

South Hams Audit Committee



Title:	Agenda						
Date:	Thursday, 9th December, 2021						
Time:	2.00 pm						
Venue:	Repton Room - Follaton House						
Full Members:	<p style="text-align: center;">Chairman Cllr Austen</p> <p style="text-align: center;">Vice Chairman Cllr Spencer</p> <p><i>Members:</i></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 33%;">Cllr Brazil</td> <td style="width: 33%;">Cllr Rowe</td> </tr> <tr> <td>Cllr McKay</td> <td>Cllr Taylor</td> </tr> <tr> <td>Cllr Pennington</td> <td></td> </tr> </table>	Cllr Brazil	Cllr Rowe	Cllr McKay	Cllr Taylor	Cllr Pennington	
Cllr Brazil	Cllr Rowe						
Cllr McKay	Cllr Taylor						
Cllr Pennington							
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.						
Committee administrator:	Democratic.Services@swdevon.gov.uk						

1. Minutes	1 - 4
To approve as a correct record the minutes of the Audit Committee held on 28 October 2021	
2. Urgent Business	
Brought forward at the discretion of the Chairman;	
3. Division of Agenda	
To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;	
4. Declarations of Interest	
Members are invited to declare any personal or disclosable pecuniary interests they may have, including the nature and extent of such interests, in any items to be considered at this meeting;	
5. External Auditor Appointment	5 - 16
6. Update on Progress on the 2021/22 Internal Audit Plan	17 - 42
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10. Investment Properties - Update and Monitoring Report	89 - 94
11. Audit Committee Work Programme	95 - 96

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD IN THE REPTON ROOM, FOLLATON HOUSE, PLYMOUTH ROAD,
TOTNES ON THURSDAY, 28 OCTOBER 2021**

Members in attendance			
* Denotes attendance			
∅ Denotes apology for absence			
*	Cllr L Austen (Chairman)	*	Cllr R Rowe
*	Cllr J Brazil	*	Cllr B Spencer (Vice-Chairman)
*	Cllr J McKay	*	Cllr B Taylor
*	Cllr J T Pennington		

Member(s) also in attendance:
Cllr H D Bastone, J Hawkins, and J Pearce

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Director of Governance and Assurance; Section 151 Officer; Head of Finance; Democratic Services Specialist; and Grant Thornton Engagement Lead

A.11/21 MINUTES

The minutes of the Audit Committee meeting held on 2 September 2021 were confirmed as a true and correct record.

A.12/21 DECLARATIONS OF INTEREST

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.13/21 GRANT THORNTON REPORT: AUDITOR'S ANNUAL REPORT

Consideration was given to a report, which had been produced by Grant Thornton, that updated on the financial statement audit. The Grant Thornton Engagement Lead confirmed that the final assurance from the Devon Pension Fund Auditor had been received, and therefore, subject to Agenda item A.14/21 being approved, the Auditors would be able to issue an 'unqualified' audit opinion on the 20/21 Accounts. The template for certifying closure of the audit and the Audit Office Guidance on completing this form had not yet been received. Until such time, therefore, the Audit could not be closed, but the Opinion could be posted to the Council's website.

In discussion, reference was made to:

- (a) Detailed, significant sample testing was performed on the distribution of Covid grants resulting in no issues at all being found.
- (b) It was highlighted that additions in respect of Ivybridge Depot had been double counted to the value of £1,229k. This had been corrected in the Statement of Accounts.
- (c) There had been further changes to the Annual Governance Statement to reflect Grant Thornton's suggested amendments on the 2020/21 Statement of Accounts.
- (d) Significant time and manual intervention had been required to produce the transaction listing. Therefore a recommendation in appendix A of the attendant report was to discuss with the system supplier (Civica), or other neighbouring authorities using the same system, to see if this could be improved and made more automated in the future.
- (e) The Grant Thornton Engagement Lead confirmed that this audit had been exceptionally clean, and compared favourably with many other local authorities.
- (f) The Leader was glad to hear that South Hams District Council was one of very few authorities to have completed their audit, but it was still beyond the deadline date (target date) of 30th September. The Grant Thornton Engagement Lead explained that there were still impacts due to the Covid pandemic and remote working, plus audits were required to be much more in-depth and detailed now. It was also noted that there was a national shortage of experienced auditors and that Grant Thornton were taking on more graduates but it would be years before these were experienced enough to alleviate the resource shortage. A Member stated that it was important that the audit was thorough and due time was taken.
- (g) A Member raised the issue of monies spent on projects which did not come to fruition and the scheme of delegation that was in place through the Council's Investment Strategy was referred to. A separate item on Investments is on the Audit Committee's workplan for a report in December.

It was then:

RESOLVED

That the contents of the Grant Thornton (IAS 260) Report be noted.

A.14/21

GRANT THORNTON REPORT: AUDIT FINDINGS REPORT 2020/21

Consideration was given to the Audit Findings report for 2020/21. The report was presented by Grant Thornton's Engagement Lead.

In discussion, the following points were raised:-

- (a) Although formal reporting of performance had not happened in 2021, the Auditors recognised that performance had been monitored and reported in other ways, but they had recommended that this be reviewed.
- (b) The Devon Districts Procurement Group should be reviewed quarterly, however this had not occurred. The review should be reinstated.
- (c) No significant weaknesses were found within governance but a couple of improvements had been identified: staff should receive a refresher of the code of conduct and the whistle blower policy needed to be updated. It was confirmed that the Whistle Blowing Policy was on the Audit Committee's work programme for March 2022.
- (d) The general reserves (both unearmarked reserves and earmarked reserves) of the Council fell in the middle of the range of reserves held by all other district councils. The Grant Thornton Engagement Lead was of the opinion this was where the Council ought to be.
- (e) With reference to the Capital Programme Appendices, officers would review best practice at other councils, particularly for those projects that cover multiple financial years.

It was then:

RESOLVED

That the contents of the Grant Thornton 'Audit Findings Report' be noted.

A.15/21

AUDITED ANNUAL STATEMENT OF ACCOUNTS 2020/21

Consideration was given to a report that presented a summary of net revenue and capital expenditure and sought approval of the audited Statement of Accounts for 2020/21.

The Executive Member for Finance gave thanks to the Finance Team and stated that the audit was a great credit to them and to the Council.

