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18 July 2023

To: Chair – Councillor Michael Atkins
Vice-Chair – Councillor Peter Sandford
Members of the Audit and Corporate Governance Committee –
Councillors Geoff Harvey, Mark Howell, Helene Leeming, Richard Stobart
and Heather Williams

Quorum: 3

Substitutes: Councillors Graham Cone, Sue Ellington, Dr. Richard Williams,
Bunty Waters, James Hobro, Dr Lisa Redrup, Pippa Heylings and
Jose Hales

Dear Councillor

You are invited to attend the next meeting of **Audit and Corporate Governance Committee**, which will be held in **Council Chamber - South Cambs Hall** at South Cambridgeshire Hall on **Wednesday, 26 July 2023** at **10.00 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution ***in advance of*** the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully
Liz Watts
Chief Executive

The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.

Agenda		Pages
1. Apologies for Absence To receive Apologies for Absence from Committee members.		
2. Declarations of Interest		
3. Minutes of Previous Meeting To confirm the minutes of the meeting held on 1 June 2023 as a correct record.		9 - 12

4.	External Audit Update Report on 2020/21 Accounts	13 - 20
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12.	Six-Monthly Strategic Risk Report	123 - 136
13.	Matters of Topical Interest	
14.	Date of Next Meeting Wednesday 27 September at 10 am.	

GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL

Notes to help those people visiting the South Cambridgeshire District Council offices

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Security

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- **Do not** use the lifts to leave the building. If you are unable to use stairs by yourself, the emergency staircase landings have fire refuge areas, which give protection for a minimum of 1.5 hours. Press the alarm button and wait for help from Council fire wardens or the fire brigade.
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First Aid

If you feel unwell or need first aid, please alert a member of staff.

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We are committed to improving, for all members of the community, access to our agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you. All meeting rooms are accessible to wheelchair users. There are disabled toilet facilities on each floor of the building. Infra-red hearing assistance systems are available in the Council Chamber and viewing gallery. To use these, you must sit in sight of the infra-red transmitter and wear a 'neck loop', which can be used with a hearing aid switched to the 'T' position. If your hearing aid does not have the 'T' position facility then earphones are also available and can be used independently. You can get both neck loops and earphones from Reception.

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Public toilets are available on each floor of the building next to the lifts.

Recording of Business and Use of Mobile Phones

We are open and transparent about how we make decisions. We allow recording, filming and photography at Council, Cabinet and other meetings, which members of the public can attend, so long as proceedings at the meeting are not disrupted. We also allow the use of social media during meetings to bring Council issues to the attention of a wider audience. To minimise disturbance to others attending the meeting, please switch your phone or other mobile device to silent / vibrate mode.

Banners, Placards and similar items

You are not allowed to bring into, or display at, any public meeting any banner, placard, poster or other similar item. Failure to do so, will result in the Chairman suspending the meeting until such items are removed.

Disturbance by Public

If a member of the public interrupts proceedings at a meeting, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared. The meeting will be suspended until order has been restored.

Smoking

Since 1 July 2008, South Cambridgeshire District Council has operated a Smoke Free Policy. No one is allowed to smoke at any time within the Council offices, or in the car park or other grounds forming part of those offices.

Food and Drink

Vending machines and a water dispenser are available on the ground floor near the lifts at the front of the building. You are not allowed to bring food or drink into the meeting room.

DECLARATIONS OF INTEREST – INFORMATION FOR COUNCILLORS

As a Councillor, you are reminded of the requirements under the Council's Code of Conduct to register interests and to disclose interests in a meeting. You should refer to the requirements set out in the Code of Conduct which are summarised in the notes at the end of this agenda frontsheet.

Disclosable pecuniary interests

A "disclosable pecuniary interest" is an interest of you or your partner (which means spouse or civil partner, a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners) which falls within the categories in [Table 1 of the code of conduct, which is set out in Part 5 of the Constitution](#).

Where a matter arises at a meeting which directly relates to one of your disclosable pecuniary interests you must:

- disclose the interest;
- not participate in any discussion or vote on the matter; and
- must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest, just that you have an interest. Dispensation may be granted in limited circumstances, to enable you to participate and vote on a matter in which you have a disclosable pecuniary interest.

It is a criminal offence to:

- fail to notify the monitoring officer of any disclosable pecuniary interest within 28 days of election
- fail to disclose a disclosable pecuniary interest at a meeting if it is not on the register
- fail to notify the Monitoring Officer within 28 days of a disclosable pecuniary interest that is not on the register that you have disclosed to a meeting
- participate in any discussion or vote on a matter in which you have a disclosable pecuniary interest
- knowingly or recklessly provide information that is false or misleading in notifying the Monitoring Officer of a disclosable pecuniary interest or in disclosing such interest to a meeting.

Other registerable interests

These are categories of interest which apply to the Councillor only (not to their partner) and which should be registered. Categories are listed in [Table 2 of the code of conduct, which is set out in Part 5 of the Constitution](#). Where a matter arises at a meeting which directly relates to the financial interest or wellbeing of one of your Other Registerable Interests, you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter; and must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Disclosure of non-registerable interests

Where a matter arises at a meeting which directly relates to your financial interest or well-being (and is not a Disclosable Pecuniary Interest set out in Table 1) or a financial interest or well-being of a relative or close associate, you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Where a matter arises at a meeting which affects – a. your own financial interest or well-being; b. a financial interest or well-being of a relative or close associate; or c. a financial interest or wellbeing of a body included under Other Registrable Interests as set out in Table 2 you must disclose the interest.

In order to determine whether you can remain in the meeting after disclosing your interest the following test should be applied. Where a matter (referred to in the paragraph above) affects the financial interest or well-being: a. to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and; b. a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest, you may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

[Where you have an Other Registerable Interest or Non-Registerable Interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it]

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Agenda Item 3

South Cambridgeshire District Council

Minutes of a meeting of the Audit and Corporate Governance Committee held on Thursday, 1 June 2023 at 2.00 p.m.

PRESENT: Councillor Michael Atkins – Chair
Councillor Peter Sandford – Vice-Chair

Councillors: Geoff Harvey
Helene Leeming
Heather Williams

Mark Howell
Richard Stobart

Officers: Patrick Adams
Peter Maddock
John Murphy

Senior Democratic Services Officer
Head of Finance
Monitoring Officer

Auditors: Mark Russell
Jonathan Tully

E & Y
Head of Shared Internal Audit

1. Apologies for Absence

There were no Apologies for Absence.

2. Declarations of Interest

Councillor Peter Sandford declared a registerable interest as a non-executive director of Ermine Street Housing.

Councillor Richard Stobart declared two registerable interests as a director of South Cambs Investments Partnership and South Cambs Projects.

Councillor Mark Howell declared a registerable interest as a County Councillor, due to the fact the Committee briefly discussed the pension scheme, which the County Council administered.

3. Minutes of Previous Meeting

The Minutes of the Meeting held on 23 March 2023 were agreed as a correct record.

4. External Audit Plan 2020-21

Mark Russell presented the 2020/21 External Audit Plan. It was noted that an additional column showing the 2018/19 fees had been included in a supplementary version of the Audit Plan.

Audit fees

Councillor Heather Williams asked why the proposed audit fees for 2020/21 were usually at the top end of the scale. Mark Russell explained that the estimates had

been based on costs incurred for the 2019/20 audit. The actual cost would be lower than the estimates if the audit went to plan, but costs increased if queries were found.

Valuation of investment properties

Councillor Heather Williams asked whether the amount spent on audit fees on investment properties was taken into consideration when assessing their profitability. The Head of Finance explained that usually the audit costs were charged centrally and not to specific budgets, but these costs could be considered when evaluating profitability in the future. However, he added that the audit fees would be higher in the year the property was purchased than in subsequent years.

Mark Russell explained that the investment properties were valued according to accounting standards, which took into account the possible future income of the asset and this could be different from the market value. The Head of Finance explained that the assets were valued every year and the Council's investment properties had increased in value. It was noted that the recent sale of a property provided evidence for the valuation of the properties that the Council still owned.

Covid-19 grants

In response to questioning from Councillor Helene Leeming, the Head of Finance explained that the Covid-19 grants, which were funded by the Government, were worth tens of millions of pounds. Mark Russell explained that these grants were either classified as principal, meaning that the Council decided who to award them to, or agency, meaning that the Council merely paid out the grants on instruction from the Government. The external auditor already had experience of this issue from auditing other local authorities and this council had provided evidence relating to the grants' classification. He expected the audit of this matter to go smoothly and no additional audit fee had been allocated. In response to questioning from Councillor Richard Stobart, the Head of Finance agreed to consider what lessons could be learned from the ways in which these grants had been awarded.

Audit timetable

Mark Russell confirmed that the 2020/21 audit was due to start in a week's time and the working papers had been provided to allow this to happen in accordance with the schedule.

Value for money

Mark Russell explained that for the Council to achieve an unqualified audit opinion on value for money the authority will need to provide accurate financial statements and prompt officer support with any resulting queries. It was noted that the auditors would be using a different set of criteria from previous years.

Assessing materiality

Mark Russell explained that planning materiality was the figure used by the auditors to determine which errors needed to be included in the final audit. The auditors would be using the performance materiality, which was 50% of the planning materiality, whilst carrying out the audit and querying the figures provided. This was the same level applied in previous years. Any unadjusted errors within 5% of planning materiality would be reported to the Committee.

Responding to auditor queries regarding valuation

Mark Russell reported that auditing the pension scheme had been made simpler as the auditors had already gained experience by auditing other local authority's pension schemes for the year 2020/21.

Mark Russell reported that the auditors had already received estimates regarding the investment properties valuation. Any queries from the auditors' valuers would then have to go to via the auditors to the Council's valuers and attempts had been made to improve this process.

The Head of Finance stated that he had liaised with the property valuers who confirmed that they were ready to respond to any queries from the external auditors. Key officers of the Council had also been informed that responding to any queries from external auditor must be a priority.

The Committee **noted** the report.

5. Audit & Corporate Governance Committee - Annual Report 2022/2023

The Head of Shared Internal Audit presented this report, which summarised the work of the Committee during the year of 2022/23.

Councillor Heather Williams questioned if the whistleblowing policy was being properly communicated. She suggested that the Whistleblowing and Anti-Bullying Task and Finish Group be re-established to look at the policy and how it was being implemented. The Chair agreed that July's Committee meeting should discuss this matter more fully. The Head of Finance agreed to liaise with Democratic Services regarding the possibility of arranging anti-fraud training for councillors.

Councillor Richard Stobart hoped that future training courses would be provided for members of the Committee, following the recommendations that came out of the recent Audit Committee Workshop. The Head of Finance assured Councillor Stobart that training on the Housing Revenue Account would be provided, probably after the anti-fraud training. A follow up to last year's treasury management training would also be arranged.

The Chair agreed that in future the annual report should be considered at the Council's Annual General Meeting.

It was noted that the Chair had some minor grammatical corrections to the Report, which he would share with officers.

The Chair proposed and Vice Chair seconded the recommendation in the report. A vote was taken and the Committee unanimously **Recommended** the Annual Report to Council.

6. Matters of Topical Interest

The Chair welcomed John Murphy, the Council's new Monitoring Officer, to his first

meeting of the Audit and Corporate Governance Committee.

7. Date of Next Meeting

It was noted that the next meeting would be held on Wednesday 26 July at 10 am.

The Meeting ended at 3.10 p.m.

South Cambridgeshire District Council Audit Progress report

Year ended 31 March 2021

17 July 2023

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Agenda Item 4

EY

Building a better
working world

A nighttime photograph of a street scene. In the foreground, a large truck with its headlights on is moving towards the camera. To the right, a road sign with a green arrow pointing right and the letter 'X' below it is visible. In the background, there is a building with illuminated windows and signs, including one that says '海苔の館' (Seaweed Museum). The overall scene is lit with streetlights and building lights, creating a mix of warm and cool tones.

17 July 2023

Dear Audit and Corporate Governance Committee Members

The purpose of the report is to update you on our external audit of the Council's 2020/21 financial statement, further to the Audit Planning report presented to the Audit and Corporate Governance Committee on the 1 June 2023.

As reported in our Audit Planning report and agreed with management, we commenced our 2020/21 audit at the beginning of June 2023 with an aim to completing the audit work by the end of July 2023.

We have been working closely with the Council to progress the audit and continue to see improvements compared to prior years in the quality of working papers and responses to audit queries.

The timeline for the 2020/21 audit was an estimate agreed with Council officers and based on the number of audit hours using our experience of prior year audits, the actions the Council have put in place to strengthen the finance team, their capacity and ability to support the audit, and baseline expectations from other audits of a similar size and nature. Given the protracted nature of prior year audits, the estimated timeline for the 2020/21 audit was subject to change, depending on how audit work progressed. The planned audit period of two months is significantly shorter than previously achieved in prior year audits, which significantly increases the intensity of the audit process for officers. Due to this tighter time frame and the number of audit requests we have been required to raise as part of the audit process, the Council have found it difficult to obtain all the evidence and responses sufficiently in the time to allow us to complete and report the 2020/21 audit by the end of July 2023. We do, however, expect to have completed the majority of the audit fieldwork by the end of July and we will then agree a timeline and determine next steps with officers to close out the audit and report our opinion.

In the rest of this report we have provided detail as to the progress of the audit against the areas within the statement of accounts.

Status of the Audit

- ✔ Audit procedures completed
- Audit procedures started but not completed
- Audit procedures substantially completed
- ✘ Audit procedures not started

As at the date of this report our audit remains in progress. We have summarised below the status of our audit procedures to help inform the Committee of progress and findings to date.

Audit procedures completed		
Area of accounts and risks raised in our Audit planning report	Status	Findings
✔ Tick and tie and internal consistency check of accounts	Audit procedures completed	We have identified a number of disclosure adjustments that management will amend in the final version of the statement of accounts.
✔ Disclosure - Expenditure and Funding Analysis	Audit procedures completed	We identified a number of adjustments required to the EFA note.
✔ CIES - Housing Services Expenditure	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIES - Impairment/Revaluation	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIES - Precepts and Levies	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIES - Taxation and non-specific grant income	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIES - Gain/loss on disposal of non-current assets	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIES - Net cost of services - Grant income	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIES - Finance & Investment - Interest Costs	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIES - Finance & Investment - Interest Income	Audit procedures completed	There are no findings to report from our audit procedures.
✔ Agreement of Accounts to TB	Audit procedures completed	There are no findings to report from our audit procedures.
✔ Disclosures - Related Party Transactions	Audit procedures completed	We identified that the financial statements disclosure is not in line with the CIPFA Code as does not disclose the value of the related parties included in the accounting note.
✔ Disclosure - All other disclosures not separately identified	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIPFA Disclosure checklist	Audit procedures completed	There are no findings to report from our audit procedures.

Status of the Audit (continued)

-  Audit procedures completed
 Audit procedures started but not completed
 Audit procedures substantially completed
 Audit procedures not started



Audit Procedures Substantially Completed with only a few remaining outstanding requests and audit work outstanding

Area of accounts and risks raised in our Audit planning report	Status	Findings
Balance Sheet - Cash and Bank	Our audit procedures are substantially complete - we are awaiting receipt of one third party confirmation.	There are no findings to report from our audit procedures performed to date.
Balance Sheet - Investments	Our audit procedures are substantially complete - we are awaiting receipt of three third party confirmations.	There are no findings to report from our audit procedures performed to date.
Balance Sheet - Borrowings	Our audit procedures are substantially complete - we are awaiting receipt of one third party confirmation.	There are no findings to report from our audit procedures performed to date.
CIES - Net cost of services - Employee costs	Our audit procedures are substantially complete - we are awaiting responses from the Council on a number of outstanding queries.	There are no findings to report from our audit procedures performed to date.
Collection fund - Income	Our audit procedures are substantially complete - we are awaiting receipt of one report to support income balances from management.	There are no findings to report from our audit procedures performed to date.
Collection fund - Expenditure	Our audit procedures are substantially complete - we have received evidence for a sample of collection fund expenditure and we are completing our testing.	There are no findings to report from our audit procedures performed to date.
Cashflow Statement	Our audit procedures are substantially complete - we are awaiting completion of other work to perform final cross checks to the cashflow statement.	There are no findings to report from our audit procedures performed to date.
Reserves - Useable and Unusable Reserves	Our audit procedures are substantially complete - we are completing our testing of earmarked reserves.	There are no findings to report from our audit procedures performed to date.
Collection fund - Income	Our audit procedures are substantially complete - we are awaiting receipt of one report to support income balances from management.	There are no findings to report from our audit procedures performed to date.
Collection fund - Expenditure	Our audit procedures are substantially complete - we have received evidence for a sample of collection fund expenditure and we are completing our testing.	There are no findings to report from our audit procedures performed to date.

Status of the Audit (continued)

-  Audit procedures completed
-  Audit procedures started but not completed
-  Audit procedures substantially completed
-  Audit procedures not started







Audit Procedures Substantially Completed with only a few remining outstanding requests and audit work outstanding

Area of accounts and risks raised in our Audit planning report	Status	Findings
 HRA - Income	Our audit procedures are substantially complete - we are awaiting the reconciliation between the rent system and the general ledger from the Council.	There are no findings to report from our audit procedures performed to date.
 Group statements	Our audit procedures are substantially complete - to complete these procedures we are required to undertake a file review of the component auditors work which is planned for the 20 July.	There are no findings to report from our audit procedures performed to date.

Status of the Audit (continued)

-  Audit procedures completed
  Audit procedures started but not completed
 Audit procedures substantially completed
  Audit procedures not started

Audit Procedures were work has started





Area of accounts and risks raised in our Audit planning report	Status	Findings
 Balance Sheet - Capital expenditure <i>Fraud Risk: Inappropriate capitalisation of revenue expenditure</i>	Audit procedures have been started - we have selected a sample of capital expenditure which is with the Council to provide evidence.	There are no findings to report from our audit procedures performed to date.
 Journals testing <i>Fraud Risk: Misstatements due to fraud or error</i>	Audit procedures have been started - we are currently undertaking our journals testing and have a number of queries outstanding with the Council.	There are no findings to report from our audit procedures performed to date.
 Balance Sheet - Investment Properties <i>Significant Risk: Valuation of Investment Properties</i>	Audit procedures have been started - our internal expert has raised a number of initial queries on the year end valuations which is with the Council for response. We have received a breakdown of the capital additions relating to Investment Properties and are selecting our sample for testing.	There are no findings to report from our audit procedures performed to date.
 Balance Sheet - Property, Plant and Equipment <i>Inherent Risk: Capital accounting entries and Valuation of Land and Buildings</i>	Audit procedures have been started - we have selected a sample of valued assets for testing and are awaiting evidence to support the valuations from the Council.	There are no findings to report from our audit procedures performed to date.
 COVID Grants <i>Inherent Risk: Accounting for Covid-19 related government grants</i>	Audit procedures have been started - we have received an updated grant classification working paper from the Council and we are performing testing of the updated assessment.	We identified that a number of COVID grants have been incorrectly accounted for in the draft statement of accounts in accordance with guidance for a accounting for agency grants. This will result in amendment to the financial statements the Council have not yet quantified the impact to date.
 Balance Sheet - Pension Liability <i>Inherent Risk: Pension Liability Valuation & other pension disclosures</i>	Our audit procedures are substantially complete - we have completed our procedures on the pension liability disclosed in the draft financial statements. The Council has requested an updated IAS19 report from it's Actuary to assess the impact of the most recent Triannual valuation in March 2022 and changes to investment asset balances in the pension fund.	There are no findings to report from our audit procedures performed to date.

Page

Status of the Audit (continued)

-  Audit procedures completed
 Audit procedures started but not completed
 Audit procedures substantially completed
 Audit procedures not started



Audit Procedures were work has started

Area of accounts and risks raised in our Audit planning report	Status	Findings
 CIES - Net cost of services - Other expenditure	Audit procedures have been started - we have selected a sample of expenditure transactions and have received evidence from the Council to support the transactions. We are currently completing our testing.	There are no findings to report from our audit procedures performed to date.
 CIES - Net cost of services - Other income	Audit procedures have been started - we have selected a sample of expenditure transactions and have received evidence from the Council to support the transactions. We have completed our initial testing on the evidence provided and have sent back further queries to the Council to provide evidence.	There are no findings to report from our audit procedures performed to date.
 Balance Sheet - Creditors	Audit procedures have been started - we are testing our sample of creditors and unrecorded liabilities.	The Council did not initially provide us with appropriate listings to support the Creditors balance in the statement of accounts, these listings were provided by the Council on the 22 June.
 Balance Sheet - Debtors	Audit procedures have been started - we have now received listings to support the debtors balance in the financial statements and we are selecting our sample based on these listing.	The Council did not initially provide us with appropriate listings to support the debtors balance in the statement of accounts, these listings were provided by the Council on the 11 July.
 Balance Sheet - Bad Debt Provision	Audit procedures have been started - we have received responses to our queries on the Bad debt provision and are working through these queries.	The Council did not initially provide us with appropriate working papers for Council Tax bad debt provision and Housing Benefit bad debt provision, these working papers were provided by the Council on the 11 July.
 HRA - Expenditure	Audit procedures have been started - we are undertaking the required procedures on this area.	There are no findings to report from our audit procedures performed to date.
 Disclosures - Officers remunerations	Audit procedures have been started - we are concluding our testing on a sample of remunerations as disclosed in the note.	There are no findings to report from our audit procedures performed to date.
 Disclosures - Exit Packages	Audit procedures have been started - we are awaiting evidence from the Council to support the exit packages note.	There are no findings to report from our audit procedures performed to date.
 Disclosures - Financial Instruments	Audit procedures have been started - we have raised queries on the financial instruments note and it content, the Council are working through our queries to ensure the note is disclosed in line with the CIPFA CODE.	There are no findings to report from our audit procedures performed to date.

