors understanding of the risk areas being revised.	This will be considered and included where possible as part of the next Annual Audit Plan	Chief Internal Auditor and Risk Manager	March 2023

<b>Suggested Enhancements</b>	<b>Comments</b>	<b>Person Responsible for Implementation</b>	<b>Timescale</b>
Improve the training records held for the team and consider how these can be used to inform the QAIP.	A reminder will be issued to all the team about recording training information and a review of the way the information is collected will be carried out/	Chief Internal Auditor and Risk Manager	March 2024
Consider aligning the outcome of the Cipfa Fraud Survey to the fraud risks identified for audit engagements.	This will be considered and included where possible as part of the next Annual Audit Plan	Chief Internal Auditor and Risk Manager	March 2023
Consider the inclusion of a limitation of liability clause on audit reports which may be shared with others including the External Auditors.	This will be looked at and developed as part of the implementation of the Internal Audit system currently being implemented	Chief Internal Auditor and Risk Manager	March 2023

**Agenda Item 3(f)**

<b>Cabinet Date:</b>	Audit and Accounts Committee
<b>Date of Meeting:</b>	16 November 2022
<b>Report of:</b>	Head of Law and Administration
<b>Contact Officer:</b>	Ian Curran
<b>Telephone Number:</b>	01785 619220
<b>Ward Interest:</b>	Nil
<b>Report Track:</b>	Audit and Accounts 16/11/2022 (Only)

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## **Annual RIPA Review**

### **1 Purpose of Report**

- 1.1 This annual report provides details of the use of powers under the Regulation of Investigatory Powers Act (RIPA) by the Council.

### **2 Recommendation**

- 2.1 That the report be noted.

### **3 Key Issues and Reasons for Recommendations**

- 3.1 Local authorities carry out investigations for a variety of regulatory services. In carrying out these duties, they have general powers to conduct surveillance of individuals suspected of committing offences. The Regulation of Investigatory Powers Act 2000 (RIPA) was introduced to regulate public authority use of covert surveillance powers to ensure that any use is compliant with human rights.
- 3.2 The Home Office Code of Practice for Covert Surveillance and Property Interference, recommends that elected members of an authority should review the authority's use of RIPA and set the policy at least once a year.
- 3.3 This is an annual report to members, in accordance with good practice, and is for information only.

### **4 Relationship to Corporate Business Objectives**

- 4.1 Leading and delivering for our community.

## 5 Report Detail

- 5.1 The Regulation of Investigatory Powers Act 2000 (RIPA) regulates the use of certain surveillance powers by public authorities, including:
  - Directed Surveillance (covert surveillance conducted as part of a specific investigation likely to result in obtaining private information about an individual),
  - Use of Covert Human Intelligence Sources (CHIS), and
  - Access to communications data (e.g. details of subscribers to telephone numbers or email accounts)
- 5.2 The Council is a very rare user of these powers. However, it is important that it has sufficient oversight of its activities to ensure that any considered use is compliant with the subject's human rights.
- 5.3 The Home Office publishes national Codes of Practice on the use of RIPA powers by public authorities. The Council must have regard to the relevant Code of Practice whenever exercising powers covered by RIPA. The Investigatory Powers Commissioner conducts regular inspections of all public authorities to ensure compliance with RIPA, and the Codes of Practice.
- 5.4 The Council has adopted its own Surveillance Policy to advise officers on RIPA obligations and to regulate any use of these powers. The Policy was last updated by Cabinet in October 2019 to reflect changes in the law and Codes of Practice. The policy is therefore up to date in that respect.
- 5.5 The Head of Law and Administration acts as the Senior Responsible Officer for RIPA, with oversight of the Council's internal procedures. The Legal Services Manager acts as the RIPA Co-ordinating Officer, ensuring that any request to use RIPA powers is co-ordinated through, and recorded in, a central register. The Legal Services Manager also acts as a source of advice to regulatory officers and supports the Senior Responsible Officer in keeping the Council's policy up to date.
- 5.6 As part of the policy, the use of any RIPA powers must first be approved by a Chief Officer trained to be a RIPA Authorising Officer. The Council has two Chief Officers who have received suitable training. If the Chief Officer gives approval, then an application must still be made to the Magistrates Court for independent judicial approval before the surveillance takes place (NB. the Office for Communications Data Authorisations gives judicial approval in respect of accessing communications data).
- 5.7 The Council has not used RIPA powers in the last 12 months. The last RIPA authority having been obtained in 2015.

## **6 Implications**

### **6.1 Financial**

Nil

### **6.2 Legal**

As set out in the report

### **6.3 Human Resources**

Nil

### **6.4 Human Rights Act**

As set out in the report

### **6.5 Data Protection**

Nil

### **6.7 Risk Management**

Nil

### **6.8 Community Impact Assessment Recommendations**

**Impact on Public Sector Equality Duty:**

Nil

**Wider Community Impact:**

Nil

## **7 Previous Consideration**

Nil

## **8 Background Papers**

Nil