It was then:

RESOLVED

1. That the wording of the Letter of Representation (as set out at Appendix A of the presented agenda report) be approved;
2. That the audited Statement of Accounts for the financial year ended 31 March 2021 (as set out at Appendix B of the presented agenda report) be approved; and,
3. That the Annual Governance Statement post audit (as set out

at Appendix C of the presented agenda report) be approved.

A.16/21 **ANNUAL TREASURY MANAGEMENT REPORT 2020/21**

Members considered a report that set out the Council's annual treasury management performance for 2020/21. In addition, the report sought approval of the actual 2020/21 prudential and treasury indicators.

It was then:

RESOLVED

That the Audit Committee:

1. **APPROVED** the actual 2020/21 prudential and treasury indicators; and,
2. **NOTED** the Annual Treasury Management Report for 2020/21;

A.17/21 **AUDIT COMMITTEE WORK PROGRAMME**

The Committee noted the work programme. The Leader confirmed that a report on Community Housing was on the Executive Forward Plan for a report in December.

A.18/21 **CONFIRMATION OF DATES OF AUDIT COMMITTEE MEETINGS**

The remaining dates of the Audit Committee in the fiscal year were noted as 9th December 2021 and 10th March 2022.

(Meeting commenced at 2.00 pm and concluded at 3.20 pm)

Chairman

Report to: **Audit Committee**
Date: **9th December 2021**
Title: **External Auditor Appointment**
Portfolio Area: **Finance – Councillor H Bastone**

Wards Affected: **ALL**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: Lisa Buckle Role: **Corporate Director of Strategic Finance (S151 Officer)**

Contact: **Email lisa.buckle@swdevon.gov.uk**

Recommendations:

That the Audit Committee:

1. RECOMMENDS TO COUNCIL that South Hams District Council opts into the national arrangement for the procurement and appointment of external auditors, through Public Sector Audit Appointments (PSAA), by 11 March 2022.

1. Executive summary

1.1 Following the closure of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.

1.2 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement the Council undertakes with a

limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

1.3 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation the Audit Committee is asked to make the recommendation outlined to Council.

1.4 The alternative is to establish an auditor panel and conduct the Council's own procurement. This is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the national sector led procurement, would be likely to result in a more costly service for the provision of an external auditor service.

1.5 The majority (if not all) of Devon Councils are choosing to opt into the national arrangements through PSAA for the reasons in this report.

2. Background

2.1 As part of closing the Audit Commission, the Government novated external audit contracts to PSAA on 1 April 2015.

2.2 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

2.3 The main advantages of using PSAA (the national procurement framework) are set out in the PSAA prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.

- * Assure timely auditor appointments
- * Manage independence of auditors
- * Secure highly competitive prices
- * Save on procurement costs
- * Save time and effort needed on auditor panels
- * Focus on audit quality
- * Operate on a not for profit basis and distribute any surplus funds to scheme members.

2.4 Resource Implications

If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for external audit fees for 2023/24, although it is anticipated that any increase will be minimised through using the PSAA national framework. 98% of eligible bodies made the choice to opt-in to the national PSAA arrangements for the five year period commencing in April 2018.

2.5 Timescale

A form of notice of acceptance must be sent by the Council before the deadline of 11th March 2022. This is a Full Council decision.

2.6 Letter from the Local Government Association (LGA) – Appendix A

A letter from the LGA is attached in Appendix A. The LGA's advice is that 'the national framework remains the best option that Councils can choose'. The letter explains that 'there are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when Councils were last asked to make this choice.'

2.7 Devon Position

It is highly likely that the majority of Devon Authorities (if not all of them) will opt into the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors, for the same reasons set out in this report and in the letter from the LGA. There is no apparent appetite to look at a local procurement exercise in Devon from initial discussions with other s151 Officers in Devon. This is mainly due to the administrative burden and risks around increased costs identified within the report.

3. Proposed way forward

3.1 There are two options available to the Council – join the national scheme (which is recommended) or appoint an auditor via its own procurement process. The Council is currently under the umbrella of the national scheme as overseen by PSAA until 2023. The biggest risk for an authority managing its own procurement will be its ability to secure competitive and cost-effective bids for the work. The appointed auditor must be an eligible local auditor – i.e. on the ICAEW list of key audit partners. An appointment must be made in consultation with an auditor panel. Auditor Panels must have at least three members and have a majority of independent members and be chaired by one of them. Independent members can only be appointed if they have submitted an application for an advertised vacancy.

3.2 It is recommended to Council that South Hams District Council opts into the national arrangement for the procurement and appointment of external auditors, through Public Sector Audit Appointments (PSAA), by 11 March 2022.

4. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. There are no specific legal implications arising from this report, save that there is a requirement to appoint an external auditor and to follow the appropriate procurement and contract procedure rules.
Financial	Y	If PSAA is not used, some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed, it is not possible to state what additional resource may be required for external audit fees for 2023/24, although it is anticipated that any increase will be minimised through using the PSAA national framework. The current external audit fees for 2020/21 were £54,271.
Risk	Y	As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement. The most significant risk is the administration required to appoint the Council's own external auditor and the potential for this to be a more costly exercise, also resulting in higher annual external audit fees. There is also the risk of there potentially being no bidders or take up from the tender exercise.
Supporting Corporate Strategy		The external audit process supports all of the Thematic Delivery Plans outlined in 'Better Lives for all'.
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/a

Safeguarding	N	N/a
Community Safety, Crime and Disorder	N	N/a
Health, Safety and Wellbeing	N	N/a
Other implications	N	none

Background Papers:

None

Supporting Information

Appendix A – Letter from the Local Government Association (LGA) on external audit provision.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/a

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LETTER FROM THE LOCAL GOVERNMENT ASSOCIATION ON THE RETENDER
OF EXTERNAL AUDIT CONTRACTS

From the Chairman of the Association
Cllr James Jamieson



**To: Mayors/Leaders/Chief Executives/Chief Finance Officers
of English Principal Councils**

23 September 2021

Dear Lisa Buckle,

Retender of External Audit Contracts

I am writing because your council must shortly make a decision whether to opt into the national arrangement for the procurement of external audit or procure external audit for itself, and to set out the LGA's view on that decision.

In most councils this matter will be considered first in detail by the Audit Committee. You will therefore no doubt wish to pass on a copy of this letter and the more detailed attachment to the colleague who chairs the relevant committee.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The practical deadline for this decision is 11th March 2022. As this is a decision for the Full Council, I wanted to ensure that you had sight of the letter that has been sent to audit and finance colleagues and that you are aware of the crucial issues to be considered.