Status of the Audit (continued)

-  Audit procedures completed
-  Audit procedures started but not completed
-  Audit procedures substantially completed
-  Audit procedures not started

Audit Procedures Substantially Completed with only a few remining outstanding requests and audit work outstanding

Area of accounts and risks raised in our Audit planning report	Status	Findings
 Balance Sheet - NDR Appeals Provision	Audit work on this area has not commenced.	Not applicable
 Closing procedures: <ul style="list-style-type: none"> ▶ Subsequent events review; ▶ Going Concern Assessment; ▶ Agreement of the final set of financial statements; ▶ Receipt of signed management representation letter; and ▶ Final Senior Manager and Partner reviews. 	Closing procedures to be performed upon completion of audit work and receipt of final version of the Statement of Accounts Management will be required to update their going concern assessment for 12 months post anticipated opinion date.	

Agenda Item 5



Report to:	Audit and Governance	26 th July 2023
Lead Cabinet Member:	Councillor John Williams, Lead Cabinet Member for Finance	
Lead Officer:	Peter Maddock, Head of Finance	

Final Accounts Position Statement and Catch Up Plan

Executive Summary

1. On 14th March 2023 Councils received a letter from the Department for Levelling Up, Housing and Communities (DLUHC) seeking assurance that the delays experienced to accounts and audit were being addressed. To that end a position statement and catch-up plan should be provided to this Committee. Whilst the Council has historically experienced significant issues in this area it is committed, along with the auditors, to get the accounts and audits up to date as soon as is practically possible and a catch-up plan has been agreed that aims to have the process back on track for the audit of the 2024/25 accounts to take place at the prescribed time during the early part of the 2025/26 financial year.
2. It is worth noting that there have been significant issues across the whole sector with resourcing and carrying out audits within the prescribed timescales. This stems from difficulties retaining and recruiting suitably qualified staff within the organisations that carry out the audits and this situation has led to an increasing number of authorities falling behind with their account's audits. In recognition of this DLUHC is considering how to address this on a sector wide basis.

Recommendations

3. That Committee note the current position regarding the accounts and audit process.
4. That Committee note the agreed timetable for bringing the accounts and audit up to date for the audit of the 2024/25 accounts at the prescribed time during the 2025/26 financial year.

Details

Position Statement

- 5. The final accounts for 2019/20 have now been approved and the audit completed in the last quarter of 2022/23. The 2020/21 audit commenced on 5th June 2023 and all working papers were available prior to the start of the audit. The fieldwork is expected to take around two months or so and is expected to be substantially complete by the date of this meeting. There will be final processes to take place after that so it is anticipated that the audit will be complete, and the accounts signed off during September 2023.
- 6. Much of the 2021/22 accounts process has been completed and it is intended to have this and a draft set of accounts available for the end of November 2023. The intention then is to start the audit for that year from 2nd January 2024 with Completion by the end of March 2024.

Proposed timeline

- 7. The plan going forward is to carry out two accounts and audit cycles per financial year as set out in the table below.

	Accounts prepared	Audit complete	Auditor
20/21	Complete	September 2023	EY
21/22	November 2023	March 2024	EY
22/23	May 2024	September 2024	EY
23/24	November 2024	March 2025	KPMG
24/25	May 2025	September 2025	KPMG

- 8. EY will cease to be the Council’s appointed auditor for 2023/24 and the new auditors KPMG will take over.
- 9. The first final accounts and audit cycle to be completed by KPMG will be the 2023/24 cycle which it is our intention to complete the audit by March 2025. The new auditors are already aware of the situation the Council is in regarding its accounts and have been informed of the proposed timetable for the 2023/24 audit. They are in agreement with our proposed timetable; however it was agreed that there would be a further meeting with KPMG once the 2020/21 accounts and audit are complete to check this was still feasible. In the early part of 2025/26 the intention is that the 2024/25 audit will be carried out to the prescribed timetable.

Options

- 10. The report asks the committee to note the current status of the Council’s accounts and audit. The Council and the auditors believe the proposed timeline for getting things up to date is reasonable and realistic and the committee is asked to support this.
- 11. A shorter timeline has been considered but both parties believe that this is unrealistic given the other competing demands both the Council and EY will face.

Implications

12. In the writing of this report, taking into account financial, legal, staffing, risk, equality and diversity, climate change, and any other key issues, the following implications have been considered:-

Financial

13. Timely and robust consideration of the Council's budgets is vital to ensure that financial statements are correctly stated, financial procedures are followed and that the financial position of the Council is effectively managed and monitored.

Legal

14. There is a requirement under the Accountancy and Audit Regulations for Council's to present their accounts for the preceding financial year for audit by 31st of May each year and for those accounts to be audited and published by 31st July each year. For the 2021/22 financial year, 19% of councils have achieved this target. Going forward this deadline is to be moved to 30th September each year.

Risks/Opportunities

15. There is a risk that the financial statements are incorrectly stated with consequential impacts. The purpose of the external audit is to mitigate this risk. This is still a significant risk going forward but with dedicated experienced resources now tasked with dealing with auditor queries and accounts completion the risk should be mitigated.

Alignment with Council Priority Areas

A modern and caring Council

16. Producing an annual statement of accounts is key to supplementing the financial information already in the public domain, to ensure the full transparency of the Council's financial affairs.

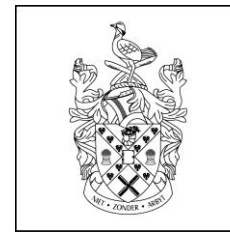
Appendices

Report Author:

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Telephone: (01954) 713072

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Agenda Item 6



South
Cambridgeshire
District Council

Report to:	Audit & Corporate Governance	26 July 2023
Lead Cabinet Member:	Councillor John Williams Lead Cabinet Member for Resources	
Lead Officer:	Peter Maddock, Head of Finance	

Key Amnesty Project

Executive Summary

1. This report provides a review of the Key Amnesty project led by the Corporate Fraud Team and supported by colleagues in Housing Services and the Communications team. The project had a number of key aims related to Social Housing Tenancy Fraud and was carried out during February 2023. It is generally accepted that a period of time following the amnesty should be allowed before assessing the outcome.

Key Decision

2. This is not a key decision as there are no resource implications directly arising from the report.

Recommendations

3. **That Audit and Corporate Governance Committee note the review and success of the Key Amnesty project.**

Reasons for Recommendations

4. To note the report.

Details

5. In the current economic climate, there is an increased focus being placed on local government to protect public funds. The authority is an attractive target for fraudsters and is vulnerable to acts of fraud, corruption or irregularity. The current Cost-of-Living Crisis, compounded by financial recovery as the legacy of the Covid 19 Crisis, has broadened the scope and demand for anti-fraud services. Ongoing delivery of Central Government support packages and financial pressures have heightened incentive and risk of abuse.
6. The Key Amnesty project was aimed at tackling the significant issues relating to Social Housing Tenancy Fraud. It has been estimated that more than 100,000 social homes in the UK are subject to some form of tenancy fraud. [Figure based on Protecting the Public Purse report 2012]. Whilst this figure is a little out of date it is highly likely that this figure is now higher.

7. South Cambridgeshire District Council currently manages over five thousand tenancies within the district. Social housing tenancy fraud is the second-largest cause of Local Government fraud losses. When housing supply is reduced by fraudulent tenancies local councils carry the financial burden of providing accommodation for the homeless.
8. The project has a number of aspects to it and whilst one aspect is to encourage tenants who are occupying or sub-letting Council property contrary to their tenancy agreement to return their keys without facing criminal action, other aspects include the following:-
 - a) Raising awareness and vigilance, this is promoted through provision of easily accessed resources to support the identification of fraud and to confidentially report suspicions of fraud on internal and external platforms.
 - b) Support intolerance towards fraud within South Cambridgeshire communities through publicity and education to highlight the cost of fraud to the community.
 - c) Provide accessible fraud awareness resources which empower the community to assist in identification and prevention.
 - d) Assure South Cambridgeshire communities that fraud is taken seriously by the Council and that both proactive and responsive approaches are adopted to prevent and detect fraud and ensure finite assets are not misdirected.
9. All of these aspects support the counter Fraud and Error Strategy that was considered by this committee in July 2021 and adopted at cabinet in September 2021.
10. The media campaign commenced on 17th January 2023 and between then and the end of February reached over 42,000 people. Communities accessed information about housing fraud via Facebook, Twitter and Instagram. There was also media coverage by the Royston Crow, Cambs News, Cambridge Network, Cambridge Independent and TV West Anglia.
11. The amnesty itself started on 1st February 2023 and the Corporate Fraud team, in partnership with Housing services, ran the Campaign to raise awareness around social housing fraud and to provide an opportunity for those misusing social housing to return their keys. The campaign used the tag line #Dotherightthing.
12. As part of the education aspect tenants were written to directly in the interest of raising awareness of social housing fraud and explaining what social housing fraud might look like in a relatable way. Following the unprecedented circumstances of the Covid Pandemic, affecting the living arrangements of many, tenants were provided with an opportunity to return housing where it was not being used in accordance with tenancy agreements.
13. The campaign ended on 28th February but it was recognised that there would need to be a period of time afterwards to assess the impact of the project fully.
14. Between the period of 19 January 2022 to 31 March 2022, one (1) housing related referral was received compared to the period of 19 January 2023 to 31 March 2023

when sixteen (16) housing related referrals were received. These referrals only relate to housing fraud reports and exclude referrals relating to other fraud categories.

15. Housing reported 71 tenancy terminations in total in January and February 2023. In the same two months of the previous year there were 50. Housing report fluctuations each month between 20-40 individual terminations and the increase cannot be attributed specifically to the amnesty. Notice was provided in writing for each termination of tenancy as prescribed in the standard tenancy agreement. The reasons for each termination described mirror typical trends.
16. Following the success of the project it is proposed to carry out further fraud prevention work including a more general campaign around awareness and how residents can report their suspicions and help in the fight to combat fraud.

Implications

17. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Legal

18. The work of the Corporate Fraud function supports the Chief Finance Officer and Council responsibilities to safeguard council assets under section 151 of the Local Government Act 1972.

Policy

19. The Fraud and Error Strategy adopted by Cabinet in September 2021 governs the Councils approach to fraud and error and the policies and practices adopted to robustly prevent and detect fraud against the Council in all its forms.

Finance

20. The additional cost was minimal and met from existing budgets. There would also be monetary savings from preventing acts of fraud but of course this cannot be quantified.

Risk/Opportunities

21. The Council is vulnerable to fraud in its many and varied forms and the Corporate fraud team are there to help mitigate this risk with prevention measures, detection and where appropriate prosecution of offenders. There is also a council wide fraud risk assessment which looks at the many risks across the council and the mitigation in place for each risk.

Climate Change

22. There are no direct environmental implications arising from the report.

Consultation Responses

23. Consultations have been undertaken with the Lead Cabinet Member for Resources and officers in Finance, Housing and Communications as appropriate.

Alignment with Council Priority Areas

24. The project supports all council priorities as robust fraud prevention and detection measures help mitigate the loss of funds through fraudulent activity. Those funds can then be used to fund services in all areas of the Council.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Fraud and Error Strategy – Report to Audit and Governance Committee: 29 July 2021
- Fraud and Error Strategy – Report to Cabinet: 6 September 2021
- Internal Audit and Counter Fraud update – Quarterly report to Audit and Governance Committee.
- Fraud Risk Assessment.

Appendices

None

Links to Media articles

[Key Amnesty' to tackle misused South Cambs council properties | Royston Crow \(royston-crow.co.uk\)](https://www.royston-crow.co.uk)

[South Cambridgeshire amnesty for housing fraudsters - CambsNews](#)

[Key Amnesty campaign to tackle misused Council properties in South Cambridgeshire | Cambridge Network](#)

['Hand in your keys - no questions asked' - month-long amnesty will tackle misused council properties in South Cambridgeshire \(cambridgeindependent.co.uk\)](#)

That's TV West Anglia on Twitter: ""if you're in the situation, then you put your keys in an envelope with the address on it" Cllr John Batchelor from @SouthCambs told That's TV

about their #dotherightthing campaign, which is aiming to try and recover some of their Council houses. <https://t.co/UD4BciYET0>" / Twitter

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Agenda Item 7



**South
Cambridgeshire
District Council**

REPORT TO: Audit and Corporate Governance Committee
LEAD OFFICER: Head of Shared Internal Audit

26th July 2023

Internal Audit Plan and Opinion

Executive summary

1. This report introduces the proposed Internal Audit Annual Plan and Strategy for the next six months of the 2023 / 2024 financial year, for consideration by the Audit and Corporate Governance Committee.
2. The report also includes a progress update from the past six months work, plus our current opinion on the internal control environment, governance and risk management arrangements.
3. Internal Audit Plans, and associated documents, have been created in line with best practice laid down in the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN).

Key Decision

4. This is not a key decision because the risk based Internal Audit Plan is being presented to the Audit and Corporate Governance Committee in accordance with their terms of reference.

Recommendations

5. The Audit and Corporate Governance Committee is requested to consider the supporting information, in the appendices, to:
 - (i) approve the draft Audit Plan and Strategy; and
 - (ii) approve the supporting Charter and the Code of Ethics.

Reasons for Recommendations

6. The Internal Audit Plan, and associated documents, have been created in line with best practice laid down in the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN).
7. The Internal Audit Plan should help add value to the Council by helping to improve systems, mitigate risks, and inform the Annual Governance Statement.

Details

8. The Accounts and Audit Regulations 2015 require that the Council “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account public sector internal auditing standards or guidance.”
9. The Public Sector Internal Audit Standards (PSIAS) require that the Head of Audit “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”.

10. The PSIAS also requires the Head of Audit to provide a written report to those charged with governance to support the Annual Governance Statement (AGS), which accompanies the Statement of Accounts. This includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment, governance, and the risk management framework.
11. Appendix A is the risk based Internal Audit Plan which is continually updated. It has been based upon the Business Plan, risk registers, ongoing consultation with key officers, committee reports, information from other assurance processes, plus horizon scanning to consider emerging risks and opportunities.

Considerations

12. The plan is the work programme for Internal Audit and provides the basis upon which the service will subsequently give an audit opinion on South Cambridgeshire District Council's (SCDC) system of internal control, risk management and corporate governance arrangements. Progress against the plan, and updates, will be regularly reported to the Committee.
13. It is good practice to operate an agile audit plan that continuously adapts in response to the governance risk and control environment of the Council. Our Audit Plan is based around a long-term framework of reviews, which typically covers a three-year period. Audits are prioritised according to several risk-based determinants. We present a shorter 6-month plan, focussing on the key areas of assurance. Regular reports are presented to the Committee on a quarterly basis to provide regular updates. This will also provide an opportunity to proactively communicate topical risks and assurance to the Committee.
14. Appendix B provides a progress update from the past six months, plus the current opinion on the overall adequacy and effectiveness of the organisation's internal control environment, governance, and the risk management framework
15. The Internal Audit Charter (Appendix C) and the Code of Ethics (Appendix D) are also appended for information. They are regularly reviewed as part of an ongoing Quality Assurance and Improvement Programme (QAIP) considering both the PSIAS and the LGAN. No significant changes have been made this year. It is good practice to present these documents annually as they define internal audit's purpose, authority, responsibility and position within an organization, supporting the risk-based audit plan.

Options

16. The Committee should review the plan and consider if there are any further pieces of work where they would welcome assurance.

Implications

17. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, there are no significant implications or risks to the Council.

Background Papers

18. Background papers used in the preparation of this report:
 - Risk-Based Internal Auditing – Working Standards and Procedures
 - Public Sector Internal Audit Standards
 - South Cambridgeshire District Council Risk Registers
 - Business Plan

Appendices

19. Appendices to this report include:
- a) Internal Audit Plan and Strategy
 - b) Progress Update
 - c) Internal Audit Charter
 - d) Internal Audit Code of Ethics
 - e) Glossary of Terms

Report Author:

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Appendix A – Internal Audit Plan



South Cambridgeshire District Council

1 Introduction

- 1.1 This document demonstrates how we will support the overall aims and objectives of the Council. It will be reviewed throughout the year to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.
- 1.2 The Accounts and Audit Regulations 2015 require that the Council "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account public sector internal auditing standards or guidance."
- 1.3 The Public Sector Internal Audit Standards (PSIAS) require that the Head of Audit "must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals".
- 1.4 We provide an independent, objective assurance and consulting service that adds value and improves the Council's control environment. This helps the Council deliver its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Definition	Details
Audit and assurance	<p>Assurance is our key role, and the Head of Shared Internal Audit provides an Audit Opinion based on an objective assessment of the framework of governance, risk management and control.</p> <p>This opinion is provided to the Committee and also feeds into the Annual Governance Statement.</p>
Consulting and advisory	<p>We also complete consulting services. These are advisory in nature and are generally performed at the specific request of management with the aim of improving operations. Requests of this nature are considered in light of resource availability and our primary role of assurance.</p>

2 Strategy

- 2.1 Greater Cambridge Shared Audit was established as a shared service between Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC) in 2017.
- 2.2 Our strategic aim is to deliver a co-ordinated audit plan for both Councils. This should add value by providing assurance, improving controls and reducing risk.
- 2.3 This joint approach enables work to be undertaken which reflects the priorities for both Councils whilst getting the benefits of co-ordinated reviews which can be covered in partnership.
- 2.4 Our vision is: "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

3 Internal Audit Plan

- 3.1 Our work will support the Council's corporate objectives, and the corporate governance framework.

Identifying work

- 3.2 Our plan considers the Council's Corporate Plan, risk registers, consultation with stakeholders, committee reports, information from other assurance processes, plus horizon scanning to consider emerging risks and opportunities.
- 3.3 There needs to be a flexible approach to planning, to ensure that our work meets the needs of the Council in the continually changing risk and control environment. The risk-based planning approach enables the plan to be updated when new reviews are identified. The plan will be reviewed and monitored throughout the year, with regular updates reported to the Audit & Corporate Governance Committee.
- 3.4 Our work should address key risk areas and draw attention to significant concerns and what needs to be done. Ideally the plan will provide coverage across the whole organisation, and some reviews may be cross cutting and involve multiple teams and partners. This enables the Head of Shared Internal Audit to produce an annual internal audit opinion that can be used to inform the Annual Governance Statement.

4 Resources

- 4.1 Resource requirements are reviewed each year as part of the audit planning process. The current establishment for the audit team enables sufficient resource to deliver our risk-based plan.
- 4.2 The broad scope of activities within the Council means that demand for potential reviews will exceed the number of available days within a year. The risk-based planning approach identifies and matches audit work to the available audit resources, based on where the most value can be added.
- 4.3 Our plan needs to be agile and flexible enough to enable us to be reactive to situations arising during the course of the period covered by the plan.
- 4.4 Time allocations for reviews are based on strategic planning, plus our experience from previous reviews. As each audit activity is fully scoped and agreed with the appropriate senior manager, each job will then be monitored to that time allocation.





5 Assurance Type and Key Themes

5.1 The main types of our audit and assurance work are:

Type	Details
Risk Based	Our audit plan is risk based and coverage will be prioritised towards the corporate priorities and risks to the Council, to help ensure that desired outcomes are delivered efficiently.
Core Work	We undertake audits reviews which aim to provide assurance that corporate systems and processes are robust and protect the Council. These will typically involve work around key financial systems, management controls, and programmed annual assurance. Some work may be mandatory, such as providing assurance to central government on expenditure.
Third party	We will also take assurance from third parties. Leveraging resources of other assurance functions helps to provide coverage of the Councils controls environment whilst minimising the duplication of effort. This could include audit or review work in partnerships where another organisation is the lead stakeholder, or where a third party with professional expertise or a legal obligation has undertaken a review. If the outcome of these reviews impacts the control environment this may prompt us to undertake our own work in this area. As a shared service we also provide assurance work for other shared services delivered across the Councils. The output of the work will be reported to all stakeholders.

5.2 For each audit review, a brief description of the scope for the work is provided together with the type of audit. Timing and detailed scopes for each audit will be agreed with the relevant Senior Manager prior to commencement of the fieldwork.

5.3 Our reviews are categorised by themes to help us communicate the areas of focus. Our major key themes for 2023 / 2024 include:

Theme	Details
 Transformation	The Council continually seeks continuous improvement. We will proactively support this process as new opportunities are identified. We will also review any new key systems, after implementation, for benefits realisation and to provide assurance that key controls continue to operate effectively.
 Governance	We will review governance areas where it helps add value to the Council, stakeholders, or if there is a statutory requirement. We will also contribute to the Annual Governance Statement.
 Regulation and Safety	Completing compliance reviews of systems which control and manage safety to our customers helps to provide timely assurance that systemic risks are being managed effectively.
 Resilience and recovery	Our plan reflects changes to the risk and control environment as events continue to drive rapid change across the Council. We will add value to the Council by providing real-time assurance on new and developing processes and controls.

6 Follow-ups

6.1 To ensure that agreed actions are being implemented, follow-up work will be carried out. If a review resulted in significant recommendations, then a full audit may be planned to evaluate the effectiveness of the implementation.

7 Other activities

7.1 In addition to delivering the audit plan, resources are allocated to deliver other activities, which are classified as “Governance Risk and Control” or “Other Resource Provisions”. Examples are detailed later on in the report.