The way external audit has operated over the last couple of years has been extremely disappointing. This has led to many audits being delayed and dozens of audits remain uncompleted from 2019/20. Dealing with these issues is not a quick or easy fix.

Nevertheless, the LGA's view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

We believe that in a suppliers' market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.

The information attached goes into more detail about the background to this decision. My officers will be happy to answer any questions you may have. Please contact Alan Finch (alan.finch@local.gov.uk) if you have any issues you would like to raise.

Yours sincerely

A handwritten signature in black ink, appearing to read "James Jamieson".

Cllr James Jamieson
Chairman

cc: Chief Executive
Chief Finance Officer

LETTER FROM THE LOCAL GOVERNMENT ASSOCIATION ON THE RETENDER OF EXTERNAL AUDIT CONTRACTS

RETENDER OF EXTERNAL AUDIT CONTRACTS

Information from the LGA for those charged with governance

The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the council will need to decide whether to procure its own external auditor or opt into the national procurement framework.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The deadline for this decision is the 11th March 2022. If the council doesn't make such a decision, the legislation assumes that the council will procure its own external audit, with all the extra work and administration that comes with it.

The national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially, councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.

It is therefore vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

To summarise, the same arguments apply as at the time of the last procurement:

- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.

LETTER FROM THE LOCAL GOVERNMENT ASSOCIATION ON THE RETENDER OF EXTERNAL AUDIT CONTRACTS

- Procuring for yourself provides no obvious benefits:
 - The service being procured is defined by statute and by accounting and auditing codes
 - Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
 - Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
 - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.
 - PSAA has commissioned high quality research to understand the nature of the audit market.
 - It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year

Councils need to consider their options. we have therefore attached a list of Frequently Asked Questions relating to this issue which we hope will be useful to you in reaching this important decision.

When the LGA set up PSAA in 2015, we did so with the interests of the local government sector in mind. We continue to believe that the national arrangement is the best way for councils to influence a particularly difficult market.

If you have any questions on these issues please contact Alan Finch, Principal Adviser (Finance) (alan.finch@local.gov.uk).

PROCUREMENT OF EXTERNAL AUDIT from financial year 2023/24

FREQUENTLY ASKED QUESTIONS

"Were prices set too low in the current contract?"

It is clear that firms did submit bids that reflected what seemed at the time to be very stable market conditions. Unfortunately, a series of financial collapses in the private sector have since created a very different climate and resulted in a whole series of new regulatory pressures. It is very likely that firms thought they could make savings as a result of the new timetable, essentially finishing the accounts audits by the end of July each year. Of course, that is not what has happened.

LETTER FROM THE LOCAL GOVERNMENT ASSOCIATION ON THE RETENDER OF EXTERNAL AUDIT CONTRACTS

The Government opened up the market principally on the argument that costs would reduce, and views were mixed in the sector when the first contract was being let. Some councils wanted more savings and some were worried about reduced standards.

“Has the current contract helped cause these issues?”

Since the current contract is based around the Code of Audit Practice and the local government accounting code, this is unlikely. The first year of the new contract coincided with the introduction of new standards and with the emergence of some difficult audit issues such as the [McCloud judgement](#) (a legal case which affected the valuation of pension liabilities). The second year was affected by COVID-19. This laid bare the lack of capacity in the supplier side of the market and led to considerable delays. It is hard to see how the contract could have pre-empted this, but now we are clearer about the level of uncertainty in the system, the next contract can adjust for it.

“If we let our own contract, could we have more influence over auditors?”

No. The auditors are required to be independent and are bound by the Codes and need to deliver to them in line with the regulator’s expectations or face action under the regulatory framework.

As far as delays in audits is concerned, auditors are required to allocate resources according to risk and councils that procure for themselves will find themselves in the same queue as those within the national arrangement.

“If we let our own contract, can we get the auditors to prioritise our audit over others?”

Very unlikely. Auditors are running at full capacity and have to deploy resources according to their assessment of audit risks in accordance with professional standards. It is very unlikely that auditors could give preference to some clients rather than others even if they wanted to.

“Didn’t we used to get more from our auditors?”

Yes we did. For example, auditors were often prepared to provide training to audit committees on a pro-bono basis. The fact that they used to be with us for most of the year meant officers could develop professional working relationships with auditors and they understood us better, within the boundaries required of their independent status. Auditors no longer have the capacity to do extra work and the light shone on audit independence in other sectors of the economy has reinforced the rules on the way auditors and councils work together.

“Under the national framework we have had to negotiate our own fee variations. Will that continue to be the case?”

Unfortunately, virtually all councils have had to engage in discussions with auditors about fee variations linked to new regulatory requirements and, of course, the challenges of COVID-19. SAA has worked hard with MHCLG to enable the recent consultation on changes to the fee setting regime, and the resulting regulatory change will bring scope for more issues to be settled at a national level in future.

LETTER FROM THE LOCAL GOVERNMENT ASSOCIATION ON THE RETENDER OF EXTERNAL AUDIT CONTRACTS

“Can we band together in joint procurements to get most of the benefits of not going it alone?”

We understand that this is lawful. However, joint procurement partners would not be part of PSAA’s efforts on behalf of the sector to increase the number of firms competing in the market, which will therefore be less likely to succeed.

At best, joint procurement spreads the pain of procuring over a larger number of councils and at worst it introduces a new layer of bureaucracy, because someone is going to have to take the lead and bring all the members of the consortium along. It’s not altogether clear to us why a joint procurement would be better than the national contract, especially as the consortium would then have to manage the contract throughout its life (for example, the implications of changes of audit scope).



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Report to: **Audit Committee**

Date: **9 December 2021**

Title: **Update on Progress on the 2021-22 Internal Audit Plan**

Portfolio Area: **Cllr J Pearce – Leader of Council**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: N/A

Author: **Dominic Measures** Role: **Audit Manager**
Robert Hutchins **Head of Partnership**

Contact: dominic.measures@swdevon.gov.uk **01803 861375**
Robert.hutchins@swdevon.gov.uk **01392 383000**

RECOMMENDATION:

It is RECOMMENDED that the progress made against the 2021/22 internal audit plan, and any key issues arising are noted and approved.

1. Executive summary

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2021/22 to 5 November 2021, by:

- Showing the progress made by Internal Audit against the 2021/22 annual internal audit plan, as approved by Full Council in April 2021; and
- Highlighting any revisions to the 2021/22 internal audit plan;

2. Background

The Audit Committee, under its Terms of Reference contained in South Hams Council's Constitution, is required to consider the Chief Internal Auditor's audit reports, to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2021/22 was presented to the Audit Committee on 8th April 2021.

Progress in the period up to 5 November 2021 has continued to be impacted by the pandemic with both the completion of the 2020/21 plan and, in turn, work on the current year plan. Half of the Internal Audit resources has continued to assist officers in the payment of various grants to businesses, in particular the evaluation/reviewing of applications. Out of 278 productive days so far by the Audit team, 142 days have been spent on COVID Business Grant processing. A review of the plan may be required to decide on which audits should go ahead in the remainder of the audit year and those which can be either cancelled or deferred into 2022/23. Any amendment to the plan will be agreed by the Senior Leadership Team.

At the Audit Committee meeting in July 2021, Members recommended to the Council's Executive to procure an extra 0.5 Full Time Equivalent (FTE) of Internal Audit resource from Devon Audit Partnership for the 2021/22 Financial Year, to backfill for the loss of Internal Audit staff time that has been used to administer the COVID Business Grants for the Council. The Executive approved this at a meeting on 16th September 2021 and the Internal Audit Manager is currently arranging for the additional resource to work alongside the existing Audit Team.

I am pleased to inform the Committee that there have been no days reported sickness absence in the year to date.

In addition, the Council, in association with several partner organisations receive funding from the Rural Development Programme for England (RDPE) – Local Action 2015-2020 programme, with £1.5m awarded to the South Devon Coastal Local Action Group (LAG) and £2.0m to the Greater Dartmoor Local Enterprise Action Fund (LEAF). The Council, as the Accountable Body, is responsible for the legal and financial management of the grants awarded to the programmes. Each project is required to submit regular grant claims to draw down funding. 20 days were

allocated to this work for the year in the 2021/22 Audit Plan, of which 10 days had been used as at 5 November.

3. Outcomes/outputs

In carrying out systems and other reviews, Internal Audit assess whether key, and other controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates to any address control issues or recommendations for efficiencies identified during each review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

As already pointed out, progress against the agreed 2021/22 Internal Audit Plan has been impacted by the COVID-19 pandemic with half of Internal Audit resources continuing to assist with the processing of Business grant applications. However, as well as completing those audits that remained from the 2020/21 plan, work commenced on new audits, a number of which have been completed, with draft and final reports issued. For other audits, fieldwork is either in progress or has been completed and draft reports issued, and we await responses from management on the content of those reports and the recommendations made. Several audits are planned for quarters 3 and 4, and planning for these reviews is underway. A summary of progress is attached at **Appendix A**, and this provides the detailed position for each audit as at 5 November 2021.

Overall, and based on work performed to date during 2021/22, Internal Audit is able to provide **reasonable assurance** on the adequacy and effectiveness of the Authority's internal control environment. Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk. (please refer to **Appendix B** for definition).

The reporting of individual high and medium priority recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee, in detail, of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.

Appendix C provides a summary of work where the planned work is complete but no audit report produced. This includes information with regards Non-Compliance with Contract or Financial Procedure Rules, and Fraud / Irregularity issues reported to Internal Audit during the reporting period.

4. Options available and consideration of risk

No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

5. Proposed Way Forward

We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to 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.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	<p>There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.</p>
Risk	Y	<p>The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.</p>
Supporting Corporate Strategy	Y	<p>This Progress Report and the work of Internal Audit supports all of the Council's corporate strategy themes.</p>
Climate Change – Carbon / Biodiversity Impact	Y	<p>None directly arising from this report. However, the Internal Audit function, managed by Devon Audit Partnership is very mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to obtain evidence to support the audit</p>

		process, although it is inevitable that on-site verification may be required at times. The team use an audit management system (Mki) which enables managerial review to take place remotely, thus also saving on the need for travel.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

Supporting Information

Appendices:

There are three separate appendices to this report; Appendix A, B, and C.

Background Papers:

Annual Internal Audit Plan 2021/22 as approved by Audit Committee on 8th April 2021.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A

Summary of progress against agreed internal audit plan 2021/22 for **South Hams District Council & West Devon Borough Council**

- Status as reported in 2020-21 Annual Report
- ✓ Change to Status since June 2021
- ✗ Progress since 1st April 2021

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
Work Carried forward from 2020/21										
Housing Benefit 20/21	20	■	✓	✓	✓		✓			Final report issued. Extract provided at Appendix B.
Business Rates 20/21		■	■	✓	✓			✓		Final report issued. Extract provided at Appendix B.
Council Tax 20/21		■	■	✓	✓			✓		Final report issued. Extract provided at Appendix B.
ICT Audit – Access Management 20/21		■	■	✓	✓			✓		Final report issued. Extract provided at Appendix B.
COVID-19 – Business Grants – Post Scheme Assurance		✓	✓	✓	✓		✓			Final report issued. Extract provided at Appendix B.
Development Control – Planning Enforcement 20/21		■	■							Awaiting Management Response to draft report

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
2021/22 Plan										
MAIN FINANCIAL SYSTEMS										
Main Accounting System (inc budgetary control)	15									
Creditor (Payments)	15									
Debtors (Income Collection)	15	x	x							
Payroll	15									
Business Rates	15									
Council Tax	15									
Housing Benefits	15									
Treasury Management	5	x								
Main Financial Systems	110									

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
PLACE & ENTERPRISE										
Community Housing Programme (deferred from 2020-21)	10									
COVID-19 – Business Grants – Post Scheme Assurance	13	x								
Estates Property & Rents Follow Up (deferred from 2020-21)	5	x	x	x	x			x		Final report issued. Extract provided at Appendix B.
Salcombe Harbour (S.Hams) (deferred from 2020-21)	10	x								
Investment Strategy – (delegations, mgt of risk, project approach)	15									
Dartmouth Lower Ferry (S.Hams) (deferred from 2020-21)	5	x								
Place & Enterprise	58									

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	

CUSTOMER SERVICE & DELIVERY											
ICT Audit – Business Continuity & Disaster Recovery	23	x									
ICT Audit – Incident and Problem Management		x	x	x	x			x			Final report issued. Extract provided at Appendix B.
ICT Audit – Change Management											
Locality Officers – Management, roles & scheduling	15										
Response and Recovery to COVID-19	15										
Building Maintenance – Works Scheduling – Follow-Up	3										
Cash Collection & Online Payments	5	x	x	x	x			x			Final report issued. Extract provided at Appendix B.
Customer Service & Delivery	61										