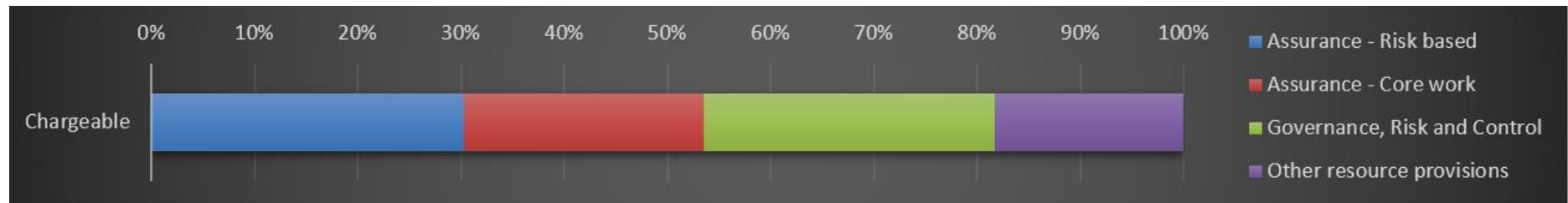
8 Summary

8.1 The Internal audit plan will add value to the Council by helping to improve systems, mitigate risks, and inform the Annual Governance Statement.

9 Our forward plan

9.1 We calculate our resources annually. The table below provides an overview of anticipated work for the next 12 months, by audit area, and a comparison with the previous year.

Audit area	Days	Current year	Previous Year
Assurance - Risk based	121	30%	38%
Assurance - Core work	93	23%	20%
Governance, Risk and Control	113	28%	18%
Other resource provisions	73	19%	24%
Grand Total	400	100%	100%



Observations

- 9.2 This is the allocation of work for South Cambridgeshire District Council and demonstrates how we expect resources to be consumed. It is broadly similar to the previous year.
- 9.3 There continues to be a large demand for core work, and a driver for this is Central Government funding which requires Internal Audit to review schemes, expenditure and provide assurance back to Central Government.
- 9.4 Governance, Risk and Control work has increased. This reflects processing matches from the National Fraud Initiative, supporting the Cambridgeshire Council Tax Compliance and Counter-Fraud Initiative (CCFI), advisory work on 4DW controls,

plus supporting the risk management framework. Where possible we also work smartly and co-ordinate these activities with our assurance work to help provide a breadth of coverage and a fuller audit opinion.

9.5 A more detailed breakdown of planned assurance work for the next six months is given on the pages that follow. Our plan is designed to be agile and regular updates are provided to the Committee.

Assurance work

9.6 Assurance comprises two categories:

Risk based	These are reviews of systems and processes which have been risk appraised. This identifies potential reviews, which are subsequently prioritised. Factors taken into account include materiality, corporate importance, vulnerability, risks and opportunities. The overall aim is to add value by providing assurance, improving controls and reducing risk.
Core work	This involves reviews of systems that are fundamental to the Council's governance, risk and control environment. This type of work will also include mandatory activities, such as providing assurance to third parties, such as Central Government, and can also help to provide assurance for the External Auditor.

9.7 Our work provides assurance to all stakeholders of the Council. It also supports the s.151 officer for their commentary included in the authority's Annual Statement of Accounts. The reviews planned for the next six months are listed in the table below:

Review	Assurance type	Progress update	Scope and description
Risk based			
Safeguarding - Modern Day Slavery	Heartbeat assurance	This work is in progress	Review of the existing governance arrangements in respect of modern-day slavery.
HRA - Damp and mould	Compliance	This work is scheduled for later in the year.	Provide assurance that the Council is maintaining assets to expected standards and regulations, and has a program to make improvements.
HRA - Electrical Safety Compliance	Compliance	This work is scheduled for later in the year.	Provide assurance that the Council is maintaining assets to expected standards and regulations, and has a program to make improvements.
Customer Portal	Technology review	This work is scheduled for later in the year.	Review of the customer portal and consider if there are any further opportunities for improvement.
Community Facilities - Northstowe	Physical site review	This work is scheduled for later in the year.	New Community Centre has been constructed. Site review of new building to consider management arrangements.
Core work			
Accounts Payable - Master Data	Data quality and analytics	This work is in progress.	This is the financial system for setting up suppliers, paying and reconciliation of payments. We will use the latest National Fraud Initiative data to complete an analysis of records to reduce the risk of fraud and error.

Review	Assurance type	Progress update	Scope and description
Grant assurance: Energy Rebate Schemes	Grant assurance	This work is in progress.	We have budgeted resource to provide assurance on Central Govt schemes which supports residents with the Cost of Living.
Grant assurance – Homes for Ukraine	Grant assurance	This work is in progress.	We have budgeted resource to provide advisory support on control evaluation of new procedures developed at pace. Potential for sample testing of payments to provide assurance that effective internal controls are in operation throughout the payment allocation process.
Ethics, Culture and Governance	Governance	This work is in progress.	Each year we will allocate some resource to assess and make appropriate recommendations to improve the organisation's governance processes, including promoting appropriate ethics and values within the organisation.
Information Governance - GDPR	Governance	This work is in progress.	Participation and assurance from the corporate Information Security Group and compliance check on a selection of thematic areas.
Procurement - Declarations of Interest	Data quality and analytics	This work is in progress.	Review of controls for managing pecuniary and non-pecuniary interests. Supplemented by National Fraud Initiative testing.
Grant assurance – COMF	Grant assurance	This work is scheduled for later in the year.	This is a balance of grant funding to support test and trace program that was carried forward from the previous period. We anticipate the requirement for grant certification to DHLUC determination requirements, as per the previous year.
Payroll – Core controls	Key Financial System	This work is scheduled for later in the year.	We review the core controls of the Payroll system to provide assurance over the completeness and accuracy of the system.

Review	Assurance type	Progress update	Scope and description
Grant assurance - Disabled Facility Grant	Grant assurance	This work is scheduled for later in the year.	Certification of the annual grant payment from the Better Care Fund allocated to District Councils via the County Council. Review of a sample of payments made in respect of disabled facilities.
Carbon management - Data Quality	Data quality and analytics	This work is scheduled for later in the year.	Council carbon emission data is collected to produce an annual Greenhouse Gas report. Data is quality assured by Internal Audit before being published.
VAT	Compliance	This work is scheduled for later in the year.	Financial controls review, supplemented by National Fraud Initiative testing
Risk Management Strategy	Governance	This work is in progress.	We work with the Policy and Performance team to support continuous review of the Strategy & Framework to best practice standards (governance risk and control work). This enables us to conclude on the effectiveness of the Framework for own opinion of the governance arrangements.

Governance, Risk and Control

9.8 Each year the Council issues a statement on the effectiveness of its governance arrangements. Internal Audit completes work which supports the production of the Annual Governance Statement throughout the financial year. This includes:

Activity	Audit scope and description
Annual Audit Opinion	This is our report, produced by the Internal Audit lead for their relevant audit committee, to provide an opinion on the state of governance and the internal control framework in place within the Council.
Internal Audit Effectiveness	A regular review of the Internal Audit service, to the Public Sector Internal Audit Standards and the Local Government Application Note, is completed. This is also known as a Quality Assurance and Improvement Program.
Annual Governance Statement	Internal Audit supports the development of the Annual Governance Statement, the associated Action Plan and review of the Local Code of Governance.
Prevention of Fraud and Corruption	<p>Internal Audit works with the Fraud team to support development and awareness of fraud and error risks across the Council.</p> <p>In addition, Internal Audit co-ordinates, the National Fraud Initiative, a proactive data matching exercise, and is a key contact for data analytical tools.</p> <p>We will support the Revenues Team to implement the Countywide Council Tax Compliance and Counter-Fraud Initiative.</p>
Risk Management	We have allocated time to work with the Policy and Performance Team to support development of the Risk Management framework. This proactive and co-operative approach helps improve risk management and allows us to take real-time assurance.

Other resource provisions

9.9 Throughout the year, we will complete work in addition to the Audit Plan, including management requests as a result of changing risks; following up agreed audit actions and completion of audit works from previous plans. Examples include:

Activity	Audit scope and description
Carry forward activities	A number of reviews continue from the previous plan, due to other activities taking precedence e.g., investigations or corporate projects.
Follow up provision	A number of audits completed in previous years, where there have been concerns identified, are followed up to ensure that agreed recommendations have been implemented.
Transformation	We will support the Council's Transformation Program by proactively working with teams and supporting projects where we can help add value to improving the governance risk and control environment.
Contingency: requested work / advice / irregularities	<p>Internal Audit act as a focal point to assist officers across the Council in providing advice / support in relation to projects; contracts; procurement or general controls.</p> <p>No matter how robust services and processes are, there is always the potential for anomalies to occur. Internal Audit assists by providing pro-active counter fraud work; and reactive work for suspected irregularities and whistleblowing referrals.</p> <p>An element of time has been set aside to allow for these activities within the plan.</p>

Appendix B – Progress update and Opinion

1 Introduction

- 1.1 Management is responsible for the system of internal control and establishes policies and procedures to help ensure that the system is functioning correctly. On behalf of the Audit & Corporate Governance Committee, Internal Audit acts as an assurance function by providing an independent and objective opinion on the control environment.
- 1.2 The purpose of this section of the report is to provide an update on the recent work completed by internal audit and report our overall opinion on the control environment. This opinion will in turn be used to inform the Annual Governance Statement which accompanies the Statement of Accounts.
- 1.3 Where appropriate, reports are given an overall opinion based on four levels of assurance. This is based on the evaluation of the control and environment, and the type of recommendations we make in each report. If a review has either “Limited” or “No” assurance, the system is followed up to review if the actions are implemented promptly and effectively. Further information is available in Appendix E – Glossary of terms.

2 Resources and team update

- 2.1 An audit plan is presented at least annually to the Audit & Corporate Governance Committee. It is good practice to continually review the plan, to reflect emerging risks, revisions to corporate priorities, and changes to resourcing factors. Since June 2020 we have completed a six-month plan, as this gives us the flexibility to respond and deliver an audit plan that adds value to the Council. Quarterly updates have been provided to the Committee.
- 2.2 The audit assignments are delivered by a team of audit staff including a mix of highly regarded professional qualifications (including CIPFA, ACCA and IIA). The team currently has one vacancy, which is included in the resource plan. We plan to recruit substantively into the position, but if this is not possible, we will utilise alternative resources such as agency workers or internal secondments.
- 2.3 We have maintained our periodic PSIAS assessments and identified learning and development opportunities for the team in 2023/2024.
- 2.4 As anticipated, we have been providing the Council with support on Business Grant stimulus packages. The amount of resource required for this activity has continued to impact our normal assurance work, but is less than the previous year. We are pleased to have still completed audit reviews in the period as this enables us to provide an opinion for the Annual Governance Statement.
- 2.5 Progress of the plan delivery is illustrated on the following pages for information.

3 Assurance

- 3.1 The audit plan enables me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). This opinion will inform the Annual Governance Statement.
- 3.2 Our work is carried out to assist in improving control. Management maintains responsibility for developing and maintaining an internal control framework. This framework is designed to ensure that:
- the Council's resources are utilised efficiently and effectively;
 - risks to meeting service objectives are identified and properly managed; and
 - corporate policies, rules and procedures are adequate, effective and are being complied with.
- 3.3 Assurance is received from a number of sources. These include the work of Internal Audit; assurance from the work of the External Auditor; the Annual Governance Statement together with the Local Code of Corporate Governance and the Risk Management process. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion.
- 3.4 If the audit reviews undertaken identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, we issued recommendations to improve the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed-up and is reported to Audit & Corporate Governance Committee.
- 3.5 It is the opinion of the Head of Shared Internal Audit that, taking into account all available evidence, reasonable assurance may be awarded over the adequacy and effectiveness of the Council's overall internal control environment, governance and risk management arrangements. This remains at a similar level to the previous period, based on the outcomes of our work, however we recognise the risks and challenges that the Council has faced with recent global events and the potential impact this has on the control environment. Consequently, our ongoing audit plan now features Resilience and Recovery as one of our key themes.

4 Independence and Objectivity

- 4.1 It is important that the Internal Audit service is sufficiently independent to provide an objective annual opinion.
- 4.2 We safeguard against any potential ethical threats by preparing an Internal Audit Code of Ethics, which is presented to the Committee annually.
- 4.3 Every year, all members of the team complete a declaration form to ensure and maintain independence and objectivity in conducting all assignments.
- 4.4 During the past year there has not been any impairment in independence or objectivity to the Head of Shared Internal Audit or the service itself.

5 Added Value Services

- 5.1 Although our primary responsibility is to give an annual assurance opinion it is also important that the Internal Audit service adds value to the organisation.
- 5.2 There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies.

6 Progress on assurance work

We provide regular updates on the audit work completed to the Committee in our quarterly Governance Risk and Control Updates. A summary of the assurance that was concluded in the past 12 months includes:

Committee meeting	Review name	Assurance rating	Previous Assurance	Actions			
				Critical	High	Medium	Low
September 2022	Financial Management Code	Full	New review	0	0	0	2
	Counter fraud Whistleblowing	Full	Full	0	0	1	0
	Legal Services	Full	Limited	0	0	0	0
	Carbon management – Data Quality	Full	Reasonable	0	0	0	0
	Grant Assurance – OHLG PPAS	Full	New review	0	0	0	0
December 2022	Grant Assurance – Restart PPAS	Full	New review	0	0	0	0
	Grant Assurance – ARG PPAS	Full	New review	0	0	0	0
	Disabled Facility Grants	Full	Reasonable	0	0	0	0
March 2023	Carbon Management Strategy	Reasonable	New review	0	1	0	0
	National Fraud Initiative - Data Quality	Full	Reasonable	0	0	1	0
	Grant assurance - Energy Rebate Schemes	Full	New review	0	0	0	0
July 2023	Taxi Licensing – NR3S Implementation	Full	Reasonable	0	0	2	0
	Asset Management – Land Records	Full	New review	0	0	0	0
Continuous embedded assurance	Information Governance – GDPR	Reasonable	Working with teams proactively enables to conclude on effectiveness of internal controls and identify real time control improvements.				
	Risk Management	Reasonable					

The volume of grant assurance reviews was greater than previous years. These were core audits, and mandatory, to provide assurance to external stakeholders.

We undertook some new risk-based reviews. These can be challenging when the team does not have prior experience of completing these reviews, and there is limited professional guidance. However, it is important that we focus resources on topical / emerging matters to provide added value assurance.

7 Counter fraud and corruption update

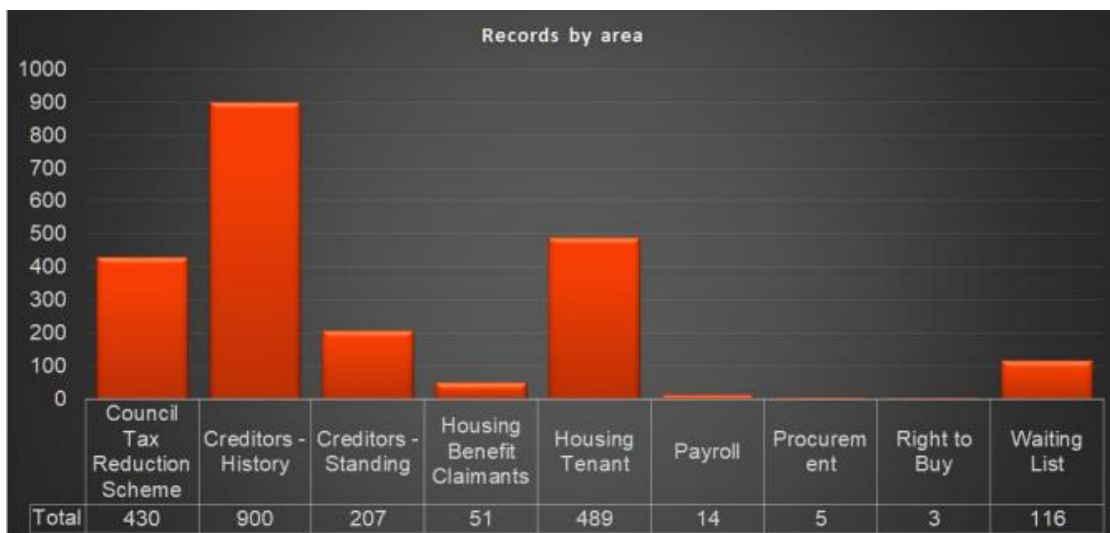
7.1 The Council has a Counter Fraud Team, and we work with them as this helps improve internal controls and proactively reduces risk.

National Fraud Initiative

7.2 The Council participates in a national data matching service known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping councils to complete proactive investigation. Historically this process has not identified significant fraud and error at South Cambridgeshire District Council, and this provides assurance that internal controls continue to operate effectively.

7.3 Internal Audit is the Key Contact for the National Fraud Initiative exercise. We have recently processed 266,676 records for the exercise. We provide data from: Trade Creditors, Housing, Council Tax, Benefits, Market Traders, Electoral roll, plus our Payroll and Pensions. This happens at least every two years, with the Council Tax and Electoral roll data submitted annually.

7.4 The Cabinet Office have processed the data and issued the latest matches. These are records which have matched to other datasets and could identify potential cases of fraud and error (*they could also be “false positives” with a legitimate reason for the match*).



7.5 The total volume of matches is consistent with the previous exercise in 2020/2021. Matches are prioritised according to risk and will be reviewed over the next 24 months. For further information on the National Fraud Initiative please visit their [Cabinet Office website](#).

Data Analytics

- 7.6 We are working with colleagues in the Revenues to implement the Countywide Council Tax Compliance and Counter-Fraud Initiative. Internal Audit is the system Key Contact and will quality assure the data prior to upload to the Cabinet Office website. This work will supplement the NFI exercise.

8 Other audit and assurance activity

Business Grants

- 8.1 The team has continued to assist the Council with delivery of Central Government funded Business Grant schemes.
- 8.2 To help safeguard the public purse and ensure that funds are provided to legitimate applicants, we have maintained a post-assurance plan, which sets out checks and tests. We utilised government recommended tools to check applicants for compliance with scheme eligibility. In addition, we also designed our own local assurance tools, and this has helped us to proactively prevent some applications that were non-compliant with the regulations.
- 8.3 We are currently concluding the post scheme assurance phase. We have completed assurance reporting to Central Government and also worked with Counter Fraud agencies to share intelligence on areas of fraud risk. We have also provided sample-based evidence to Central Government, which is subsequently shared with the National Audit Office. This work was included in our audit plan.
- 8.4 HMRC required that we share data for the Business Support Grants paid during the pandemic, as the payments were taxable. This was a complex exercise and required processing of over 8,000 records to the HMRC standards.
- 8.5 The work helps both the Council and Central Government to have assurance that the Council has taken proportionate and effective controls to mitigate the risk of fraud and error.

External and third-party assurance

- 8.6 Where appropriate we take assurance from third parties when concluding our opinion on the control environment. Examples include partner audits where they are the lead authority, peer reviews, external audits and ISO accreditations. This work is included in the Councils Annual Governance Statement. If there is a limited assurance rating, we may supplement this work with our own audit testing to provide assurance that improved controls are being implemented.

Public Sector Internal Audit Standards

- 8.7 The Public Sector Internal Audit Standards (PSIAS) require that Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity. External assessments must be conducted at least once every five years by a qualified, independent assessor. In 2018 CIPFA independently verified that we “**Generally Conform**” with the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN). We are preparing for an external review.
- 8.8 The Global Internal Audit Standards are currently being reviewed as good practice. Once this is complete it is probable that there will be a refreshed PSIAS to reflect any professional changes. The review is unlikely to impact our next external assessment as the implementation date for the new standards is likely to take 12-24 months. We will keep up to date with standards revisions so they can be adopted promptly.
- 8.9 We completed our annual internal review process which provides assurance that we continue to meet the standards. We recognise that the continued impact of Covid-19 and Cost of Living related work has meant that, while we have completed a reasonable volume of audit work, the breadth of coverage has reduced in comparison to previous years. This can potentially reduce our ability to provide a comprehensive annual opinion on the overall control environment. Consequently, the risk of not complying with the standards is greater than normal. The risk has been reducing as we return to more normal ways of working. We respond to guidance issued by our professional bodies and adapt our assurance approach to help maintain compliance with the standards.

Governance

- 8.10 We facilitated the review of the Annual Governance Statement, and the Local Code of Governance, which accompanies the Statement of Accounts.
- 8.11 We supported the Audit & Corporate Governance Committee by facilitating a workshop on the latest guidance for effective audit committees. We used the output of this work to help inform the content of a new style audit committee annual report.

Risk management

- 8.12 We have continued to provide support on the identification of risks and controls as part of our Internal Audit Plan.

9 Conclusion

- 9.1 The work carried out by the Internal Audit Team conforms to the Public Sector Internal Audit Standards.
- 9.2 A continuous risk-based audit plan is completed, providing assurance. The team also provides added value consulting activities such as providing advice and fraud and error activities.
- 9.3 The audit work completed has provided sufficient coverage to enable Internal Audit to form an opinion on the internal control environment, governance and risk management arrangements. There is Reasonable assurance awarded during the year, and this remains at a similar level to the previous period.

Appendix C – Internal Audit Charter



Our vision:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

May 2023

Next Review: By April 2024

Version Control: 1.06

1 INTRODUCTION

- 1.1 Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1 April 2013, and are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) now provide a consolidated approach to promoting further improvement in the professionalism, quality, consistency, transparency and effectiveness of Internal Audit across the whole of the public sector.
- 1.2 The Standards have been revised from 1 April 2017 to reflect the latest changes in the IPPF. In addition, the PSIAS are supported by a Local Government Application Note (LGAN), published by the Chartered Institute of Public Finance and Accountancy to provide relevant sectoral requirements guidance.
- 1.3 The PSIAS require that all aspects of Internal Audit operations are acknowledged within an Audit Charter that defines the purpose, authority and responsibilities of the service provision. The Charter therefore establishes the position of the service within the Council; its authority to access records, personnel and physical properties relevant to the performance of engagements; in addition to defining the scope of Internal Audit activities. There is also an obligation under the PSIAS for the Charter to be periodically reviewed and presented to the relevant audit committee, the Section 151 Officer and senior management. This Charter will therefore be revisited annually to confirm its ongoing validity and completeness, and be circulated in accordance with the requirements specified above.