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
GOVERNANCE & ASSURANCE										
Project Management – Governance and Process (deferred from 2020-21)	20									
Future IT Project	15									
Contract Management – Leisure Management & Waste Collection and Street Cleansing Contract (deferred from 2020-21)	15									
Corporate Information Management (Data Protection, Filing System Housekeeping)	12	x								
Change Control – Business Processes (deferred from 2020-21)	10									
Climate Change	5	x	x	x	x		x			Final report issued. Extract provided at Appendix B.
Risk Management Review (deferred from 2020-21)	10									

Appendix A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
GOVERNANCE & ASSURANCE CONTD										
Performance Management (Data quality) Follow Up	3	x	x							
Election Teams	10									
New Payroll/HR system (Procurement, Project Mgt)	10	x								On-going monitoring of project progress
Governance & Assurance	103									

Appendix A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
OTHER ESSENTIAL ITEMS										
Audit Management including:- - Audit planning, - Monitoring & reporting, - Audit Committee	28	x	-	-	-	-	-	-	-	Includes attendance at Audit Committee – Internal Audit Annual Report presented to Audit Committee on 25th June 2020,
Annual Governance Statement	2	-	-	-	-	-	-	-	-	Review of the Code of Corporate Governance presented to July & October 2021 Audit Committees under separate cover
Exemptions from Financial Regulations	5	x								
Grants - Greater Dartmoor Local Enterprise Action Fund (LEAF) & South Devon Coastal Action Group (LAG)	20	x	-	-	-	-	-	-	-	10 days spent on claims to date.
National Fraud Initiative (NFI)	5	x								
Contingency & Advice	18	x	-	-	-	-	-	-	-	
OTHER ESSENTIAL ITEMS	98									
TOTAL DAYS	430									

Summary of Internal Audit Findings 2021/22 – Final Reports

As at 5 November 2021, four final reports have been issued in respect of 2021/22 work with a further five final reports relating to audits that were part of the previous 2020/21 Audit Plan. The conclusions from this work are summarised below.

Subject	Audit Findings	Management Response
2021/22 Audit Plan		
Estates Property & Rents Follow Up	<p>Limited Assurance (Direction of Travel upwards)</p> <p>We acknowledge that improvements have been made over the last two years, but there remain several key areas where working practices can be made significantly more effective and efficient, particularly by better use of existing software, as well controls being strengthened in a small number of areas.</p> <p>At the time of our previous audit in 2019/20, the Head of Assets post was vacant, with the present postholder commencing shortly after our audit was completed. Having spent some time becoming familiar with the wider SHDC and WDBC portfolios (beyond just commercial property) and how these are managed, the Head of Assets has independently identified a number of issues to be addressed, some of which we had raised in our 2019/20 audit report.</p> <p>There have been improvements in some of the areas we reported on in 2019/20. For example, rent reviews appear to be largely completed on a timely basis and invoices are being raised more promptly after Legal have completed a new or revised lease. Tenant arrears are now regularly monitored by the Head of Assets, the Specialist – Estates and the Senior Case Manager – Support Services Finance, whilst the latter also monitors those debtor accounts with a suppression placed on recovery. Enforcement action is decided on a case-by-case basis, where routine reminder letters haven't resulted in a payment.</p> <p>Limited work has taken place to address other issues identified in our previous review. We are therefore repeating a number of our recommendations from 2019/20, but have updated these where some</p>	<ol style="list-style-type: none"> 1. Agreed. The work to review and develop a property services maintenance programme continues to be progressed. 2. Agreed in principle. Such a review is made as part of the annual asset valuations. These should cover all land and property on a cyclical basis. <p>The outcome of the valuations leads to consideration as to whether or not each asset remains an appropriate part of the Councils' portfolios.</p> <p>There is a need to make sure that each property does contribute to the delivery of corporate objectives, but this would be flagged if a property was identified as no longer being fit for purpose.</p> <ol style="list-style-type: none"> 3. Agreed. It needs to be ensured that all information currently held on the 'Tenancy Schedule' spreadsheet is uploaded to Concerto, allowing the latter to be solely used to assist with the day-to-day management of the Councils' property portfolios and use of the spreadsheet to be ceased. <p>Better use needs to be made of Concerto, including the automated reminders and reporting facilities. Training will be sought if required, to enable the system to be used to best effect.</p>

Subject	Audit Findings	Management Response
<p>Estates Property & Rents Follow Up Contd.</p>	<p>improvements have begun to take place, or are already planned by the Head of Assets, These recommendations are:</p> <ol style="list-style-type: none"> 1. Introduction of a planned maintenance programme for those investment properties owned by the Councils; 2. Regular reviews to ensure that the property portfolio continues to meet corporate objectives; 3. Making better use of the Concerto software to manage the commercial property portfolio, removing the need for spreadsheets; 4. Taking advantage of work- flow systems to provide efficiencies in the management of commercial properties and the collection of income; 5. Creation of a suite of reports to provide effective management information relating to the property portfolio; and 	<ol style="list-style-type: none"> 4. Agreed. The Estates team and the Head of Assets have regular monthly meetings, which include discussion of best practice, approaches to debt recovery etc. It is not felt appropriate to state that working practices will all have been formalised by a particular point in time, as the team constantly strive for continuous improvement. The Senior Specialist – Estates will be asked to investigate whether any efficiencies can be gained by the use of workflow procedures in Netcall Liberty etc., in liaison with other teams where necessary. 5. Agreed. Monthly meetings between the Head of Assets and the Estates team have been reinstated, allowing full discussion of related work matters and issues arising. Making better use of Concerto is one of those items which is discussed. If it is felt to be necessary, some training and advice will be obtained from the supplier of Concerto.
<p>ICT Audit – Incident and Problem Management</p>	<p>Reasonable Assurance</p> <p>Incremental improvements have been made in how the Service Desk operates, particularly around introducing pro-active monitoring of hardware and software health, but it is recognised by the Head of ICT that there is more which can be done to bring about further improvements.</p> <p>We have made a number of recommendations to contribute to the improved efficiency of incident and problem management, some of which are in support of actions already planned by the Head of ICT. However, we acknowledge that, in some respects, officers are restricted by the functionality of the existing software. The most significant recommendations include:</p> <ol style="list-style-type: none"> 1. Support for the intention to replace the service desk software with a 	<ol style="list-style-type: none"> 1. Agreed. The topic has been raised by the Head of IT at a 1-to-1 with the Director of Customer Service and Delivery. The business case requires further development and will be discussed again at the next available 1-to-1. If approved, there is no capacity within the ICT team to install a replacement system until around mid-2022. 2. Agreed. The quality of the reporting function that can assist in these areas will be taken into account when considering any replacement service desk software. 3. Agreed. The budget for the training has been approved and

Subject	Audit Findings	Management Response
ICT Audit – Incident and Problem Management Contd.	<p>system which will bring about greater efficiencies;</p> <ol style="list-style-type: none"> 2. Development of a suite of reports within any new software, to allow pro-active identification of processes, software, upgrades, users, etc. which are the root cause of incidents and more efficient management of the Service Desk; 3. ITIL training for the Service Desk team, as planned; and 4. Further development of the knowledge database within the service desk software, to allow solutions and work-arounds to both incidents and problems to be held in one place. 	<p>the Service Desk officers have been enrolled on ITIL courses.</p> <ol style="list-style-type: none"> 4. Agreed. The approach of holding all solutions and work-arounds to problems in one place will be included in any future implementation of service desk software.
Cash Collection & Online Payments	<p>Substantial Assurance</p> <p>Overall, the receipt of payments by all methods appears to be well-controlled and evidenced as follows:</p> <ul style="list-style-type: none"> • Third party software is used to collect debit and credit card receipts, to ensure compliance with mandatory security requirements; • Procedures are in place to collect and securely count and bank the cash collected from car park pay and display machines, with that banked being reconciled to that expected; • The posting of income to Council systems is automated as much as possible, to avoid errors such as the incorrect ledger code or personal account being used; • VAT is dealt with automatically, removing any need for experience on the part of those processing or coding payments; • Each receipt has a unique transaction reference and a full audit trail of its origin and destination. <p>We have made a relatively minor recommendation in relation to the storage of that cash collected from the car parks pay and display machines outside of the timetabled collections.</p>	<p>Agreed in principle. However, there are four CEOs, any of whom may potentially have to empty a pay and display machine out of hours and deliver the cash box to Kilworthy Park for storage.</p> <p>There is reluctance to give an additional four officers access to the strong room. Instead, the cash boxes are placed in a locked cupboard in a locked office, within the headquarters that are also locked out of hours, providing three layers of security.</p> <p>It is accepted that this arrangement is not ideal but it is felt to be the best available in the circumstances.</p>

Subject	Audit Findings	Management Response
Climate Change	<p>Reasonable Assurance</p> <p>The Councils are making steady progress in achieving their aim of reducing their carbon footprints, as well as enabling local communities to do the same by facilitating, either directly or indirectly, the provision of infrastructure and knowledge to do this. However, we have limited this summary to those areas which we have examined as part of our review that focussed on two actions within the approved Action Plans, namely electric vehicle charging points and Climate Change and Biodiversity Locality Fund grants at South Hams:</p> <p>The review also followed up the agreed recommendations from the 2020/21 Climate Change audit report and we are able to report that the majority of agreed actions within that report have either been delivered or are in progress;</p> <p>Our findings include:</p> <ol style="list-style-type: none"> 1. The Climate Change and Biodiversity Locality Fund grants appear to be well controlled, although we have made a recommendation around applicant declarations, as part of the funding application disclaimer; 2. As intended by officers, a formal strategy for the provision of EV charging, both for the public and for use by the Councils themselves, needs to be developed and linked to a programme of delivery; 3. The plan for moving the Councils’ environmental management vehicles over to EVs should be formalised and a specification of charging requirements provided to the Assets Practice, allowing appropriate provision to be made on a timely basis; and 4. As planned, the Carbon Literacy Training should be completed by the Senior and Extended Leadership Teams, providing managers with the tools to consider the impact on climate change when planning service delivery. The same training can then be rolled out to other officers to raise awareness. 	<ol style="list-style-type: none"> 1. Agreed. For each of the Climate Change and Biodiversity funding streams, applicants will be required to confirm that the information they have provided is correct to the best of their knowledge and that they understand both the general terms and conditions of receiving the grant, as well as those specific to the particular fund. 2. Agreed. Discussions are already under way with Exeter University to see if they can assist in developing a realistic strategy for the installation of EV charging facilities and the provision and use of renewable energy. Some reference to future plans for EV charging was made in a report to Executive on 16 September 2021. <p>Whilst a timeframe for developing a formal strategy cannot be defined until work with the University is progressed further, it is recognised that the matter is urgent in terms of delivering the Councils’ climate change agenda.</p> <ol style="list-style-type: none"> 3. Agreed. A fleet forward plan is to be drawn up by the Case Management Team Leader – Commercial Services. <p>It is envisaged that between six and ten existing vehicles can be replaced with EVs within six months. Unfortunately, there is a long lead-in time at present due to the global microchip shortage.</p> <ol style="list-style-type: none"> 4. Agreed. All of SLT have completed the training, as well as the vast majority of ELT. In addition, those officers who are key to the delivery of those actions within the Corporate Strategies, which are linked to Climate Change and Biodiversity, as well as the Action Plans themselves, also attended the training. <p>It is the intention to cascade the training to all remaining</p>