2 PURPOSE

- 2.1 In accordance with the PSIAS, Internal Auditing is defined as:

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

- 2.2 However, it should also be appreciated that the existence of Internal Audit does not diminish the responsibility of senior management to establish appropriate and adequate systems of internal control and risk management. Internal Audit is not a substitute for the functions of senior management, who should ensure that Council activities are conducted in a secure, efficient and well-ordered manner with arrangements sufficient to address the risks which might adversely impact on the delivery of corporate priorities and objectives.

3 AUTHORISATION

3.1 The requirement for an Internal Audit Service is outlined within the Accounts and Audit Regulations 2015¹, which state that

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

3.2 There are additional requirements placed upon the Chief Audit Executive (see Section 4: Organisation and Relationships), to fulfil all aspects of CIPFA’s Statement on the Role of the Head of Internal Audit in Public Sector Organisations, with Internal Audit primarily responsible for carrying out an examination of the accounting, financial and other operations of the Council, under the independent control and direction of the Section 151 Officer.

3.3 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of the organisation’s:

- Records, documents and correspondence (manual and electronic) relating to any financial and other transactions;
- Physical properties, i.e. premises and land, plus cash, stores or any other Council property; and
- Personnel – requiring and receiving such explanations as are necessary concerning any matter under examination and generally assisting the Internal Audit activity in fulfilling its roles and responsibilities.

3.4 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

4 ORGANISATION AND RELATIONSHIPS

4.1 Within the PSIAS, the terms ‘Chief Audit Executive,’ ‘Board’ and ‘Senior Management’ are used to describe key elements of the organisation’s governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. The following interpretations are applied, so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council.

¹ http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

The following terms are explained:

Chief Audit Executive

- 4.2 The Chief Audit Executive is the Head of Shared Internal Audit Service (HoSIAS), part of a shared management arrangement between Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC). The HoSIAS reports to the relevant S151 and has access to the Chief Executive should it be required.

Board

- 4.3 The 'Board' oversees the work of Internal Audit. It will be the relevant audit committee of the Council, known as Civic Affairs Committee (CCC) and the Audit and Corporate Governance Committee (SCDC), which has been established as part of its corporate governance arrangements. The Committee is responsible for the following with reference to Internal Audit:

- Internal Audit Plans;
- Progress and performance against plans;
- Annual Audit Opinion; and
- Compliance with standards.

- 4.4 Internal Audit will work closely with the committee to facilitate and support its activities.

Senior Management

- 4.5 In the context of ensuring effective liaison between Internal Audit and senior officers, Internal Audit has regular access to Directors and Heads of Service. 'Senior Management' for the purposes of this Charter are the Leadership Team and the Senior Management Team (CCC) and the Leadership Team and Corporate Management Team (SCDC).

External Audit

- 4.6 Internal Audit aims to minimise any potential duplication of work and determine the assurance that can be placed on the respective work of the two parties. Our audit plans and reports are shared with the appointed external auditor, Ernst and Young.

Other Internal Audit Service Providers

- 4.7 Internal Audit will also liaise with other Council's Internal Audit Service providers, where shared service arrangements exist. In such cases, a dialogue will be opened with each Council's equivalent Chief Audit Executive to agree a way forward regarding the future auditing regime.

Other External Review and Inspection Bodies

- 4.8 Internal Audit will co-operate with all external review and inspection bodies that are authorised to assess and evaluate the activities of the Council, to determine compliance with regulations, standards or targets. Internal Audit will, wherever possible, utilise third party assurances arising from this work.

5 OBJECTIVES AND SCOPE

- 5.1 The provision of assurance services is the primary role of Internal Audit and there is a duty of care on the Chief Audit Executive to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This responsibility to evaluate the governance framework far exceeds examination of controls applying to the Council's core financial systems. Instead, Internal Audit is required to scrutinise the whole system of risk management, internal control and governance processes established by management.
- 5.2 Internal Audit also has a secondary role, whereby it will provide consultancy services which are advisory in nature and generally performed at the request of the Council to facilitate improved governance, risk management and control, and potentially contribute to the annual audit opinion.
- 5.3 A risk-based Audit Plan will be developed each year to determine an appropriate level of audit coverage to generate an audit opinion, which can then be used to assist with the formulation of the Annual Governance Statement. Moreover, audit work performed will seek to enhance the Council's overall internal control environment. In the event of deficiencies in arrangements being identified during audit assignments, Internal Audit will put forward recommendations aimed at improving existing arrangements and restoring systems of internal control to a satisfactory level, where relevant.
- 5.4 In accordance with the PSIAS, the Internal Audit Service will evaluate and contribute to the improvement of:
- The design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.
 - The effectiveness of the Council's processes for performance management and accountability.
 - The Council's IT governance provisions in supporting the organisation's corporate priorities, objectives and strategies.
 - The Council's risk management processes in terms of significant risks being identified and assessed; appropriate risk responses being made that align with the organisation's risk appetite, the capturing and communicating of risk information in a timely manner, and its use by staff, senior management

and members to carry out their responsibilities and inform decision making generally.

- The provisions developed to support achievement of the organisation's strategic objectives and goals.
- The systems formulated to secure an effective internal control environment.
- The completeness, reliability, integrity and timeliness of management and financial information.
- The systems established to ensure compliance with legislation, regulations, policies, plans, procedures and contracts, encompassing those set by the Council and those determined externally.
- The systems designed to safeguard Council assets and employees.
- The economy, efficiency and effectiveness with which resources are used in operations and programmes at the Council.

5.5 In addition to the areas recorded above, where Internal Audit will give input to their continuing enhancement; the Service will also provide support to the Section 151 Officer with responsibility for the probity and effectiveness of the Authority's financial arrangements and internal control systems.

5.6 Managing the risk of fraud and corruption is the responsibility of management. However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of risk controls built into systems by management, sharing this information with External Audit and other corporate investigators.

5.7 In the course of delivering services encompassing all the elements stated above, should any significant risk exposures and control issues subsequently be identified, Internal Audit will report these matters to senior management, propose action to resolve or mitigate these, and appraise the Committee of such situations.

5.8 Risk Management is the responsibility of Officers and Members. Internal Audit contributes to the Risk Management Framework at both Councils; providing advice on the development of proportionate mitigation and actions. At CCC Internal Audit is also the Strategic Lead for Risk Management and facilitates the Risk Management Strategy and Framework. Management are still responsible for identifying, managing and mitigating risks within their services. This approach is consistent with guidance set out by the IIA.

6 INDEPENDENCE

6.1 Internal Audit operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that

Internal Audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results. The framework allows the HoSIAS direct access to and the freedom to report unedited, as deemed appropriate, to the Committee, the Chief Executive, Section 151 Officer and Senior Management.

- 6.2 Internal Audit has no operational responsibilities or authority over any of the activities that they are required to review. As a consequence, they do not develop procedures, install systems, prepare records, or engage in any other activity, which would impair their judgement. In addition, Internal Auditors will not assess specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an Internal Auditor provides assurance services for an activity for which they had responsibility within the previous 12 months. Internal Auditors may however provide consulting services relating to operations over which they had previous responsibility. The HoSIAS will confirm to the Committee, at least annually, the organisational independence of the Internal Audit activity.

7 PROFESSIONAL STANDARDS

- 7.1 Internal Auditors operate in accordance with the PSIAS and LGAN. The Internal Auditors are also governed by the policies, procedures, rules and regulations established by the Council. These include, but are not limited to, Financial Regulations and Contract Standing Orders, the Anti-Fraud and Corruption Policy and the Code of Conduct. Similarly, the Council's Internal Auditors will be aware of external bodies' requirements and all legislation affecting the Council's activities.
- 7.2 The Council's Internal Auditors will additionally adhere to the Code of Ethics as contained within the PSIAS. Internal Auditors will also demonstrate due professional care in the course of their work and consider the use of technology-based audit and other data analysis techniques, wherever feasible and considered beneficial to the Council. All working arrangements and methodologies, which will be followed by the Internal Auditors, are set out in the Audit Manual.

8 AUDIT RESOURCES

- 8.1 The HoSIAS will be professionally qualified (CCAB, CMIIA or equivalent) and have wide internal audit management experience, to enable them to deliver the responsibilities of the role.
- 8.2 The HoSIAS will ensure that the Internal Audit Service has access to staff that have an appropriate range of knowledge, skills, qualifications and experience to deliver requisite audit assignments. The type of reviews that will be provided in year include systems reviews, consultancy input to new / modified systems, and special investigations. In the event of special investigations being required,

there is limited contingency in the Audit Plans to absorb this work. However, additional resources may need to be made available to the Internal Audit Service when such input is necessary.

9 AUDIT PLANNING

- 9.1 The HoSIAS will develop an audit strategy, together with agile audit plans and a summary of audit coverage using a risk-based methodology. This will take into account documented corporate and operational risks, as well as any risks or concerns subsequently notified to Internal Audit by senior management. This will be presented to the Committee for consultation and support.
- 9.2 The plan will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. Any difference between the plan and the resources available will be identified and reported to the Committee.
- 9.3 The audit plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not have been readily foreseen. However, on occasions, specific audit requests take precedence over the original audit plan and will be required as additional work rather than as a replacement. Resources, such as specialist or additional auditors may be required to supplement this.

10 REPORTING

- 10.1 Upon completion of each audit assignment, where appropriate, an Internal Audit report will be prepared that:
 - Provides an opinion on the risks and controls of the area reviewed, and this will contribute to the annual opinion on the internal control environment, which, in turn, informs the Annual Governance Statement; and
 - Provides a formal record of points arising from the audit and management responses to issues raised, to include agreed actions with implementation timescales.
- 10.2 Exit meetings enable management to discuss the Draft Audit Reports. Accountability for responses to Internal Audit recommendations lies with the Chief Executive, Leadership Team and Corporate Management Team, as appropriate, who can either, accept and implement guidance given or formally reject it. However, if audit proposals to strengthen the internal control environment are disregarded and there are no compensating controls justifying this course of action, an audit comment will be made in the Final Report, reiterating the nature of the risk that remains and recognising that management has chosen to accept this risk. Furthermore, depending on the severity of the risk, the matter may be escalated upwards and drawn to the attention of the Committee.

10.3 The table below illustrates the typical approach to completing an audit review:

WORKING ARRANGEMENTS DURING AUDITS	
Stage	Commentary
Audit Brief	Set up and agreed with manager(s)
Fieldwork	Assignment undertaking including interviews, testing.
Exit Meeting	At conclusion of fieldwork, issues raised for reporting (if not already provided during course of fieldwork).
Draft report	Produced following completion of fieldwork / exit meeting. Head of Service / Line Manager to formally respond including acceptance of actions together with timescale proposals to implement.
Final Report	Internal Audit incorporates all management comments within the report and re-issue as a final. The report will be distributed in accordance with agreed protocols.

10.4 This approach will flex according to the type of review, as we need an agile approach that is proportionate to the type of review.

10.5 It is important that following production of each audit report, there is prompt dialogue between managers and Internal Audit so that findings can be discussed, actions identified to remedy any weaknesses and finally an agreed timescale to rectify them. Internal Audit will monitor implementation and report any gaps to senior management.

10.6 Internal Audit reports include actions which are agreed with management and prioritised, plus an overall assurance opinion. These are explained in our Glossary of Terms.

10.7 Our assurance ratings will be subject to regular review to ensure that they remain relevant and robust for the service / organisation.

10.8 Periodic reports will be produced to summarise the output of audit reviews and to set out Internal Audits opinion on the state of the internal controls and governance across the Council. This will comment upon:

- The scope including the time period covered;
- Any scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion;

- The overall opinion, providing reasons where an unfavourable overall opinion is given; and
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

10.9 Significant issues identified will be referred through to senior management for inclusion in the Annual Governance Statement.

10.10 Examples of our reports are set out below:

PLANNING AND REPORTING FREQUENCY		
Report Produced	For	Reason
Audit Report	Chief Executive S.151 Officer Leadership Team / Corporate Management Team leads	The end of each audit assignment as the main recipient and those charged with implementing the issues identified
Progress reports (based around the committee cycle to report performance and the Control Opinion)	Relevant Audit Committee	To provide the Council with progress at delivering the audit service and any key governance issues arising. This will include an evaluation of the works undertaken and the level of assurance established. To provide assurance on compliance with PSIAS
Audit Plan	Relevant Audit Committee S.151 Officer	Details of the future plans to provide assurance across the Council in accordance with PSIAS. This may be included in Progress reports depending on the Committee Cycle.

11 QUALITY ASSURANCE AND IMPROVEMENT

11.1 The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the Internal Audit activity, and includes both internal and external assessments. In the event of an improvement plan proving necessary to formulate and implement, in order to further develop existing service provisions, the HoSIAS will initiate the appropriate action and annually, the results of the quality and assurance programme together with progress made against the improvement plan will be reported to senior management and the Committee.

Internal Assessments

11.2 Internal Assessments must include on-going monitoring of the performance of the internal audit activity and these are reported as part of the annual report.

11.3 The PSIAS additionally require periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of Internal Audit practices. This obligation is satisfied by the HoIA performing an annual self-

assessment of the effectiveness of Internal Audit, before the results are shared with the Committee. Presenting this information enables members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the HoSIAS.

External Assessments

- 11.4 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external verification.
- 11.5 The HoSIAS will discuss with the Committee and the Section 151 Officer the form of the external assessments; and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As part of the shared service arrangements, each Council will be reviewed jointly which will reduce the level of duplication.

Continuous improvement

- 11.6 The Internal Audit team meet regularly to discuss opportunities to develop the team and introduce smarter ways of working. Team members also undertake Continuous Professional Development to maintain awareness of topical matters and professional skills. These activities contribute to our ongoing QAIP.

Appendix D – Internal Audit Code of Ethics



1 INTRODUCTION

- 1.1 The purpose of a Code of Ethics is to promote an appropriate ethical culture for Internal Audit. The Code sets out the minimum standards for the performance and conduct of the Council's Internal Auditors. It is intended to clarify the standards of conduct expected when carrying out their duties and promote an ethical, professional culture at all times when undertaking audit duties.

2 MANAGING ARRANGEMENTS:

- 2.1 To ensure compliance with the Code of Ethics:
- There is an annual review of the Code to reinforce understanding and confirm on-going commitment.
 - Quality control processes are in place to demonstrate integrity in all aspects of the work.
 - All staff are obliged to declare any potential conflicts of interest, at least annually.
 - Confidentiality breaches will not be tolerated; and
 - All staff are aware and understand the organisations aims and objectives together with an appreciation of the policies and procedures which govern the areas to be audited.

3 PRINCIPLES

3.1 Internal auditors are expected to apply and uphold the following principles:

Principle	Guidance	Objectives
Integrity:	The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.	<p>Perform their work with honesty, diligence and responsibility.</p> <p>Observe the law and make disclosures expected by the law and the profession.</p> <p>Not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organisation.</p> <p>Respect and contribute to the legitimate and ethical objectives of the organisation; and</p> <p>Maintain relationships with colleagues, internal clients and external contacts that are characterised by honesty, truthfulness and fairness</p>
Objectivity:	Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.	<p>Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.</p> <p>Not review any activity for which they have previously had operational responsibility.</p> <p>Not accept anything that may impair or be presumed to impair their professional judgement; and</p> <p>Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.</p>
Confidentiality:	Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.	<p>Be prudent in the use and protection of information acquired in the course of their duties but should ensure that requirements of confidentiality do not limit or prevent reporting within the authority as appropriate.</p> <p>Not make unauthorised disclosure of information unless there is a legal or professional requirement to do so; and</p> <p>Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.</p>
Competency:	Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.	<p>Engage only in those services for which they have the necessary knowledge, skills and experience.</p> <p>Perform Internal Audit services with the International Standards for the Professional Practice of Internal Audit; and</p> <p>Continually improve their proficiency, effectiveness and quality of their services</p>

Appendix E – Glossary of terms

Assurance ratings

Internal Audit provides management and Members with a statement of assurance on each area audited. This is also used by the Head of Shared Internal Audit to form an overall opinion on the control environment operating across the Council, including risk management, control and governance, and this informs the Annual Governance Statement (AGS).

Term	Description
Full Assurance	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks.
Reasonable Assurance	Controls exist to enable the achievement of service objectives and good corporate governance and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with control process were identified and/or opportunities still exist to mitigate further against potential risks.
Limited Assurance	Controls are in place and to varying degrees are complied with, however, there are gaps in the process which leave the service exposed to risks. Therefore, there is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure for the Authority.
No Assurance	Controls are considered to be insufficient, with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Authority exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.

Organisational impact

The overall impact may be reported to help provide some context to the level of residual risk. For example, if no controls have been implemented in a system it would have no assurance, but this may be immaterial to the organisation. Equally a system may be operating effectively and have full assurance, but if a risk materialised it may have a major impact to the organisation.

Term	Description
Major	The risks associated with the system are significant. If the risk materialises it would have a major impact upon the organisation.
Moderate	The risks associated with the system are medium. If the risk materialises it would have a moderate impact upon the organisation.
Minor	The risks associated with the system are low. If the risks materialises it would have a minor impact on the organisation.

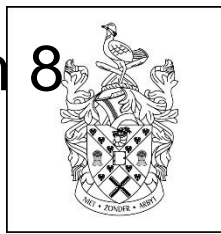
Action ratings

As part of the review, we have identified opportunities for improvement, which have been shared with Management. These are developed into actions to improve the effectiveness of the governance, risk management arrangements, and the internal control environment.

Management are responsible for implementing their actions and providing assurance when they are completed. Timescales for implementing actions should be proportionate and achievable to the available resources. To help prioritise the actions we have produced guidance below:

Priority	Description	Timescale for action	Monitoring
Critical	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately.	Within 1 month
High	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	To be implemented as a matter of priority.	Within 6 months
Medium	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	To be implemented at the first opportunity.	Within 12 months
Low	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	To be implemented as soon as reasonably practical.	Within 24 months

The Council has a Risk Management system, which is used for tracking their progress. This will be updated upon distribution of the report and we will follow up the actions where appropriate. It is the responsibility of Risk Owners and Action Owners to regularly review and update the risk register with details of action taken to mitigate the risks.



REPORT TO: Audit and Corporate Governance
Committee

26 July 2023

LEAD OFFICER: Head of Shared Internal Audit

Governance Risk and Control Update

Executive summary

1. This report provides an update on topical news items which contribute to the Committee understanding of Corporate Governance Matters.

Key Decision

2. This is not a key decision because this is being presented to the Audit and Corporate Governance Committee in accordance with their terms of reference.

Recommendations

3. The Audit and Corporate Governance Committee is requested to note the report.

Reasons for Recommendations

4. The updates keep the Committee informed of key relevant matters.

Details

5. None.

Considerations

6. None.

Options

7. None.

Implications

8. In the writing of this report, there are no significant implications or risks to the Council.

Background Papers

9. Background papers used in the preparation of this report:
 - Committee Terms of Reference

Appendices

10. Appendices to this report include the update report.

Report Author:

Jonathan Tully – Head of Shared Internal Audit

Telephone: (01223) 458180

Email: jonathan.tully@scamb.gov.uk



Committee update July 2023

Introduction

Overview and background

The purpose of this document is to provide an update to the Committee on key audit and governance themes.

The Chair suggested, at the July 2021 meeting, that a slot at the beginning of future meetings was allocated to check in on key areas of governance and provide any updates. If there are no updates in a particular area to report, that can be noted and taken as assurance.

This document provides summary updates for the Committee. Statistics are included to help provide an overview of work in progress and these are taken from the last financial quarter.

Your team

Head of Finance and Section 151 officer
Head of Shared Internal Audit
Corporate Fraud Manager
Monitoring Officer
Senior Democratic Services officer

Committee information

[Calendar of meetings](#)



[Committee Membership and Functions](#)

Governance, Risk and Control

Internal Audit updates

Internal Audit reviews provide assurance on the Governance Risk and Control environment, and this contributes to the Annual Governance Statement.

Below are a summary of reviews completed in the last quarter:

Review	Assurance and actions		Summary of report
Taxi Licensing – NR3S Implementation 	Assurance: Current: Reasonable Previous: New review Actions: Critical 0 High 0 Medium 2 Low 0		<p>From July 2023 it will be a statutory requirement for all licensing authorities to use a database. This is called the National Register of Refusals and Revocations and Suspensions (NR3S).</p> <p>The overall purpose is to provide a consistent means for all licensing authorities to make decisions on whether an individual is 'fit and proper' to hold a licence, so improving public (and road) safety for all users of taxi and private hire services in the UK.</p> <p>The Licensing Team demonstrated that they were compliant with the new statutory requirement. They also had experience with the new system, as they were using an earlier version since 2018. We identified two medium actions to help adapt to the new system.</p>
Asset Management – Land Records 	Assurance: Current: Full Previous: New review Actions: Critical 0 High 0 Medium 0 Low 0		<p>We completed a review of the Council land holdings.</p> <p>One aspect considered was data quality, and whether records were complete. We can provide assurance that the Council has used proportionate and reasonable methods to record parcels of land.</p> <p>The second consideration was valuation. We can provide assurance that the Council has completed a thorough review of their nil value land assets and commissioned a valuation. The valuation report was shared with the Finance team, and they can use this to help maximise the Council's return from their assets.</p>

Overall assurance

The internal audit work and assurance mapping enables us to form an opinion on the internal control environment, governance and risk management arrangements.

There is currently a Reasonable level of assurance overall, which is similar level to the previous period.