Subject	Audit Findings	Management Response
		<p>staff, as well as to members. However, over the next three months (to 31 January 2022) the cost implications of this, as well as how and when the training can be delivered, have to be determined.</p>
<p>2020/21 Audit Plan</p>		
<p>Housing Benefit 2020/21</p>	<p>Reasonable Assurance</p> <p>We have given our Audit Opinion despite there being several high priority recommendations, particularly with respect to quality checks of assessors' work and proactive recovery and enforcement. Both of these areas have suffered as a result of other work pressures placed on staff due to the Covid pandemic, although managers have endeavoured to maintain existing controls as far as possible, even if at a much-reduced level. Plans are in place to address both issues, although at the time of our review, these link, to a large degree, to the completion of the Revenue and Benefits service review being made by the Specialist – Legal), the timing of which is not in the control of the Benefits team.</p> <p>The use of on-line benefit claim forms, and workflow processes within the electronic document management system, has allowed the benefits service to continue to make best use of the staff resources available to it.</p> <p>There are some areas where action could be taken to further strengthen existing controls or gain efficiencies. The most important of these relate to the re-commencement of those procedures which have been suspended or reduced as a result of other work pressures created by the Covid pandemic, including:</p> <ol style="list-style-type: none"> 1. The re-introduction of regular quality checks of benefit assessors work, to ensure that accuracy targets are being met; 2. Establishing the effectiveness of enforcement agents in recovering housing benefit overpayments. 	<ol style="list-style-type: none"> 1. Agreed. The Senior Specialist – Benefits and the Specialist – Benefits completed a lot of quality checks following the 2020/21 external audit. Whilst these have continued into 2020/21, other work pressures have meant that the number completed has reduced. Making the checks is time-consuming and experience has shown that they are difficult to fit around other responsibilities. <p>Ideally, a dedicated officer would be responsible for delivering a programme of checks, to include subsidy checks and quality checks for example. The matter is to be raised as part of the Benefits service review.</p> <p>Therefore, the recommendation will be responded to in two parts: In the short term, the number of quality checks completed by the Senior Specialist – Benefits and the Specialist – Benefits will be increased. In the longer term, responsibility for completing checks will be reviewed, preferably creating a dedicated post.</p> <p>At present, it is not felt appropriate to introduce formal performance management, as not all Benefit Assessors have had the same level of training, or it may be some time since some individuals last received any training.</p> <p>Once the training package purchased from the Institute of Revenues, Rating and Valuation (IRRV) has been delivered in full, and all team members have confirmed that they understand the training they have received, then it is intended to commence formal performance management</p>

Subject	Audit Findings	Management Response
<p>Housing Benefit 2020/21 Contd.</p>		<p>of the Benefit Assessors, which should result in improved accuracy targets.</p> <p>2. Agreed in principle. The enforcement agents' contract needs to be reviewed in detail, to establish whether or not such action would be beneficial, given their limited powers and the inability to charge fees when recovering HBOPs.</p> <p>The matter is to be considered in more depth as part of the Benefit service review being carried out by the Specialist – Legal). The conclusions are to be awaited before potentially completing any trials or putting guidance in place.</p>
<p>Council Tax and Business Rates 2020/21</p>	<p>Limited Assurance</p> <p>The Covid pandemic has impacted heavily on the Revenues team, almost all of whom have spent 2020/21 working on Covid Business Support Grants, in addition to delivering day to day work. Despite bringing in staff from other teams to assist with the grants, there has been insufficient staff resource to carry out anything other than essential routine revenues work.</p> <p>All Devon authorities agreed to suspend recovery and enforcement from March 2020, only slowly re-introducing some limited recovery work in late 2020. At the time of the audit, it had not been possible to fully re-commence recovery and enforcement due to limited staff resource whilst this was diverted to Business Support Grant work.</p> <p>The Specialist - Legal had been asked by managers to undertake a Revenue and Benefits service review, covering all aspects of the teams' work. The work began some time after we commenced our audit, which, due to the work pressures on the staff we needed assistance from, has been spread over several months. We are aware that the service review has focussed on some particular areas, including maintaining the property database and recovery and enforcement. We have therefore limited our work in these areas to following up recommendations from last year and testing of existing controls, to avoid duplication of work.</p>	<p>1. Agreed. The Senior Case Manager has been completing ad hoc quality checks and undertaking one to one coaching where a need is identified.</p> <p>Regular quality checking is to be reintroduced as soon as the team has capacity, which will be once the Senior Case Manager - Revenues ceases Business Grant work. It was hoped that this would be during June 2021, but the Case Management Team Leader) was notified that almost 1,000 letters had been issued, inviting those businesses which received a Local Restrictions Support Grant, but which haven't applied for a Restart grant, to do so.</p> <p>It is also intended that the Case Management team take advantage of the Institute of Revenues, Rating and Valuation training package which has recently been purchased by the Revenues team.</p> <p>It is hoped to develop a multi-skilled Revenues and Benefits Case Management team who can take calls and complete the resultant back office tasks, which will give more ownership and so greater incentive to complete the work accurately and correctly.</p>

Subject	Audit Findings	Management Response
<p>Council Tax and Business Rates 2020/21 Contd.</p>	<p>Whilst some of the recommendations that we made last year have been implemented, a number remain outstanding, almost entirely due to staff being required to work on the Business Support Grants. We have therefore repeated those recommendations which are not yet complete or otherwise resolved, as a reminder, as well as raising a small number of new matters. The most significant issues include:</p> <ol style="list-style-type: none"> 1. The re-introduction of quality monitoring of Case Management and Contact Centre staffs' work as soon as staff resources allow; 2. Ensuring that effective use is being made of all staff resource and, importantly, that single points of failure are removed or mitigated; 3. Resource should be made available, and procedures reviewed, to allow the prompt identification of new and re-purposed properties; 4. Delivery of a programme of review of discounts reliefs and exemptions, to confirm continued eligibility. <p>In the case of Council Tax, the Single Occupancy Discount is most significant in terms of value (approximately £6.1m for SHDC and £3.8m for WDBC in 2020/21). This discount was reviewed in 2019/20, but no reviews have been undertaken of any other discounts or exemptions. The remainder are for much lower values than the Single Occupancy Discount and several do have to be evidenced (such as those relating to Severe Mental Impairment or to Students);</p> <p>With regard Business Rates, the value of that which is normally the most significant to the Councils, the Small Business Rate Relief, is approximately £9.6m for SHDC and £3.5m for WDBC. However, during 2020/21, this was exceeded by the Retail Reliefs temporarily awarded to businesses as part of the Governments response to the Covid pandemic (SHDC £14.4m; WDBC £6.4m), which cease on 30 June 2021 unless there is a decision to extend them;</p> <ol style="list-style-type: none"> 5. The effectiveness of recovery and enforcement procedures should be reviewed, including making a regular review of broken arrangements to identify those accounts where customers have defaulted on special arrangements to pay; 	<p>The benefits of the Liberty Call / Quality Monitoring package will be investigated to see if it offers efficiencies, particularly for call monitoring.</p> <ol style="list-style-type: none"> 2. Agreed. The Specialist – Legal is carrying out a Revenue and Benefits service review, which it is expected to recommend where staff resource is best utilised. These recommendations will contribute to informing future decisions about how staff resource is allocated and whether additional resource can be brought in, within existing budgets or on an “invest to save”/business case basis. <p>Meanwhile, the Specialist – Council Tax’s secondment to the Revenues team had been extended to September 2021.</p> <ol style="list-style-type: none"> 3. Agreed. New properties can be proactively identified by officers visiting areas with which they are very familiar. However, the Councils have moved away from this approach and have insufficient resource to reintroduce it. <p>Other teams within the Councils may be reluctant to share new property information with the Revenues team due to the General Data Protection Regulation, but, in fact, legislation does allow this information to be shared for the purpose of maintaining an up to date ratings list.</p> <p>Several teams across the Councils need to be aware of new properties, some of whom will require the information before a property is added to the ratings list. Therefore, it may be more appropriate to take a corporate approach to identifying new properties, not necessarily led by the Revenues team.</p> <p>Once the outcome of the Revenue and Benefits service review is known and the recommendations of the Specialist – Legal received, the matter will be discussed with the Business Manager – Case Management and the Customer</p>