Counter Fraud update

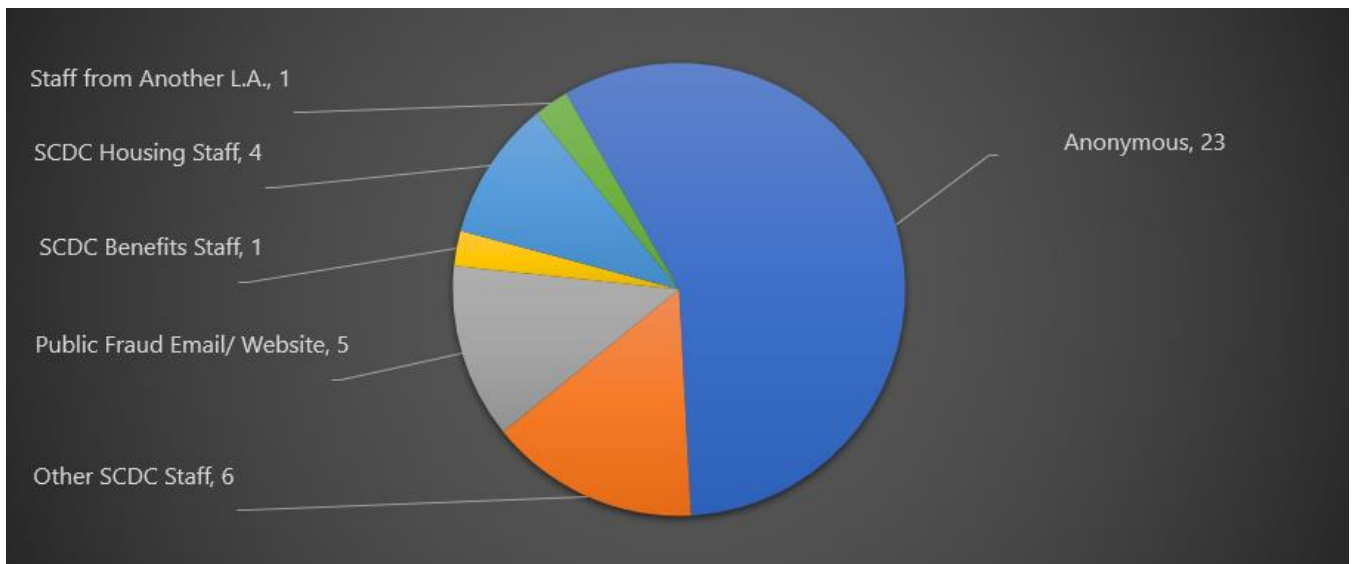
Fraud Team Statistics – our quarterly position

We have included fraud statistics below from the recent quarter. The purpose of these is to provide the Committee with an overview of the work in progress. Specific individual details are not disclosed due to sensitivity and risk of compromising any investigations in progress.

Reports of suspected fraud received

Analysis by the source of intelligence:

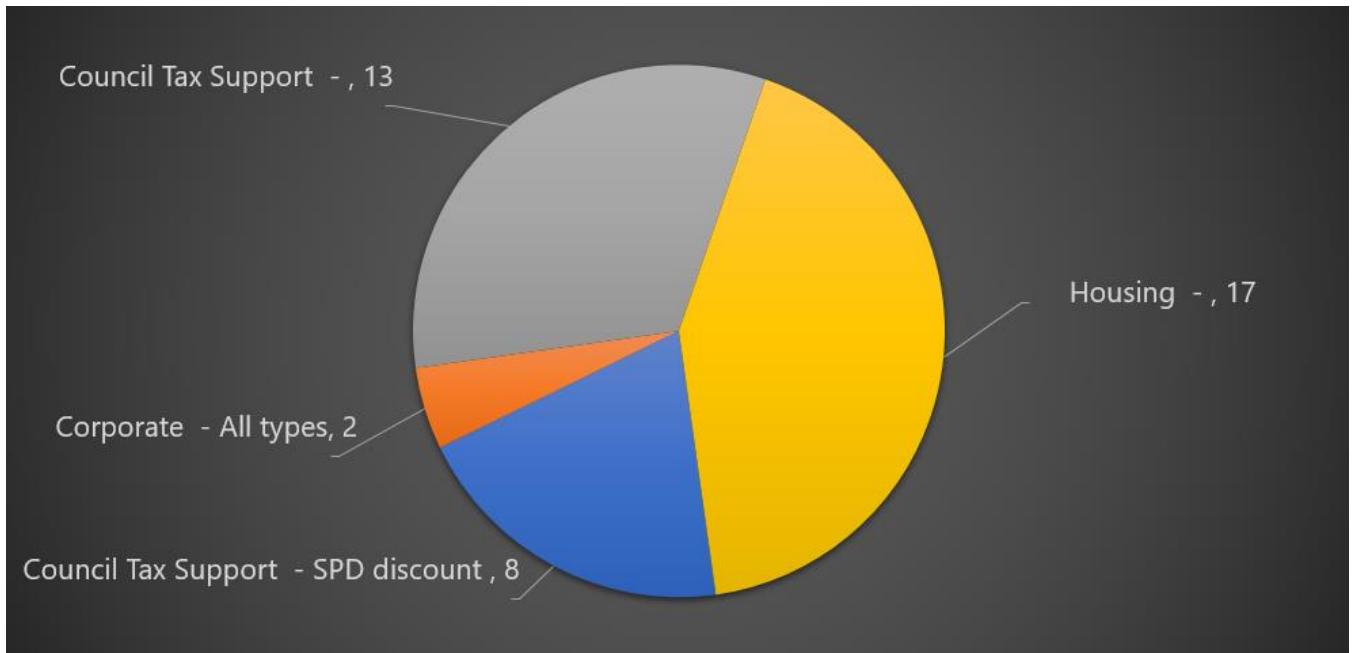
Source category	Count Q4
Anonymous	23
Other SCDC Staff	6
Public Fraud Email/ Website	5
SCDC Benefits Staff	1
SCDC Housing Staff	4
Staff from Another L.A.	1
Grand Total	40



Fraud by type

Analysis by fraud type:

Type category	Count Q4
Council Tax Support	13
Council Tax Support - SPD discount	8
Housing	17
Corporate - All types	2
Grand Total	40



Investigations in progress (as of 30th September 2022)

Case Status	Number of Cases	Key
Live Investigation	63	
Interview Under Caution (IUC)	1	
Sanction decision		
Criminal		
Prosecution	1	
Administrative Penalty		
Caution		
Prosecution and Civil action		
Civil	0	
Warning Letter		
No Further Action		
Notice to quit (Secure or flexible tenancy)		
Notice of proceedings for possession (intro tenancy) / Notice to Seek possession (secure and flexible)		

Investigations Closed

Closure Reason	Number
A14 Uneconomical to investigate	2
A10 No criminal Action, referred for Civil Action.	
A11 Not investigated, passed for visit	
A13 Not investigated - not on benefit	1
A4 Closed - claimant error only	
A5 Closed- no fraud established	1
A7 Not investigated - passed to DWP	

Proactive work – Prevention

Prevention is an important aspect of our Counter Fraud arrangements.

Education	
	Prevention advice to businesses. Advice to Licensing / Housing Tenancy
Workshop Attendees	
Campaign work	Key Amnesty
Right to Buy verification enquiries reported	
Right to buy verification enquiries reported	4
Outstanding Right To Buy (RTB) Documents / Visit	0
Homelessness verification enquiries reported	0
General housing verification enquiries	0
Ermine Street	0
Local Authority Data Sharing Hub (LoCTA)	0
DWP SPOC (Single Point of Contact) enquiries	
Local Authority Information Exchange (LAIEF)	6
General	
Data Protection Act requests - External	0
National Fraud Initiative Matching (NFI)	
Biennial exercise - Records closed	227
Annual exercise CT (Council Tax) / SPD (Single Person Discount) – Records closed	

Whistleblowing

Referrals received in the period:	0
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RIPA (Regulation of Investigatory Powers Act)

Cases of RIPA used in period:	0
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Training and development and risk insight

External Audit timetables

The National Audit Office have produced a report on the [timeliness of local auditor reporting on local government in England](#), which provides a factual update on local auditor reporting. The number of local audits completed on time has reduced from 97% in 2015-16, to 12% in 2021-22. Local audit issues were highlighted in Sir Tony Redmond's review, published in 2020. The Audit, Reporting and Governance Authority (successor to the Financial Reporting Council) will lead local audit when they become operational from 2024.

Since our previous Committee report Public Finance have highlighted that the Director of local audit at the Financial Reporting Council informed the Parliament's levelling up committee that the [backlog could reach 1000 accounts](#) this year.

New crackdown on fraud introduced by the Home Office

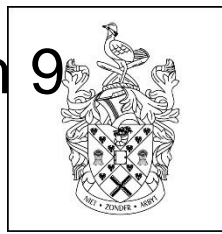
The Central Government highlighted that the new [failure to prevent fraud offence](#) will make it easier to prosecute a large organisation if an employee commits fraud for the organisation's benefit. If fraud is committed by an employee of an organisation, the organisation must be able to demonstrate it had reasonable measures in place to deter the offending or risk receiving an unlimited fine. Further guidance on the legislation and reasonable measures will be published later.

Useful Links

Link	Details
Public Sector Audit Appointments	PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.
EY.com	EY (Ernst & Young) is our current externally appointed auditor
Cabinet Office NFI (National Fraud Initiative)	The National Fraud Initiative is a data matching exercise which helps public sector organisations to prevent and detect cases of fraud and error.

Note

This document will have links to external websites where it provides more information. We are not responsible for the content of external websites.



REPORT TO: Audit and Corporate Governance Committee
LEAD OFFICER: Head of Shared Internal Audit / Head of Finance

26 July 2023

Independent Members

Executive summary

1. This report has been produced to consider whether the membership of this Committee should include an independent member, or members, who are neither a Council member or an officer.
2. The Committee has previously considered this in 2019 and also agreed to periodically review the benefits in future.
3. Recent guidance from professional bodies have reinforced the benefits associated with Independent Members, and recommended that Councils appoint them.

Key Decision

4. This is not a key decision because this is being presented to the Audit and Corporate Governance Committee in accordance with their terms of reference.

Recommendations

5. Members instructions are sought on whether to recommend to Civic Affairs Committee and thereafter Council the appointment of an Independent Person to Audit and Corporate Governance Committee.
6. If the Committee want to proceed with the proposal and it is approved by Council, the Chief Finance Officer, after consultation with the Chairman of the Committee, should be authorised to make the necessary arrangements to recruit and select the independent person.

Reasons for Recommendations

7. Appointing an Independent Member would help the Committee follow best practice set out by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Details

8. The Audit and Corporate Governance Committee is a key component of the Council's corporate governance framework. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
9. The purpose of the committee is to provide independent assurance, to the members, of the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks; and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
10. It is best practice that the Audit and Corporate Governance Committee periodically reviews if it would be beneficial to appoint co-opted Independent Members to the Committee (also known as lay members).
11. Further information is enclosed in the Appendix A below.

Options

12. The options are to either look to appoint one or possibly two independent members and either give them the same rights as other committee members or possibly not allow them to vote though this could in theory reduce their effectiveness. There are three options:
- (a) Do nothing and maintain the current arrangements
 - (b) Commence the process for appointing an Independent Member
 - (c) Commence the process for appointing more than one Independent Member

Implications

13. In the writing of this report, the following implications have been considered:

Policy

14. The Council's Audit and Corporate Governance Committee does not currently have arrangements to appoint independent members. If an independent appointment was recommended, then changes to the constitution would be necessary

Legal

15. The Council's Audit and Corporate Governance Committee is defined by the Local Government Act 2000 and its purpose is to give assurance to elected members and the public about the governance, financial reporting and performance of the Council. The appointment of independent members on the committee will assist and promote good governance and scrutiny of the committee. If committee decides to recommend the appointment an Independent Member, then this would require a constitutional change and the matter will need to go before civic affairs committee and then full council for approval.

Financial

16. It is usual practice to provide some form of payment to the lay committee members and to pay expenses for attending meetings for 2022/23 the allowance was £1,163. The allowance recognises the value and time contributed by the member. If an independent member is appointed as the committee chair, an additional sum would be appropriate. There will also be recruitment costs.

Risk

17. There is a risk that it will prove difficult to make an appointment and to ensure that any appointment made is a suitable person. There will need to be a clear person specification that draws out the attributes that the Council would be looking for the person to possess and to guide the recruitment panel in the selection process.

Background Papers

18. Background papers used in the preparation of this report:

- Committee Terms of Reference

Appendices

19. Appendices to this report include:

- Appendix A - Independent Member Guidance
- Appendix B – Role Description

Report Authors:

Jonathan Tully – Head of Shared Internal Audit

Peter Maddock – Head of Finance

Appendix A – Independent Member Guidance

Background

20. Audit committees in local authorities are necessary to satisfy the wider requirements for sound financial management and internal control.
21. The Accounts and Audit (England) Regulations 2015 state that a local authority is responsible “for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk”. In addition, section 151 of the Local Government Act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs”.
22. A co-opted independent or lay member is a committee member who is not an elected representative but recruited to join the committee. The objective of including such members is to increase the knowledge and experience base of the committee, reinforcing its independence.
23. Inclusion of lay members is a legislative requirement for authorities in Wales and for combined authorities in England. Where there is no requirement, CIPFA recommends the committee includes two co-opted independent members.

Benefits of Independent Members

24. The reasons for CIPFA’s recommendation are as follows:
 - To supplement the knowledge and experience of elected representatives in specific areas, such as audit or financial reporting.
 - To provide continuity outside the political cycle. This is of particular importance where membership of the committee changes annually or because of elections.
 - To help achieve a non-political focus on governance, risk and control matters.
 - Having two co-opted members rather than one will allow recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the committee.
 - Having two co-opted members shows a commitment to supporting and investing in the committee.

While including co-opted members can bring real value to the committee, care is needed to ensure that the arrangement works well, both for the co-opted member and for the other committee members. It is essential that the co-opted member receives an adequate induction and ongoing support to provide organisational context and to build working relationships.

Historical evaluation

25. The Audit & Corporate Governance Committee has previously considered the benefits of appointing an Independent Member.
26. In [April 2019](#) the Audit and Corporate Governance Committee reviewed its Terms of Reference using the guidance published by CIPFA. The [Terms of Reference](#) form part of the Council’s Constitution.
27. At the April 2019 meeting Members considered the appointing an Independent Member, and this is recorded in the minutes:

“It was suggested that the Committee should include a non-councillor in its membership. It was noted that this could ensure experienced knowledge in the Committee’s membership but the Council might find it difficult to recruit a suitable candidate.

It was agreed that a small Special Responsibility Allowance should be paid to an independent member and full Council would be responsible for appointing them.

The Committee agreed that it should have the option of appointing an independent person to its membership and asked the Deputy Head of Legal Practice to investigate whether this was possible.”

28. At the [September 2019](#) meeting Members considered a report from the Head of Finance and the Monitoring Officer. The Committee made the following points:
- It was unclear what additional benefit an independent members could bring to the Committee.
 - The Council would find it difficult to attract a person of suitable calibre for this position.
 - It was unlikely that the allowance that would be offered for the position would prove much of an incentive.
29. The Committee resolved not to recommend the appointment of an independent member at this time, but to review this issue periodically.
30. In March 2023 the Audit and Corporate Governance Committee completed a self-assessment to the latest guidance published by CIPFA. At this workshop the Committee agreed to review the appointment of an Independent Member at a future meeting.

Current professional guidance and best practice

Redmond Review

31. Sir Tony Redmond completed an Independent Review into the oversight of local audit and the transparency of local authority financial reporting in 2019. In 2021 the Department for Levelling up, Housing & Communities published their [final response to the technical consultation](#) on the local audit framework. The response said:

“Fundamentally, it is important that councils, as with other public bodies, have appropriate measures in place: the government considers it proportionate to establish a simple principle that local authorities should have an audit committee, with at least one independent member. Mandating for audit committees would ensure widespread take-up, along with improved public accountability.

Consequently, based on the consultation feedback, we will be making Audit Committees, with at least one independent member, a mandatory requirement, once Parliamentary time allows.

We will continue to consult with partners on how this should be implemented. In the intervening period, the government would encourage local bodies to establish their arrangements in line with CIPFA’s guidance, including appointing independent members.

CIPFA Position Statement

32. CIPFA published, in 2022, a revised Position Statement: Audit Committees in Local Authorities and Police. The statement represents CIPFA’s view on the audit committee practice and principles that local government bodies in the UK should adopt.
33. CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.
34. The Position Statement includes the potential role of Independent Members:
- The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.*
- Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.*

CIPFA Guidance

35. CIPFA issued updated guidance on audit Committees in 2023. This provided guidance on the role of the co-opted independent member:

The role description for a co-opted member of the committee will be the same as for an elected representative who is a committee member. The only substantial difference will be where the committee has been delegated decision-making responsibilities – although such delegations are not advised by CIPFA – a co-opted member cannot vote on council policy, so will not be able to take part in the decision, though they can, of course, contribute to the discussions prior to the formal decision.

The minutes of the meeting should distinguish between a delegated committee decision and a recommendation from the committee to another council body. The latter is part of the role of an advisory committee and the co-opted member should be able to take part fully.

Process for adopting the change

36. If the Committee wish to proceed with the proposal they should recommend this to Civic Affairs Committee and thereafter Council as it will be a Constitutional change.
37. In preparing for the appointment of an independent member a recruitment process would need to be carried out which would involve officer and member time, there would be a small cost attached to the process.

Anticipated challenges and considerations

38. It is not currently known whether there would either be any interest in this or indeed anyone suitable to carry out the role.
39. The person would need to have some understanding of how a local authority works and would also need to have a finance background. The risk of appointing someone with a finance background but no knowledge of local authority finance is that it could generate additional work and questions that add little to the process, and it is important that the independent member adds value to the Audit and Governance process.
40. Another consideration would be whether the person would have voting rights in the same way that other members would have. Members instructions are sought on whether the independent member should be in the same position as any other committee member including the ability to vote on issues as and when required.
41. It would also seem appropriate to pay an allowance to the independent member in recognition of their duties which would be an additional cost in the budget.
42. Members would also need to determine the duration of any appointment and officers would recommend a 4-year initial term with re-appointment for a further term or terms. It would also be necessary to make amendments to the Council's constitution to reflect any changes this would bring. A draft role description is attached at appendix B.

Appendix B - Role Description for Independent Person

Independent Person of Audit & Corporate Governance Committee

Role Description

1. To engage fully in collective consideration of the issues before the Audit & Corporate Governance Committee, taking into account a full range of relevant factors, including legislation and supporting regulation (e.g. the Accounts & Audit Regulations 2011), professional guidance (e.g. that issued by the Chartered Institute of Public Finance and Accountancy (CIPFA)), and the advice of the Council's Section 151 Officer.
2. To participate fully in the discharge of all Audit Committee functions, as set out in the Audit & Corporate Governance Committee's terms of reference and the constitution
3. To promote the concept of proportionate, effective risk management and internal control throughout the organisation; and to champion the work of Internal Audit, External Audit and Risk Management.
4. To participate in periodic review of the overall effectiveness of the Audit & Corporate Governance Committee, and of its terms of reference.
5. To ensure that the minutes of Audit & Corporate Governance Committee meetings accurately record decisions taken.

Skills and Competencies

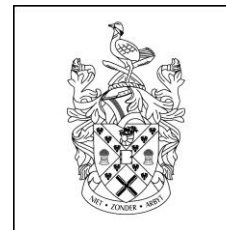
1. Demonstrates up to date knowledge, skill and a depth of experience in the fields of audit, accounting, risk management and performance management. Experience gained working in a large, or public sector organisation.
2. Knowledge of the Council's strategic priorities and objectives. Understanding of the complexity of issues surrounding audit and risk management in local government.
3. Works to high behavioural standards, demonstrating honesty, probity, and the highest level of integrity in conduct. Follows the Council's Constitution and the Member's Code of Conduct.
4. Operates consistently and without bias.
5. Is an effective role model; supports appropriate behaviours and challenges opinions and advice where appropriate, separating major issues from minor ones.
6. Contributes proactive, proportionate and independent thought, and also collaboration with officers to temper the opinions of Committee members.
7. Works sensitively with people inside and outside committee.
8. Listens to and balances advice.

Additional Information

9. Must not be a serving local government officer or councillor.
10. Must have no personal, legal or contractual relationship with South Cambridgeshire District Council (including employees or Members or former staff), or any other relationship / activity which might represent a conflict of interest.
11. Must attend at least half of the scheduled meetings and be able and willing to devote the necessary time to the role and any occasional training and development required for the role.

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Agenda Item 10



South
Cambridgeshire
District Council

Report to:	Audit & Corporate Governance	26 July 2023
Lead Cabinet Member:	Councillor John Williams Lead Cabinet Member for Resources	
Lead Officer:	Peter Maddock, Head of Finance	

Treasury Management – Annual Report 2022/2023

Executive Summary

1. This report outlines the Treasury Management activities in the financial year 2022/2023 and invites the Audit and Governance Committee to note the Treasury Management performance and approve the report.

Key Decision

2. This is not a key decision as there are no resource implications directly arising from the report at this stage.

Recommendations

3. That Audit and Corporate Governance Committee is requested to consider the report, to seek any clarification and, if satisfied, approve the Treasury Management Annual Report for 2022/2023.

Reasons for Recommendations

4. To consider a report on Treasury Management activities during the financial year 2022/2023.

Details

Treasury Portfolio 2022/2023: Summary Position

5. The summary position as at 31 March 2023 (with comparable data for 31 March 2022) is shown below:

	31 March 2022		31 March 2023	
	£000	Rate %	£000	Rate %
Borrowing				
PWLB	205,123	3.51	205,123	3.51
LOBO - Market	Nil		Nil	
Local Authority	50,000	0.35	40,000	2.86
Other Long-Term Liabilities	Nil		Nil	
Total Debt	255,123		245,123	
Investments	(117,560)		(138,860)	
Net Borrowing/(Investment)	137,563		98,860	

Investments and the Economic Landscape

6. Investments are categorised into long and short term (i.e. less than 365 days). The sum of £26 million had less than one year to maturity as at 31 March 2023 and is, therefore, classified as short term. The remaining balance held of £107.9 million is classified as a long-term investment. The increase in Long Term Investments reflects the increased allocation to South Cambs Limited and loan to Cambourne Town Council during the year. A summary of the investments held is shown below:

	Balance 01/04/2022	New Investments	Maturities/ Sales	Interest Accrued	Balance 31/03/2023
	£000	£000	£000	£000	£000
Investment Counterparty					
Short Term:					
Clearing Banks	Nil	22,000	15,000	57	7,000
Other Banks	8,000	66,000	74,000	115	Nil
Building Societies	2,000	30,000	32,000		Nil
Housing Associations	3,500		3,500		Nil
Local Authorities	2,500	83,000	66,500	44	19,000
Money Market Funds	2,155	295,845	295,635		2,365
Call Account	1,885	44,507	43,797	5	2,595
Long Term:					
Other Banks	0	5000			5,000
CLIC (Ice Rink Loan)	2,400			103	2,400
South Cambs Ltd	94,620	5,380		1,302	100,000
Cambourne Town Council	500			3	500
Total Investments	117,560				138,860
Increase/(Decrease) in Investments					21,300

7. The economic landscape continued with a degree of uncertainty and volatility during 2022/2023, with high inflation, increasing interest rates and unstable exchange rates as recurring themes. Consumer Price Index (CPI) inflation, as a measure of price rises, increased by 10.1% in the 12 months period to March 2023 (based upon the Office for National Statistics (ONS) information). This acted as a dampener on growth during 2022/2023 and has had an impact on Council services. Whilst the prospects for economic growth and recovery are regarded as more encouraging, a cautious approach must be maintained given the level of uncertainty caused by the multi-decade high inflation, war in Europe for the first time in 75 years and necessary financial tightening by the Bank of England to control the economy.
8. In response to the prevailing economic conditions the Bank of England Base Rate increased several times during the financial year 2022/2023. The increase from 0.5% to 0.75% from 17 March 2022 was followed by further increases during the year, culminating in an increase to 4.25% effective from 23 March 2023. The base rate influences the interest rates that lenders charge for mortgages, loans and other types of credit. The Council itself lends its cash balances externally on a short-term basis,

with a view to generating a return that can be spent on delivering Council services whilst managing both security and liquidity of the cash.

9. Whilst there is marginal benefit from prevailing interest rates in terms of investment returns, local authorities have experienced unforeseen cost pressures as a result of increased energy prices, spiralling inflation, and national living wage pressures. The cost-of-living crisis has created a perfect storm of increased public demand for services, coupled with rising fuel and other bills for Councils. Without funding to offset this crisis, Councils could have to scale back construction projects or make in-year reductions to services. This has prompted Councils to make recalculations and to look at further cuts as they battle budgetary pressures, exacerbated by rising costs.
10. Investment returns remained relatively low but improved during 2022/2023 as a consequence of increasing investment rates. Traditionally investment returns have been measured against the London Interbank Bid Rate (LIBID) for short-term lending but, following the discontinuation of published 7 Day LIBID rates from 2022/2023 onwards, the Council is now benchmarking its investment rates to the average 7 Day SONIA (Sterling Overnight Index Average) rate as an alternative. This is being used as the comparative benchmark as SONIA can be seen as the average interest rate at which a selection of financial institutions lend to one another with a maturity of 1 day (overnight), therefore, reflecting the callable nature of the majority of the Council's short-term investments. Average 7 Day Sonia increased from 0.69% as at 1 April 2022, to 4.18% as at 31 March 2023 with consequent investment benefits. The Council's actual return of 4.21% in 2022/2023 shows the effect of the portfolio's long-term duration set out in the table above.
11. In respect of investments generally, the overall structure of interest rates has for some time meant that short term rates have generally remained lower than long term interest rates. In this scenario, the strategy has continued to be to reduce investments and borrow for short periods and possibly at variable rates when required. However, this needs careful review to avoid incurring higher borrowing costs in the future when the authority may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt.
12. The Council's primary objective in relation to its investments is to ensure that long term capital is not put at risk but that, within acceptable risk parameters, the portfolio is managed to ensure that interest is maximised. Liquidity is managed through the use of money market funds with additional access to the liquid PWLB and Local Authority borrowing market. This objective is reinforced in the Treasury Management Strategy approved by Council on 21 February 2023. The Council has also appointed a Treasury Management Advisor, Link Asset Services, to enable independent specialist advice to be obtained on all aspects of the treasury management function, including advice on investments.
13. The Council holds £40 million of Short-term borrowing from other Local Authorities. This funded the acquisitions of Commercial Properties and partly funded the loan to the South Cambs Investment Partnership.
14. The table below lists the £31 million held in fixed term investments as at 31 March 2023. These investments are deposits with a number of Local Authority and Banks to maintain diversification:

	Amount	Interest	Total	Term	Rate	Maturity Date
	£000	£000	£000	Days	%	
Counterparty						
Leeds City Council	3,000	20	3,020	60	4.00	03 April 23
West Yorkshire CA	1,000	1	1,001	11	4.70	11 April 23
Santander	5,000	47	5,047	91	3.80	13 April 23
Santander	2,000	26	2,026	119	3.99	18 May 23
Central Beds Council	3,000	22	3,022	59	4.48	22 May 23
Moray Council	5,000	112	5,112	176	4.65	7 Sept 23
Eastleigh Borough Council	2,000	46	2,046	184	4.60	28 Sept 23
Eastleigh Borough Council	3,000	72	2,072	191	4.60	5 Oct 23
Folkestone & Hythe DC	2,000	71	2,071	290	4.45	14 Dec 23
Close Brothers Ltd	5,000	320	5,320	731	3.20	12 July 24
Total	31,000	738	31,738			

15. The remaining £7.9 million of short-term investment balances were held in Money Market Funds and the Council's Call account for liquidity purposes.
16. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy, as set out in its Treasury Management Strategy Statement for 2022/2023, which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.
17. All new investments are undertaken in accordance with advice from the Council's Treasury Management Adviser. A list of investment counterparties used during 2022/2023 is listed in **Appendix A**.

Borrowing

18. At 31 March 2023 the Council had external borrowing of £245.123 million:

	Balance 01/04/2022	Maturing Debt	Reclassified Debt	New Debt	Balance 31/03/2023
	£000	£000	£000	£000	£000
Borrowing					
Short Term Borrowing	50,000	50,000		40,000	40,000
Long Term Borrowing	205,123				205,123
Total Borrowing	255,123				245,123
Other Long-Term Liabilities	-				-
Total External Debt	255,123				245,123

19. £205,123 million of the total relates to borrowing from the PWLB. The PWLB loans were obtained for Housing Revenue Account (HRA) purposes as part of the HRA

Self-Financing in 2012. These loans are fixed interest maturity loans having an average term to maturity of approximately 25 years and bearing interest at an average rate of 3.51%.

Cash Management

20. In keeping with the DLUHC's Guidance on Investments, the Council maintained a sufficient level of liquidity averaging £11.6 million through the use of Money Market Funds, Notice accounts and Call accounts.
21. Internal Treasury Management includes the management of the Council's bank account balances. The aim is for all cleared funds to be deposited in interest bearing accounts or time deposits.

Outturn Budget Monitoring

22. Council, at its meeting on 22 February 2022, approved a net budget in 2022/2023 for interest payable of £0.359 million and investment income of £5.456 million. Whilst there was a lower than forecast borrowing requirement, interest rate increases particularly in the second half of the year contributed to an increase in interest payable. Capital expenditure in 2022/2023 was lower than expected and Minimum Revenue Provision (MRP) cost remained as expected as the figure is based on the opening position and not affected by in year activity. MRP is not applied to lending to South Cambs Ltd.
23. The budget is compared to the final outturn position in the table below:

	Budget 2022/2023	Provisional Outturn 2022/2023	Variance
	£000	£000	£000
Expenditure Description			
Interest Payable - PWLB & Short-Term Loans	359	591	232
Contribution to/(from) Reserves (*Est)	(2,849)	828	3,677
Minimum Revenue Provision	1,090	1,090	0
Interest Receivable	(3,648)	(5,078)	(1,430)
Net Expenditure	(5,048)	(2,569)	2,479

24. The significant variances against budget were the Contribution to Reserves and Interest receivable. The Reserves are estimated to increase by £0.828 million rather than the reduction forecast. This change to contribution is related to the slippage on the Greening of South Cambs Hall project and associated reduction in the contribution from the Renewable Reserve. These changes also led to lower amounts of interest being payable as borrowing balances were smaller.

Benchmarking

25. Benchmarking data is also provided by the Council's Treasury Management Adviser. Investment return rates for the year to 31 March 2023 (excluding lending to South Cambs Ltd) are reported on a quarterly basis and were better than the client average and can be compared as follows:

Quarter Ending	Investment Returns	
	SCDC	Client Average
30 June 2022	1.33%	0.92%
30 September 2022	2.01%	1.70%
31 December 2022	3.36%	2.86%
31 March 2023	4.10%	3.60%

26. Benchmarking data on average weighted credit scores of the Council's counterparties (based in information held by the Council's Treasury Management Adviser) is set out in the table below and illustrates the credit risk position in relation to other Councils:

Quarter Ending	Weighted Average Credit Risk	
	SCDC	Comparators
31 March 2022	4.35	2.95
30 June 2022	4.98	3.21
30 September 2022	4.30	3.09
31 December 2022	3.84	2.98
31 March 2023	2.70	2.97

27. The benchmarking shows that the Credit Risk on the Council's portfolio has reduced during the year although it often has a higher than average Credit Risk compared to other District Authorities. The Council has maintained investment returns significantly above the client average.

Treasury Management Strategy for 2022/2023

(a) Interest Rates and Investments

28. The Treasury Management Strategy for 2022/2023 was prepared in the context of low, but increasing interest rates, with the Bank of England Base Rate responding to economic conditions by initially increasing the rate from 0.5% to 0.75% from 17 March 2022, followed by several further increases during the year, to its current level of 4.25% effective from 23 March 2023. This intervention in the financial markets has continued to affect investment returns from the Council's holdings.
29. The Council continued its policy of minimising risk by investing in Fixed Deposits only with highly rated Banks and Building Societies, Local Authority Counterparties and Registered Providers and using Money Market Funds and Bank Call Accounts to manage liquidity. This policy coupled with using pooled fund investments (suitably diversified) to maximise interest return on an element of the Council's portfolio has enabled the Council to reduce the cost of Capital Financing.

(b) Borrowing

30. The 2022/2023 borrowing strategy was based upon obtaining new loans of £30 million to fund the capital programme, in addition to £50 million of existing short term borrowing. Capital expenditure saw significant change related to the Investment

Strategy and was significantly lower than planned due to changes in PWLB lending rules. This change and careful management of cash flows and short-term borrowing enabled the Council to fund the capital programme without entering into long term borrowing. The Council had £40 million in Local Authority Loans outstanding as at 31 March 2023 with no further borrowing being required for the Capital Programme and £10 million of short term borrowing being repaid during the year.

31. During 2022/2023 there was a requirement for short term external borrowing of £40 million and this has been used to fund past capital expenditure. This is inclusive of additional loans to the value of £5.38 million made to South Cambs Limited. These loans are recognised as capital expenditure in the year increasing the Council's underlying need to borrow (the Capital Financing Requirement).

	Actual 2021/2022 £'000	Budget 2022/2023 £'000	Actual 2022/2023 £'000
Capital Financing Requirement (CFR) as at 1st April			
- General Fund	127,130	126,017	126,017
- HRA	204,429	204,429	204,429
Total	331,559	330,446	330,446
Change in the CFR	28,220	5,500	0
Minimum Revenue Provision	(1,113)	(1,090)	(1,090)
Capital Financing Requirement (CFR) as at 31 March	330,446	334,856	329,356

Economy

32. The Council's Treasury Management Advisers have provided a summary of the economy during 2022/2023, and related performance, and this is included at **Appendix B**.

Compliance with Performance Indicators

33. During the financial year the Council operated within the treasury limits and prudential indicators approved by Full Council on 22 February 2022.
34. Performance against prudential indicators in 2022/2023 was as follows:

(1) Acceptance of the CIPFA Treasury Management Code of Practice (National Indicator)

This indicator demonstrates that the Council adopted the principles of best practice. The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in January 2012. The Council adopted the CIPFA Treasury Management Code & Guidance Notes as part of its Treasury Management Policy and Strategy which was considered and approved at its meeting on 22 February 2022.

(2) Fixed Interest Rate Exposure and Variable Interest Rate Exposure

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable interest rate exposures is expressed as the proportion of net principal borrowed.

Maturity structure of borrowing	Under 12 months	More than 12 months	Under 12 months - Actual	More than 12 months - Actual
Upper limit for fixed interest rate exposure	100%	100%	100%	100%
Upper limit for variable rate exposure	100%	0%	0%	0%

(3) Maturity Structure of Fixed Rate Borrowing

35. This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Fixed Rate Borrowing		
Lender	Repayable within	Amount £,000
Local Authorities	<12 Months	40,000
PWLB	10 – 15 years	25,000
PWLB	15 – 20 years	50,000
PWLB	20 – 25 years	50,000
PWLB	25 – 30 years	50,000
PWLB	30 – 35 years	30,123

The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment.

(4) Upper Limit for Total Principal Sums Invested Over 364 Days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

The only loans exceeding 364 days are loans made to South Cambs Ltd, a wholly owned subsidiary of the Council, and Cambridge Ice and Leisure Centre (CLIC). Lending to CLIC formed 2% of the investment portfolio as at 31 March 2023.

The limit relates to the maximum amount that can be invested in year. With regard to liquidity, no more than 50% of the total average portfolio held will be invested in instruments over 364 days, excluding South Cambs Ltd.

(5) Credit Risk

The Council considers security, liquidity, and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength and information on corporate developments and market sentiment towards counterparties. The following key tools are used, either by the Council or the appointed Treasury Advisers to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns).
- Sovereign support mechanisms.
- Credit default swaps (where quoted).
- Share prices (where available).
- Economic fundamentals (such as a country's net debt as a percentage of its GDP).
- Corporate developments, news, articles, markets sentiment and momentum.

The only indicators with prescriptive values are credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

(6) Liquidity Risk

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Implications

36. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Legal

37. The Council is required to have regard to the CIPFA Code of Practice for Treasury Management in the Public Services. The Code recommends that an annual post year report on Treasury Management activities is prepared for consideration after each year end.

Policy

38. Full Council, at its meeting on 22 February 2022, approved the Council's Treasury Management Policy and Strategy Statements for 2022/2023 and the Strategy was reaffirmed by Audit and Governance Committee, at its meeting on 1 December 2022, following a mid-year review.

Finance

39. In 2022/2023 the Council managed a turnover in investments of £565 million (£419 million in 2021/2022) in-house within the Finance Team in the Finance Directorate. As at 31 March 2023, the Council had funds to the market value of £139 million (£117.6 million at 31 March 2022), all managed in-house. These funds include capital balances, reserves, and provisions, collection fund monies and monies held on behalf of third parties. The increase was due primarily to retained business rates.

40. At 31 March 2023 the Council had external borrowing of £245.123 million plus £Nil million of leasing liabilities.

Risk/Opportunities

41. There are clearly inherent risks in placing investments both in terms of the security of the capital invested and the level of return from the investment. The approved Treasury Management Strategy 2022/2023 identified the Council's investment priorities as:
- (i) The security of the capital;
 - (ii) The liquidity of its investments.
42. Compliance with the Treasury Management Strategy and associated Treasury Management Practices seeks to mitigate the risks inherent with the treasury management function. The consideration of Security, Liquidity and Yield, in that order, is critical when assessing potential treasury investments.
43. The Treasury Management Strategy states that the Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment income.
44. The Council engages an external Treasury Management Adviser to provide appropriate and timely advice on the Council's treasury portfolio (and, in particular, to provide advice on counter-party creditworthiness and investment limits). This appointment is regarded as critical given the investment risks.

Climate Change

45. There are no direct environmental implications arising from the report.

Consultation Responses

46. Consultations have been undertaken with the Lead Cabinet Member for Resources and the Council's treasury management adviser.

Alignment with Council Priority Areas

47. Timely and robust consideration of the Council's treasury management activities is vital to ensure that financial performance is in line with expectations.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Budget Setting Report – Report to Council: 22 February 2022
- Capital Strategy – Report to Council: 22 February 2022
- Treasury Management Strategy – Report to Council: 22 February 2022
- Mid-Year 2021/2022 Treasury Management Report – Report to Audit & Corporate Governance Committee: 1 December 2022
- Treasury Management Strategy – Report to Council: 21 February 2023

Appendices

- A Investment Counterparties 2022/2023
- B Treasury Management Adviser – Economic Review 2022/2023

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Investment Counterparties 2022/2023

The Council's investment counterparties used during 2022/2023 are listed below:

Category	Counterparty
Building Society	Coventry BS
Building Society	Nationwide BS
Building Society	Yorkshire BS
Clearing Bank	Barclays Bank
Clearing Bank	Santander UK
Other Bank	Close Brothers
Other Bank	Goldman Sachs International Bank
Other Bank	Lloyds Bank Commercial Markets
Other Bank	Standard Chartered
Other Bank	SMBC Bank International PLC
Housing Association	Places for People
Local Authority	Ashford BC
Local Authority	Calderdale MBC
Local Authority	Babergh DC
Local Authority	Cornwall Council
Local Authority	Central Bedfordshire Council
Local Authority	Eastleigh BC
Local Authority	Folkestone & Hythe DC
Local Authority	Hertfordshire CC
Local Authority	Knowsley MBC
Local Authority	Leeds City Council
Local Authority	Moray Council
Local Authority	Merthyr Tydfil CBC
Local Authority	Surrey CC
Local Authority	Trafford Council
Local Authority	Wakefield Council
Local Authority	West Yorkshire CA
Local Authority	Wirral BC
Police Authority	West Mercia Police
Police Authority	West Yorkshire Police
Money Market Fund	Aberdeen Standard Life
Money Market Fund	Deutsche Bank
Money Market Fund	Aviva
Money Market Fund	Federated
Call account	Barclays Bank plc
South Cambs Ltd	Ermine Street Housing
Other investments/Loans	Cambourne Town Council

Treasury Management Adviser – Economic Review 2022/2023

UK. Economy.

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did

not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.23. Notwithstanding the £’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That’s despite UK banks having been less exposed and equity prices in the UK’s financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

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Report to:	Audit & Corporate Governance	26 July 2023
Lead Cabinet Member:	Councillor John Williams Lead Cabinet Member for Resources	
Lead Officer:	Peter Maddock, Head of Finance	

TREASURY MANAGEMENT PERFORMANCE REPORT: QUARTER ENDING 30 JUNE 2023

Executive Summary

1. This report outlines the performance against the Council's approved Treasury Management Strategy for first three months of 2023/2024, including performance against the approved Prudential Indicators for Treasury Management.

Key Decision

2. This is not a key decision as there are no resource implications directly arising from the report at this stage.

Recommendation

3. **That Committee is invited to review the Treasury Management activity and performance for the quarterly period to 30 June 2023.**

Reason for Recommendation

4. The Committee has within its terms of reference a responsibility to review Treasury Management activity, and this report includes details of investment performance and treasury management activity for the quarter period 1 April 2023 to 30 June 2023.

Details

Treasury Management Strategy

5. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and to approve an annual report after the end of each financial year.
6. The Council's Treasury Management Strategy and prudential indicators for 2023/2024 were approved by Full Council at its meeting on 21 February 2023.

7. Changes in the regulatory environment have placed a much greater onus on Members to undertake the review and scrutiny of treasury management policy and activities. This report is important in that respect as it provides details of the actual position for treasury activities and highlights compliance with the Council's policies previously approved by the Council.
8. Any borrowing/investment exposes an organisation to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is, therefore, central to the Council's treasury management strategy. This report covers the treasury management activity for the period 1 April 2023 to 30 June 2023 and the associated monitoring and risk management.
9. The Council has monies available for Treasury Management investment as a result of the following:
 - Positive cash flow.
 - Receipts (mainly from Government) received in advance of payments being made.
 - Capital receipts not yet utilised to fund capital expenditure.
 - Provisions made in the accounts for liabilities (e.g. provision for outstanding insurance claims or legal cases which have not yet materialised).
 - General and earmarked reserves retained by the Council.
10. Some of the source of funds identified above are short-term and investment of these needs to be highly 'liquid', particularly if it relates to a positive cash flow position which can change in the future. Future monies available for investment will depend on the budget position of the Council and whether the Council will need to substantially run-down capital receipts and reserves. Against a backdrop of unprecedented reductions in Government funding, the Medium-Term Financial Strategy and financial forecasts previously considered by the Council identify that ongoing revenue savings will be required to balance the budget in future years; there is a likelihood, therefore, that such actions may be required in the medium term which could reduce the monies available for investment.
11. In line with established practice, it is intended that a mid-year review of the Treasury Management Policy Statement and Treasury Management Strategy will be undertaken with regard to their compliance to the CIPFA Prudential Code and the CIPFA Treasury Management Code, and to ensure their appropriateness in light of the Council's current investment and borrowing portfolios, and the ongoing delivery of the Council service objectives. This will be reported to the Committee at its meeting on 28 November 2023. A full review of the Treasury Management Policy and Treasury Management Strategy Statement will also be presented to Cabinet and Council as part of the 2024/2025 budget determination process.
12. The economic landscape has continued with a degree of uncertainty and volatility during the quarter period to 30 June 2023, with the ongoing financial challenges associated with high inflation levels, increasing interest rates and the consequences of war in Europe, the fear of recession and necessary financial tightening by the Bank of England to control the economy. It is expected that this trend will continue for the immediate future as the economy remains shaky. It will, therefore, remain a priority to include the consequences of these volatile trends in the Council's cash flow planning.

13. In response to the prevailing economic conditions the Bank of England increased the Base Rate several times during 2022/2023, and continues to do so in 2023/24 culminating in the increase to its current level of 5% effective from 22 June 2023. The outlook is for further increases with rates peaking in Summer 2024. Our advisers expect rates to peak at 5.5%, however Markets are pricing in rates as high as 6.25%. Consumer Price Index (CPI) inflation, as a measure of price rises, has also been more stable than in the preceding quarterly periods, with CPI at 8.7% in the period to May 2023 (based upon the Office for National Statistics (ONS) information).
14. Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the former Ministry for Housing, Communities & Local Government (MHCLG) published its revised investment Guidance which came into effect from April 2018. The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.
15. The updated Prudential Code included a new requirement for local authorities to provide a Capital Strategy, which is to be an overarching document approved by Full Council. The Council's Capital Strategy was considered and approved by Full Council on 21 February 2023 and will be reviewed as part of the 2024/2025 budget process.

Investment Activity

16. As at 30 June 2023, the Council held £135.3 million of invested funds (nominal basis), representing income received in advance of expenditure plus balances and reserves held. The Council's investment balances during 2023/2024, for the period to 30 June 2023, have averaged £136.3 million.
17. The Statutory Guidance on Local Government Investments in England, issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003, gives priority to security and liquidity and the Council's aim is to achieve a yield consistent with these key principles.
18. The table below shows the opening balances of investments held at the beginning of the financial year and the movements on each fund up to 30 June 2023:

Investment Counterparty	01 April 2023	New	Matured	30 June 2023
Short Term:	£000	£000	£000	£000
Banks – Call/Liquidity Accounts	2,595	21,610	24,205	Nil
AAA Rated Money Market Fund	2,365	64,170	65,175	1,360
Clearing Banks	7,000		7,000	Nil
Other Banks	5,000	9,000	2,000	12,000
UK Local Authorities	19,000	29,000	29,000	19,000
Building Societies	Nil			Nil
Housing Associations	Nil			Nil
Total Short-Term Investments	35,960			32,360

Investment Counterparty	01 April 2023	New	Matured	30 June 2023
Long Term:	£000	£000	£000	£000
South Cambs Ltd	100,000			100,000
Cambridge Leisure and Ice	2,400			2,400
Cambourne Town Council	500			500
Total Long-Term Investments	102,900			102,900
Total Investments	138,860			135,260

19. The downward movement in value of £3.6 million is due to the early payment in full of the A14 contribution that saved the Council £2.35m over a period of 25 years although reduced the current balance available for investments.
20. The most significant movements in the portfolio are an decrease of £7 million placed on Clearing Banks (£nil) and an increase of £7 million on Other Banks (£12m). A more detailed analysis of the investment portfolio as at 30 June 2023 is shown at **Appendix A.**
21. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment income.
22. In order to achieve these objectives, the Council's portfolio is diversified. The majority of the portfolio is invested in fixed term deposits with Financial Institutions which return 4.45% and Ermine Street Housing which returns 4.25%. Liquidity assets typically returned 4.35% over the quarter. This has to 30 June 2023 generated the Council a blended return of 4.3%.
23. This has been achieved whilst maintaining a low level of credit risk. Counterparty credit quality is assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is [A-] across all major agencies); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. This is shown below.

	Weighted Average Risk Number	Investment Portfolio	Bail-In Exposure		Average Balance	Rate of Return
			£000	£000		
30 June 2023	TBC	135,260	12,000	8.9	136,343	4.30%
31 March 2023	2.70	138,860	12,000	8.6	147,898	4.21%

24. The table also shows how the Council's exposure to Bail in Risk has increased in year as the portfolio has more funds proportionally with Banks. This will increase as balances with Banks and Building Societies increase during subsequent quarters.

Borrowing Strategy

25. As at 30 June 2023, the Council held £205.123 million of long term debt (principal borrowed, excluding lease liabilities), no change on the position at 31 March 2023. The Council held £40 million of short-term debt at 30 June 2023.
26. Affordability and the “cost of carry” remained important influences on the Council’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained low and are likely to remain at these levels over the forthcoming two years, the Authority has determined it is more cost effective in the short-term to use internal resources instead of external borrowing.
27. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Link Asset Services (Treasury Management Advisers) assist the Council with this ‘cost of carry’ and breakeven analysis.

Borrowing Activity

28. As at 31 March 2023 the Council had short-term local authority borrowing of £40 million in addition to £205.123 million of PWLB loans for HRA self-financing.
29. The table below sets out the movement in the Council’s borrowing over the year to date. The Capital Financing Requirement (CFR) is unchanged in the three-month period to 30 June 2023.

	01/04/2023	Maturing Debt	Interest Paid	Lease Payments	CFR Movement	30/06/2023
	£000	£000	%	£000		£000
CFR	329,356				Nil	329,356
Short Term Borrowing (a)	40,000		2.86%			40,000
Long Term Borrowing (b)	205,123		3.51%			205,123
Total Borrowing (a+b)	245,123					245,123
Other Long-Term Liabilities (c)	0					0
Total External Debt (a+b+c)	245,123					245,123

PWLB Certainty Rate and Project Rate Update

30. Councils are required to notify the Department for Levelling Up, Housing and Communities (DLUHC), formerly MHCLG, of any potential future borrowing in order to obtain the ‘Certainty Rate’ (0.20% below the PWLB standard rate) the Council has submitted an application to borrow at this rate until 31 March 2024. There is no penalty if the facility is not used.

Debt Rescheduling

31. The premium charge for early repayment of PWLB debt has become very expensive for the loans in the Council's portfolio and, therefore, unattractive for debt rescheduling activity. As a consequence, no rescheduling activity has been undertaken.

2023/2024 Budget Monitoring

32. The Finance Team monitor and report on the Capital Financing budget on a regular basis. The latest position as at 30 June 2023 is shown in the table below:

	Current Budget	Forecast Outturn	Forecast Variance
	£000	£000	£000
Interest Payments	2,002	1,500	(502)
Minimum Revenue Provision	1,329	1,329	Nil
Total Expenditure	3,331	2,829	(502)
Investment Income	(5,703)	(5,703)	Nil
Commercial Property Rental Income (Net)	(1,300)	(1,300)	Nil
Total Income	(7,003)	(7,003)	Nil
Net Budget	(3,672)	(4,174)	(502)

33. Interest Payments are forecast to be lower than originally budgeted as the amount of short term borrowing will be minimised. This is mainly due to expected slippage within the capital programme. The expectation is long-term borrowing during the year will not be required, due to higher investment balances and use of short-term borrowing in the near term.
34. Minimum Revenue Provision forecast outturn is in line with estimate.
35. Investment Income is forecast to come in line with estimate. Rates with Banks and Money Market funds have increased from record lows since the succession of Bank of England Base rate increases. Ermine Street Housing continues to make a significant contribution, with an expected outturn of £4.25 million as Ermine Street Housing has completed its acquisition programme. The income from the Commercial Property portfolio in the financial year is expected in line with estimate. Vacant areas in one property are being marketed so new lettings would see outturn ahead of estimate.

External Economic Impact on Portfolio

36. The external economic context and market rate data is referenced in the Treasury Advisers report reproduced at **Appendix B**.
37. The Bank of England Base Rate of 4.25%, that has applied effective from 22 March 2023, increased during the quarter period to 5% by 30 June 2023. The increase, compared to 2022/2023 levels, has increased the return on the Council's Money Market Fund holdings and on maturing deposits when reinvested.

Compliance with Performance Indicators

38. The Council has been compliant with the 2023/2024 Prudential Indicators approved by Full Council on 21 February 2023.
39. The Council measures and manages its exposures to treasury management risks using the following indicators:
40. Performance against prudential indicators in 2023/2024 is as follows:

(1) Interest Rate Exposure: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable interest rate exposures are set out in the table below:

Maturity structure of borrowing	Under 12 months	More than 12 months	Under 12 months - Actual	More than 12 months - Actual
Upper limit for fixed interest rate exposure	100%	100%	0%	100%
Upper limit for variable rate exposure	100%	0%	0%	0%

(2) Maturity Structure of Borrowing: The structure of the Council's borrowing is set out below.

Fixed Rate Borrowing		
Lender	Repayable within	Amount £,000
Local Authorities	<12 Months	30,000
Local Authorities	>12 Months <2 years	10,000
PWLB	10 – 15 years	25,000
PWLB	15 – 20 years	50,000
PWLB	20 – 25 years	50,000
PWLB	25 – 30 years	50,000
PWLB	30 – 35 years	30,123

(3) Principal Sums Invested for Periods Longer than 364 Days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The Council takes in consideration the advice of its Treasury Advisers when determining the duration of investments with financial institutions (excluding Ermine Street Housing and Cambridge Leisure and Ice Centre). The suggested durations for counterparties are:

Counterparty	Suggested maximum duration	Actual duration	Total investments £000
Close Brothers	6 months	730 days	5,000

(4) Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by maintaining a minimum £7 million working cash balance (total

investment balance less loans to Ermine Street Housing and Cambridge Leisure & Ice). This liquidity is available to meet unexpected payments without additional borrowing.

Counterparty Type	Amount £000	% of Portfolio at 30 June 2023
Long term (>1yr)		
Ermine St Housing	100,000	74%
CLIC + Cambourne Town Council	2,900	2%
Other Banks	5,000	4%
Total Long term	107,900	
Short term (<365 days)		
Banks (Clearing)	0	
Other Banks	7,000	5%
Building Societies	0	
Housing Assoc.	0	
Local Authorities	19,000	14%
Money Market Funds	1,360	1%
Short Term (Working Cash Balance)	27,360	

Outlook for Quarter 2: 2023/2024

41. The Council will continue to use fixed term deposits and money market funds to manage cashflow. The Council investment balances will increase in Qtr 2 and deposits will be timed to mature in Qtr 4 to cover the period of lower receipts. The expected outturn on short term borrowing is £35 million (2022/23 £40 million).
42. Whilst there is now a degree of stability, the view remains that is that the UK economy still faces a challenging outlook as the Government continues to respond to the ongoing financial pressures associated high inflation levels.

Implications

43. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Legal

44. It is a statutory duty, under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to approve a range of prudential indicators as part of its approval of the General Fund Revenue Budget and Capital Programme.
45. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).

Policy

46. There are no specific policy implications associated with the recommendations contained in this report. The Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the CIPFA Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 (as amended) have been used in the preparation of this report.

Finance

47. There are no new resource implications associated with the recommendations contained in this report.

Risk/Opportunities

48. There are clearly inherent risks in placing investments both in terms of the security of the capital invested and the level of return from the investment. The approved Treasury Management Strategy 2023/2024 identified the Council's investment priorities as (i) the security of the capital and (ii) the liquidity of its investments.
49. Compliance with the Treasury Management Strategy and associated Treasury Management Practices seeks to mitigate the risks inherent with the treasury management function. The consideration of Security, Liquidity and Yield, in that order, is critical when assessing potential treasury investments. The Strategy specifically states that the Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment income.
50. The Council engages an external Treasury Management Adviser to provide appropriate and timely advice on the Council's treasury portfolio (and, in particular, to provide advice on counter-party creditworthiness and investment limits). This appointment is regarded as critical given the investment risks.

Climate Change

51. There are no direct environmental implications arising from the report.

Consultation Responses

52. Consultations have been undertaken with the Lead Cabinet Member for Resources and the Council's treasury management adviser.

Alignment with Council Priority Areas

53. Timely and robust consideration of the Council's treasury management activities is vital to ensure that financial performance is in line with expectations.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Medium Term Financial Strategy – Report to Cabinet: 12 December 2022
- Medium Term Financial Strategy – Report to Council: 21 February 2023
- General Fund Budget – Report to Cabinet: 6 February 2023
- General Fund Budget – Report to Council: 21 February 2023
- Treasury Management Strategy – Report to Cabinet: 6 February 2023
- Treasury Management Strategy – Report to Council: 21 February 2023

Appendices

- A Schedule of Investments as at 30 June 2023
- B Treasury Management Adviser – External Economic Context and Market Rate Data

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Appendix A

	Amount	Interest	Total	Term	Rate	Maturity Date
	£000	£000	£000	Days	%	
Counterparty						
Uttlesford DC	1,000	0.5	1,000	4	5.00	3 July 2023
Goldman Sachs International Bank	1,000	24	1,024	181	4.85	9 Nov 2023
Standard Chartered Sustainable Fund	1,000	25	2,025	189	4.80	9 Nov 2023
Lloyds Bank Commercial Markets	3,000	80	3,080	191	5.07	9 Nov 2023
Lloyds Bank Commercial Markets	2,000	49	2,049	185	4.88	5 Oct 2023
Ashford BC	3,000	70	3,070	185	4.60	5 Oct 2023
Eastleigh BC	2,000	46	2,046	184	4.60	28 Sep 2023
Eastleigh BC	3,000	72	3,072	191	4.60	5 Oct 2023
Lancashire County Council	2,000	40	2,040	107	4.50	27 Jul 2023
Moray Council	5,000	112	5,112	176	4.65	7 Sep 2023
Folkestone and Hythe DC	2,000	71	2,071	290	4.45	14 Dec 2023
Close Brothers Ltd	5,000	320	5,320	731	3.20	12 Jul 2024
Total	31,000	909.5	31,910			

Appendix B

Treasury Management Adviser – Economics Update

1. Economics update

- The first quarter of 2023/24 saw:
 - A 0.2% m/m rise in real GDP in April, partly due to fewer strikes;
 - CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
 - Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
 - A tighter labour market in April, as the 3myy growth of average earnings rose from 6.1% to 6.5%;
 - Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
 - 10-year gilt yields nearing the “mini-Budget” peaks, as inflation surprised to the upside.
- The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real GDP in April, following March’s 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.
- The fall in the composite Purchasing Managers Index (PMI) from 54.0 in May to a three-month low of 52.8 in June (>50 points to expansion in the economy, <50 points to contraction) was worse than the consensus forecast of 53.6. Both the services and manufacturing PMIs fell. The decline in the services PMI was bigger (from 55.2 to 53.7), but it remains consistent with services activity expanding by an annualised 2%. The fall in the manufacturing PMI was smaller (from 47.1 to 46.2), but it is consistent with the annual rate of manufacturing output falling from -0.8% in April to around -5.0%. At face value, the composite PMI points to the 0.1% q/q rise in GDP in Q1 2023 being followed by a 0.2% q/q gain in Q2 2023.
- Meanwhile, the 0.3% m/m rise in retail sales volumes in May was far better than the consensus forecast of a 0.2% m/m decline and followed the robust 0.5% m/m rise in April. Some of the rise was due to the warmer weather. Indeed, the largest move was a 2.7% m/m jump in non-store sales, due to people stocking up on outdoor-related goods. But department stores also managed to squeeze out a 0.6% m/m rise in sales and the household goods sub-sector enjoyed a reasonable performance too. Overall, the figures were far better than analysts had expected. In addition, the GfK measure of consumer confidence rebounded from -27 to a 17-month high of -24 in June.
- The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Our central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024. Our colleagues at Capital Economics estimate that around 60% of the drag on real activity from the rise in rates has yet to bite, and the drag on the quarterly rate of real GDP growth over the next year may be about 0.2ppts bigger than over the past year.
- The labour market became tighter over the quarter and wage growth reaccelerated. Labour demand was stronger than the consensus had expected. The three-month change in employment

rose from +182,000 in March to +250,000 in April. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April. That was supported by a further 140,000 decline in inactivity as people returned to work from retirement and caring responsibilities (while inactivity due to long-term sick continued to rise). But it was not enough to offset the big rise in employment, which meant the unemployment rate fell from 3.9% to 3.8%

- The tighter labour market supported wage growth in April, although the 9.7% rise in the National Living Wage on 1st April (compared to the 6.6% increase in April last year) probably had a lot to do with it too. The 3myy rate of average earnings growth reaccelerated from 6.1% to 6.5% (consensus 6.1%) and UK wage growth remains much faster than in the US and the Euro-zone. In addition, regular private sector wage growth increased from 7.1% 3myy to 7.6%, which left it well above the Bank's forecast for it to fall below 7.0%. Overall, the loosening in the labour market appears to have stalled in April and regular private sector wage growth was well above the Bank's forecast.
- CPI inflation stayed at 8.7% in May (consensus 8.4%) and, perhaps more worryingly, core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn't rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1st July means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.
- This suggests the Bank may have more work to do than the Fed or ECB. Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the MPC's decision to step up the pace of hiking from the 25bps at the previous two meetings. The 7-2 vote, with only two members voting to leave rates unchanged at 4.50%, revealed support for stepping up the fight against high inflation.
- That said, the Bank has not committed to raising rates again or suggested that 50bps rises are now the norm. What it did say was that "the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting". Moreover, the Committee did not strengthen its forward guidance that any further rate hikes would be conditional on the data. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. We still think it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, we think rates are more likely to peak between 5.50-6.00%. Our forecast is also for rates to be cut in the second half of 2024, and we expect rates to then fall further than markets are pricing in.
- Growing evidence that UK price pressures are becoming increasingly domestically generated has driven up market interest rate expectations and at one point pushed the 10-year gilt yield up to 4.49% in late June, very close to its peak seen after the "mini-budget". Yields have since fallen slightly back to 4.38%. But growing expectations that rates in the UK will remain higher for longer than in the US mean they are still more than 70 bps above US yields. While higher interest rates are priced into the markets, the likely dent to the real economy from the high level of interest rates is not. That's why we think there is scope for market rate expectations to fall back in 2024 and why we expect the 10-year PWLB Certainty Rate to drop back from c5.20% to 5.00% by the end of this year and to 4.20% by the end of 2024.
- The pound strengthened from \$1.24 at the start of April to a one-year high at \$1.26 in early May, which was partly due to the risks from the global banking issues being seen as a bigger problem for the US than the UK. The pound then fell back to \$1.23 at the end of May, before rising again to \$1.28 in the middle of June as the strong core CPI inflation data released in June suggested the Bank of England was going to have to raise rates more than the Fed or ECB in order to tame domestic inflation. However, sterling's strong run may falter because more hikes in the near term to combat high inflation are likely to weaken growth (and, hopefully, at some point inflation too) to such a degree that the policy rate will probably be brought back down, potentially quite quickly, as

the economic cycle trends downwards decisively. This suggests that additional rate hikes are unlikely to do much to boost the pound.

- In early April, investors turned more optimistic about global GDP growth, pushing up UK equity prices. But this period of optimism appears to have been short-lived. The FTSE 100 has fallen by 4.8% since 21st April, from around 7,914 to 7,553, reversing part of the 7.9% rise since 17th March. Despite the recent resilience of economic activity, expectations for equity earnings have become a bit more downbeat. Nonetheless, further down the track, more rate cuts than markets anticipate should help the FTSE 100 rally.

MPC meetings 11th May and 22nd June 2023

- On 11th May, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 25 basis points to 4.50%, and on 22nd June moved rates up a further 50 basis points to 5.00%. Both increases reflected a split vote – seven members voting for an increase and two for none.
- Nonetheless, with UK inflation significantly higher than in other G7 countries, the MPC will have a difficult task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank's inflation models being "broken" is perhaps another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has already hiked short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July, whilst the ECB looks likely to raise its Deposit rate at least once more to a peak of 3.75%, with upside risk of higher to come.

2. 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 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast, made on 26th June, 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, against a backdrop of a stubbornly robust economy and a tight labour market.

You will note that our forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Link Group Interest Rate View		24.05.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View		27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50	
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50	
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60	
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70	
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10	
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20	
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40	
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10	

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast 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.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our central forecast for interest rates was previously updated on 25th May 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 to a degree, especially as it moved to a more aggressive 0.5% hike in June but, with inflation remaining elevated, we anticipate that Bank Rate will need to increase to at least 5.5%, if not higher, to sufficiently slow the UK economy and loosen the labour market.
- Moreover, we also still anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but timing on this will remain 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. Our current judgment is that rates will have to increase and stay at their peak until the second quarter of 2024 as a minimum.
- 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 also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine and whether there are any further implications for Russia itself following the recent aborted mutiny by the Wagner group.
- On the positive side, consumers are still estimated to be sitting on excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since our previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%.
- 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 elevated inflation outlook.

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, the rising gilt yields we have seen of late).
- **The Bank of England** increases Bank Rate too fast and too far over the coming months, and subsequently brings about a deeper and longer UK recession 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.

- **A broadening of banking sector fragilities**, which have been successfully addressed in the near-term by central banks and the market generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.

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

- Despite the recent tightening by 0.5%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.



Report to:	Audit and Corporate Governance Committee
Lead Cabinet Member:	Cllr John Williams
Lead Officer:	Anne Ainsworth

Six-Monthly Strategic Risk Report

Executive Summary

1. This report provides details of the council's current strategic risks, in the form of the Strategic Risk Register.

Key Decision

2. This is not a key decision.

Recommendations

3. It is recommended that Audit and Corporate Governance Committee:
 - a) Review the current Strategic Risk Register at **Appendix A** and make any comments and suggestions as appropriate for future reporting on Risk.

Reasons for Recommendations

4. To ensure that the approach to managing, reporting and mitigation of strategic risks is appropriate across the Council.

Details

Risk Reporting Developments

5. Since September 2022 Leadership Team has overseen a review of our organisational approach to risk management. This has included:
 - A comprehensive review of the corporate risk register; facilitated by Risk Leads who have been established in each service.
 - Adoption of a simplified approach to the logging and reporting of risk as an interim solution, while other systems are reviewed.

- Transfer of the corporate home of risk management from the Finance team, to Policy and Performance (in the Transformation team, sitting alongside the performance reporting function).
 - Ensuring adequate resources to support ongoing risk management.
 - Review of strategic risks facing the organisation.
6. Following this change in approach, strategic risks were reported to Audit and Corporate Governance Committee in December 2022, where committee requested updates on strategic risks bi-annually.
7. Since December 2022 the following additional work has been undertaken in relation to risk management at SCDC:
- Risk leads have worked with service managers to undertake further risk updates.
 - Service risk summary have been presented to Corporate Management Team (CMT)
 - Proposed strategic risks have been collated from CMT and reported alongside existing strategic risks to Leadership Team for review
8. We continue to make progress in embedding a culture of timely, appropriate review of risks and going forward CMT and Leadership Team will review risks quarterly at a minimum, with bi-annual updates for Audit and Corporate Governance Committee set to continue.

Risk Scoring and Categorisation Approach

9. In line with the council's Risk Strategy, the risks detailed at **Appendix A** have been scored using the following approach.

An impact score has been assigned using the following categorisation:

Score	Impact
5	Critical
4	Significant disruption and/or damage
3	Noticeable effect
2	Some limited disruption
1	Virtually no impact

A likelihood score has been assigned using the following categorisation:

Score	Likelihood
5	Dead cert
4	Probable
3	Strong possibility
2	Some possibility
1	Little chance

These two scores have been multiplied to obtain a total score. For example:

Impact score 3 x Likelihood score 3 = Total risk score 9.

10. For each risk on the risk log, this approach has been undertaken to obtain both an 'Inherent Risk' score (the score prior to control measures being taken), and a 'Residual Risk' score (the score that is anticipated once control measures have been completed).

11. The risks at **Appendix A** are displayed in order of residual risk score, from high to low. In addition, a colour-coding system has been used to provide a visual indication of Inherent and Residual risk scores, as detailed below:

- Red is any strategic risk with a rating of 16-25 high risk
- Amber is any strategic risk with a rating of 12-15 significant risk
- Yellow is any strategic risk with a rating of 5-10 medium risk
- Green is any strategic risk with a rating of 1-4 low risk

Implications

12. In the writing of this report, taking into account financial, legal, staffing, risk, equality and diversity, climate change, and any other key issues, the following implications have been considered:-

Financial

13. There are no resource implications associated with the approach to risk management outlined within this report. Some of the risks reported on will have financial implications if risks are not mitigated as outlined or if external factors change. Timely review and appropriately planned mitigations will ensure these are identified as early as possible.

Alignment with Council Priority Areas

14. The management of risks affects all areas of the Council's business and inherently aims to support achievement of all priorities.

Background Papers

None

Appendices

Appendix A: Strategic Risk Register

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Appendix A: Strategic Risk Register

URN	Risk Event	Leading To	Resulting In	Inherent Impact Score	Inherent Likelihood Score	Inherent Total Score	Control Measure 1	Control Measure 2	Control Measure 3	Residual Impact Score	Residual Likelihood Score	Residual Total Score	Owner	Status	Notes / Comments
SR15	Economic pressures increase, (including Cost of Living and changes to funding system).	<p>Recession. Borrowing rates increase. Reduction in public spending. Restrictions on PWLB borrowing.</p> <p>Reduction in income from businesses and residents.</p>	<p>Impact on budgets (significant for 23/24 budget) and SCDC investment plans. Demand for services outstrip income. Economic growth reduces, impacting Local Government Settlement.</p>	4	5	20	<p>Medium Term Financial Strategy updated regularly to track potential impact on the Council before the impact actually occurs.</p> <p>Regular contact with Pixel our MTFS advisors. Reviewing projection regularly to check reasonableness.</p> <p>Continue to actively monitor situation at service and LT level</p>	<p>Economic Development Team in place bringing together Business Support and Commercial/Regeneration Investments</p> <p>Promote the support available to businesses and residents; remain open to discussion on payments and remain proactive on financial management of debtors</p>	<p>Refresh Investment Strategy.</p> <p>Transformation Programme (including Service Reviews) to continue to identify opportunities for financial savings</p>	3	5	15	P Maddock	Open	The Fair Funding Review has been pushed back to 2025-26, however this does not have an impact on the risk score at this stage, just it's proximity.
SR03	Technical skill shortages, highly competitive employment market and high cost of living and housing in the region.	<p>Difficulties recruiting, vacancies and shortage of skills and capacity in the organisation. Reliance on contractors. Increased stress and sickness.</p>	<p>Impact on service deliver. Failure to meet statutory deadlines. Damage to reputation and legal challenge. Increased expenditure due to use of contractors.</p>	4	4	16	<p>Use of apprenticeship opportunities to 'Grow our Own'. Launch of Management Apprenticeships scheme, Internal development opportunities for staff including secondments and training inc. funding for professional qualification</p>	<p>Keep pay, reward, benefits, staff satisfaction levels under review. Review and improve council 'brand' and marketing use of market supplements in place.</p>	<p>Trialling a 4 day week scheme, if successful will attract staff to the Council for better work/life balance</p>	4	3	12	J Membery	Open	
SR21	Failure to deliver partnership working to deliver infrastructure.	<p>Failure to delivery key infrastructure (such as water supply and electricity) and improved transport and infrastructure for the public.</p>	<p>Impacts implementation of the adopted Local Plan. Delays to delivery of strategic developments. Less opportunity to address climate change through improved connectivity.</p>	4	4	16	<p>Close working with partners at Cambridge and Peterborough Combined Authority and Greater Cambridge Partnership</p>	<p>Close collaboration on consultations emanating from CPCA, GCP and GCSPS to ensure project outcomes are aligned</p>		3	4	12	S Kelly	Open	Note from Caroline Hunt - at this point in time infrastructure (particularly water) is a live factor delaying delivery of strategic developments.

Appendix A: Strategic Risk Register

URN	Risk Event	Leading To	Resulting In	Inherent Impact Score	Inherent Likelihood Score	Inherent Total Score	Control Measure 1	Control Measure 2	Control Measure 3	Residual Impact Score	Residual Likelihood Score	Residual Total Score	Owner	Status	Notes / Comments
SR23	Ability to deliver Local Plan due to limitations on water and utilities.	Delivery of key infrastructure across Greater Cambridge is critical to implementation of the Council's Local Plan, and improved transport and infrastructure for the public.	Delays to delivery of strategic developments. Less opportunity to address climate change through improved connectivity. Lack of utility provision such as water supply and electricity.	3	4	12	Effective input into infrastructure planning through engagement with statutory providers, or bodies like the Greater Cambridge Partnership.	Review of processes and systems to ensure most effective way is introduced.	Programme management resource to be recruited, along with use of Uniform/PM3.	3	4	12	S Kelly	Open	Residual likelihood score was lower but has increased due to current objections from the Environment Agency to major planning applications due to uncertainty over water supply.
SR24	Non-compliance with council housing legislation.	Risk to health and life.	Legal action. Reputational risk. Intervention by Regulator for Social Housing. At extreme corporate manslaughter.	4	4	16	Policies and procedures being developed to ensure assessments are carried out within timescales	Regular audits to ensure compliance with current regulations. and continuity checks with contractors records External contractor engaged to review compliance risks	External verification of processes	4	3	12	P Campbell	Open	
SR29	Demand for refugee housing outstrips supply.	Increased risk of homelessness.	Increased homelessness, impacts on refugee welfare, potential increase costs and impacts on staff stress levels.	4	4	16	Re-matching of Ukrainian refugees with hosts	General Housing Advice and intervention	Purchase of properties through Local Authority Housing Fund for refugees	4	3	12	P Campbell	Open	New risk added 05/07/23 following discussion at LT and based on discussion with Peter Campbell.

Appendix A: Strategic Risk Register

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SR02	Cyber security breach.	Risk of having data stolen and held to ransom – potential data breach for residents with sensitive data. Includes medical history and bank details and family history.	Implications, legal, financial, reputational.	5	3	15	Active intelligence client with 3CICT to ensure the risk management approach to cyber security is active and industry good practice.	Ensure risks are reported and discussed at IG boards, to Shared Service Boards and are included in the ICT Business plan.	We now have a cyber security team sat within 3C ICT - keep up to date with the latest cyber threats, ensure security releases are installed in Council devices and communicates with Intelligent Client where any potential security breaches occur.	5	2	10	J Membery	Open	Updated controls 05/07/23 as per conversation with Jeff Membery. Additional control measures include: Risk Management Secure Configuration; Network Security; Managing user privileges; Incident management; User education and awareness; Malware prevention; Monitoring; Removable media controls; Mobile Working.
SR09	Failure to deliver Northstowe civic hub and other community buildings.	Risk of project failure to deliver on time and to budget.	Additional costs; reputational damage and/or delays to service and community provision.	5	3	15	Senior Responsible Officer structure in place; with leads for each aspect of the programme reporting to the Senior Responsible Officer	In July 2022 the Council agreed to provide additional financial support to deliver the buildings The Northstowe Delivery Group has been established to support the Council in delivering the buildings and includes representatives from the County Council and Town Council.	Programme Management in place to provide clear oversight and continuous review of progress and potential risks	3	3	9	A Ainsworth	Open	
SR11	Failure to effectively manage, control and utilise data and intelligence across the council.	Decisions and planning processes based on inadequate / missing information.	Reduced quality of delivery, reputational damage.	3	4	12	Community of Practice in development; options for service improvements and partnering being developed.	Completion of Data Maturity Self Assessment to help inform investigations into potential data strategies	Training, Protocols & Sharing agreements	3	3	9	A Ainsworth	Open	Risk re-scored by Jeff Membery following discussion at LT on 26/06/23. Increased from inherent score of 9 and residual score of 6.

Appendix A: Strategic Risk Register

URN	Risk Event	Leading To	Resulting In	Inherent Impact Score	Inherent Likelihood Score	Inherent Total Score	Control Measure 1	Control Measure 2	Control Measure 3	Residual Impact Score	Residual Likelihood Score	Residual Total Score	Owner	Status	Notes / Comments
SR12	Failure to deliver programme of work to reduce SCDCs carbon emissions.	Failure to reduce our carbon footprint by 45% by 2025 and 75% by 2030.	Environmental and reputational damage. Reduced access to funding. Exposure to uncertainty linked to climate change (e.g. fuel costs).	3	4	12	Fleet - decarbonisation programme in place and funded Ensure electricity supply for electric vehicles - additional projects of solar farm for micro grid	Strategy and action plan delivery - this is monitored by CEAC and the programme of projects is monitored by the cluster board. Embed the business plan targets for climate change in other departments, not just the cluster.	Implementation of the Asset Management Strategy relating to our council stock with a focus on decarbonisation Utilising specialist skills and knowledge from the new repairs contract to support decarbonization, including supporting bids for funding.	3	3	9	B Esan	Open	
SR18	Page 128 Organisational culture doesn't reflect organisational direction.	Inappropriate skills, behaviours and attitudes in Managers and Staff. Ineffective use of resources. Poor Member-Officer partnership working, and a lack of a joined-up approach.	Reputational damage, failure to deliver, loss of partner engagement, low retention and recruitment.	3	4	12	'Appraisal and performance management processes in place. Good recruitment practices, including recent changes to support improved diversity (e.g. blind recruitment). Inclusive & enabling organisational structure now Well embedded Development of Team Charters. Consideration of how to manage teams in a hybrid environment	Well-developed Comms strategy and significant programme of engagement and communications across the council, including: Awards ceremony and Town Hall sessions, Weekly Vlogs from CEO and Leadership Team, Corporate management Team (CMT) development/formal meetings and briefings, Insite opportunities to thank colleagues and celebrate excellence.	A range of internal and external training for all staff and members. Further development of CMT through a programme of training events, some of which will be mandatory.	3	3	9	L Watts	Open	
SR25	Ermine Street Housing (ESH) £100m investment fails to deliver return.	There are a range of factors that impact on ESH (included in the Housing Risk Register) that may impact on the future profitability on ESH.	Lower than anticipated returns on investment.	4	4	16	Interest Rates Rise - Strong financial management	House Price Deflation - House prices are more resilient in the Cambridgeshire Area. Business Model is less dependent on property values, rental income is more important	Property Condition - properties are generally new and in good condition. ESG will complete a stock condition survey to allow a long term investment plan together with an acquisition and disposal strategy	4	2	8	P Campbell	Open	Over time, a consequence of house price inflation will mean that value of assets will continue to grow, providing a buffer to ESH and protecting SCDC investment

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SR26	New Mears Contract fails to deliver service.	Repairs not being completed on time and/or poor quality. Dependence on one contractor.	Dissatisfaction from tenants and reduction in satisfaction levels potential action by regulator and risk of disrepair claims.	4	4	16	Robust monitoring of performance. Expectations and performance measures have been made clear at the outset of the new contract.	Monitoring of contract to include tenant representatives, which will feed into the Housing Performance Panel and Housing Engagement Board.	Robust procurement process including financial check on company.	4	2	8	P Campbell	Open	
SR30	4 day week trial is stopped prematurely by government.	Continued difficulties in recruitment and retention.	Reduced ability to deliver high quality services (particularly in areas such as Planning) and the rise of agency spend to cover posts that are not filled by permanent recruitment; impact on staff morale.	4	3	12	Concern raised by sector about government intervention has been strong, with responses sent by cross-sector membership groups	SCDC has requested a meeting with DLUHC minister to understand their concerns, given early evidence of positive outcomes of the trial (financial and staffing)	Continued use of external independent research team at Cambridge University's Bennett Institute to ensure objectively and independently verified data is produced	4	2	8	L Watts	Open	New risk added - July 2023
SR31	4 day week trial is unsuccessful in achieving its aims of solving recruitment and retention challenge.	Continued difficulties in recruitment and retention.	Reduced ability to deliver high quality services (particularly in areas such as Planning).	4	3	12	Trial is being carefully monitored by officers and members (through Scrutiny of KPIs by O&S and employment impacts by E&S Committees).	Use of external independent research team at Cambridge University's Bennett Institute will ensure objectively verified data is presented to members	Recruitment to new posts advertising the benefits of working in a 4 day week environment	4	2	8	L Watts	Open	New risk added - July 2023

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URN	Risk Event	Leading To	Resulting In	Inherent Impact Score	Inherent Likelihood Score	Inherent Total Score	Control Measure 1	Control Measure 2	Control Measure 3	Residual Impact Score	Residual Likelihood Score	Residual Total Score	Owner	Status	Notes / Comments
SR05	Failure to deliver organisational review and operating model.	The Council's operating model, organisational values, capabilities, and structure fail to deliver the Business Plan.	Limitations to service delivery, possible financial and legal penalties and reputational damage.	4	3	12	Engagement and comms plan for colleagues, members and Partners in place. Transformation Fund set up to resource change programme. Transformation projects and Board established to oversee delivery of objectives.	Service Review governance involves members of LT, ensuring input into definitions of objectives for reviews.	Increased number of cross service reviews requiring corporate monitoring and governance rather than relying on service only delivery	3	2	6	J Membery	Open	
SR16	Page 130 Cost of living crisis – residents.	Increased costs of energy and fuel, housing and food, alongside stagnation / reduction of income (wages, social security benefits such as Universal Credit).	Housing, food, bills less affordable and residents (particularly the vulnerable but also those 'just about managing') suffer physically and financially.	3	3	9	Promote the existing mechanisms available for resident support (such as income maximisation advice, specialist debt advice, spreading payments, discretionary grants, food banks and vouchers, signposting more advice).	Implement new options agreed by Cabinet in Nov 2022, including discretionary housing payments, changes to Localised Council Tax Support, Discretionary Council Tax discounts, charitable giving, warm hubs, warm packs, community chest grants, improving access to affordable food.	Use of grant funding for additional staff for key areas, such as money advice and tenancy sustainability for those suffering from mental ill health	2	3	6	L Watts	Open	
SR20	Fail to harness synergies from partnership working (with e.g. CPCA, Health sector).	Fail to build programmes of work and improve existing services in line with available data, intelligence, partnership funding and collaboration opportunities.	Services not optimised or delivery prioritised as well as possible; funding opportunities not taken; residents failed by partners working in isolation.	3	3	9	CPCA Improvement Plan is supported by all CEOs across C&P and SCDC leads on one workstream	SCDC chairs the C&P Public Service Board which is creating a programme to create a network of officers from all organisations to learn and co-deliver new projects	SCDC CEO is on the Health & Wellbeing board and leading the housing and skills priority area for delivery of the Health and Wellbeing Strategy in December 2022. COO leads on a newly established C&P data sharing working group.	3	2	6	L Watts	Open	

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SR22	Failure to deliver housing and maintain 5 year housing supply.	Lack of suitable sustainable housing for residents The NPPF provide a tilted balance in favour of development applications.	Higher house prices, lack of workforce for businesses, shortage of transport and facilities. The NPPF provide a tilted balance in favour of development applications.	3	3	9	Authority Monitoring Report produced annually along with Housing Trajectory prepared in consultation with housing developers, to ensure an effective understanding of delivery.	Measures to support delivery through the planning application process, with Planning Performance Agreements put in place for strategic developments with established programmes and secured monies for staff.	Measures to address the delivery of infrastructure needed to support growth, such as the transport infrastructure programme of the Greater Cambridge Partnership. Review of the Local Plan, to ensure an ongoing policy framework and identified developments to meet future needs.	3	2	6	S Kelly	Open	At the moment the water issues have not impacted on housing land supply, therefore risk is unchanged.
SR27	Page 131 Fire at Cambourne HQ	Loss of (all or part of) building, structural integrity leading to possible loss of life of, or injury to, staff or customers	Possible injury or loss of life, financial costs of damage to the building, disruption to Council operations and services. Possible reputational damage if fire detection or prevention systems are found to be inadequate.	5	3	15	Fire risk assessment completed, and regularly reviewed	Fire safety management plan up to date, and regularly reviewed, alongside training and test and live evacuation drills	Highest risks of fire are due to arson and electrical faults. Regular monitoring of potential sources of ignition / clearance. Thorough testing is regularly undertaken (PAT and fixed wire testing)	5	1	5	L Jones	Open	Escalated from THC21 following discussion at 28/06 LT meeting

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URN	Risk Event	Leading To	Resulting In	Inherent Impact Score	Inherent Likelihood Score	Inherent Total Score	Control Measure 1	Control Measure 2	Control Measure 3	Residual Impact Score	Residual Likelihood Score	Residual Total Score	Owner	Status	Notes / Comments
SR14	Failure to catch up on producing the statement of accounts (SOA) (overdue, including approval of accounts to obtain unqualified audit opinion)	Resulting in increased stress and workload and diversion from other accounting responsibilities such as budget monitoring.	Reputational loss, and uncertainty over the Council's financial position	4	3	12	A Plan of actions and timetable is prepared for each statement of accounts, including supporting information for auditors whilst monitoring progress regularly to deadlines set. Close liaison with the auditors to ensure all requests are fulfilled on time.	The SOA preparation process has been updated and more automation introduced using the SOA explorer model. This means the statement and notes can be produced quicker and with more accuracy. There are two additional fte's dedicated to the accounts catch up process avoiding significant impact on BAU activities. Training is and will continue to be provided to colleagues to enable the transition to accounts preparation and audit to be carried out.	A report is due to be made to Audit Committee in July to agree a catch up plan between the Council and our auditors with a view to completing two audit cycles per financial year meaning that for the 2024/25 cycle we will aim to be up to date. Attendance at CIPFA / external audit final accounts workshops.	2	2	4	F Ahmed	Open	Additional resources to support and train the team as required in the interim period of catching up.
SR01	IT infrastructure failure	Complete loss of service and network connectivity in one or more service areas across SCDC	Potential to miss statutory obligations, risk to vulnerable residents; incurring financial penalties, and reputational damage.	4	2	8	Active intelligent client with 3CICT to ensure risk management approach to infrastructure failure is active and industry good practice (see notes for categories of control measures).	Ensure risks are reported and discussed at IG boards, to Shared Service Boards and are included in the ICT Business plan.	Services to ensure business continuity plans are updated by the end of Sept 2023 and submitted to a central registry (with hard copy also available). Hosted services can now be accessed directly rather than through network in event of failure. Communication through social media outside of the Council's network to mitigate impacts and ensure up to date comms.	3	1	3	J Membery	Open	Updated controls 05/07/23 as per conversation with JM. Additional control measures include: split-site data centre, resilience built into hardware and software, separate networks for systems management and application, ability to reroute network traffic in the event of any failures, alternative power generation, data backup tools, 24/7 hardware support and maintenance, cooling, fire suppression and smoke detection, leak detection and site security.

Appendix A: Strategic Risk Register

URN	Risk Event	Leading To	Resulting In	Inherent Impact Score	Inherent Likelihood Score	Inherent Total Score	Control Measure 1	Control Measure 2	Control Measure 3	Residual Impact Score	Residual Likelihood Score	Residual Total Score	Owner	Status	Notes / Comments
SR06	Failure of information governance, data management	Use of incorrect information and legal non-compliance. Loss or corruption of data, inability to access or share data.	Limitations to service delivery, possible financial and legal penalties and reputational damage.	3	2	6	Agreed additional funding for IG team to ensure review of processes to reduce likelihood of failure	Governance changes being introduced so cross council accountability is delivered and efficiencies obtained.	Continual development of training and awareness to reduce likelihood of unintentional failures.	3	1	3	J Membery	Open	
SR07	Lack of clear documented digital strategy	Ad-hoc delivery of digital projects not contributing to SCDC objectives, diverting resources	Reduced savings, more unintegrated systems and increased maintenance costs. Less joined up information.	3	3	9	Commissioned an external organisation (6x3) to complete and document digital strategy to guide future IT procurement and delivery.	Include LT in "signing off" the strategy to ensure corporate buy in	We now have a draft digital strategy which is in the process of being revised.	3	1	3	J Membery	Open	Updated controls (added measure 3) 05/07/23 as per conervation with JM.

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