Subject	Audit Findings	Management Response
<p>Council Tax and Business Rates 2020/21 Contd.</p>	<p>6. It should be determined how best cases can be allocated to the three enforcement agent companies and their performance monitored; and</p> <p>7. An updated write off policy and associated procedures should be written, guiding officers as to when debts should be written off, to avoid investing limited staff resource in attempting to recover debts where it may be no longer cost-effective to do so, as well as removing the need for all write off requests to be reviewed in detail to ensure consistency.</p>	<p>Service Improvement Manager), to review the entire process, including the automation of sharing information.</p> <p>Meanwhile, the Database Team has been increased to three members of staff but, unfortunately, they have needed to work on Business Grant processing during 2020/21 and personal circumstances have required several staffing changes, reducing their ability to focus on improving existing procedures.</p> <p>4. Agreed. There is a need to review all discounts, reliefs and exemptions awarded on Council Tax and Business Rates, using a strategic approach to guide a rolling programme.</p> <p>The Specialist – Council Tax has been asked to write a business case for additional staff resource to carry out such reviews for both Council Tax and Business Rates. This will then be considered in conjunction with any recommendations made by the Specialist – Legal regarding staff resource, as part of the Revenue and Benefits service review.</p> <p>5. Agreed. Procedures will be reviewed once the recommendations of the Revenue and Benefits service review are received.</p> <p>It is generally felt that a corporate debt recovery team may allow more effective and efficient enforcement, with benefits for both customers and the Councils.</p> <p>In terms of broken arrangements, in the short term, a Business Objects report will be run to identify those accounts with a larger balance and which have broken arrangements to pay.</p> <p>If this doesn't provide a satisfactory long term solution then the Specialist – ICT Applications will be asked to create a report for the purpose, although this will take longer as the officer has been involved in Business Grant work.</p>

Subject	Audit Findings	Management Response
<p>Council Tax and Business Rates 2020/21 Contd.</p>		<p>6. Agreed. The Specialist – ICT Applications has been asked to build a workbook which will be used to manage the allocation of cases.</p> <p>Sample cases have been sent to each Enforcement Agent to ensure that all systems are working. So far remits have been received from two of the three companies.</p> <p>Finance have asked Adelante, who supply the income management software, to set up individual codes for each of the three companies, which will allow performance monitoring to be carried out more readily. Until this is done, a spreadsheet of remits from each company is having to be maintained.</p> <p>It is intended to identify specific staff resource to be responsible for performance monitoring of the enforcement agents once the results of the Revenue and Benefits service review are published and resource needs across the services are known.</p> <p>7. Agreed. The Specialist – Legal (KW) will be asked to consider this as part of the Revenue and Benefits service review.</p>
<p>ICT Access Management 2020/21</p>	<p>Reasonable Assurance</p> <p>We have raised several recommendations where there is the opportunity to strengthen existing controls:</p> <ol style="list-style-type: none"> 1. Creation of a robust leavers process to ensure that they are removed from all IT systems promptly; 2. Provision of Data Protection and Information Management refresher training; and 	<p>1. Agreed. The Head of ICT Practice has advised that on completion of the necessary training, a member of his team is to be tasked with creating forms within the Liberty system for internal use. This will include tasks such as advising HR and ICT of staff who are leaving the Councils' employment, to replace the Word documents available on the intranet.</p> <p>In addition, a new automatic report and remediation function in a system called Adaxes is being implemented. This scans for unused accounts and moves them into a disabled</p>

Subject	Audit Findings	Management Response
<p>ICT Access Management 2020/21 Contd.</p>	<p>3. Review of access rights to All On Mobile and Concerto, to ensure that they are based on the least privilege principle, within the parameters of the system, and that generic accounts are only used when necessary.</p>	<p>container within Active Directory. After another period of time the account is automatically removed.</p> <p>2. Agreed. Data Protection refresher training was planned to be rolled out in February 2021 as agreed with HR.</p> <p>3. Agreed. The Senior Specialist – Estates has been asked to ensure that only those who need access to the Concerto system have the privilege, and at an appropriate level.</p> <p>Consideration will be given to reducing the number of generic accounts on All On Mobile and a review carried out of those users on that system who have unrestricted access.</p>
<p>COVID-19 – Business Grants – Post Scheme Assurance 2020/21</p>	<p>Substantial Assurance</p> <p>The circumstances the Councils found themselves in required procedures for receiving and processing applications to be rapidly developed and rolled out. Staff were drafted in from several teams across the Councils to assist in the processing of applications. In addition, officers were required to continue with essential day-to-day work, many completing numerous extra hours to ensure the success of the Business Grants schemes.</p> <p>The procedures for processing applications, combined with manual and automated pre-payment checks, have largely prevented ineligible payments from being made. Post-payment checks did subsequently identify a small number of incorrect payments. Most were paid from the wrong grant fund in error and simply required recoding, whilst a small number weren't eligible for funding at all. This has led to some overpayments, which have been recovered from future grants due to the applicant where possible, otherwise a debtor's invoice has been raised.</p> <p>The Councils robust approach to accepting and processing grant applications, has minimised the occurrence of fraud. At the time of writing, there were seven cases of suspected fraud, with grants having been paid in only three instances (total value £25k) and all remained under investigation. Post-payment checks continue to be made by officers and so may highlight additional cases.</p>	<p>1. Agreed. Pre-payment checks have been completed for all applications received during 2020/21, company checks being made using Spotlight and bank account checks being made using the NFI.</p> <p>However, the NFI now also offer the opportunity to complete a joint company and bank account check, which would meet the Government's requirement for a post-payment assurance check to be made. It is therefore intended to submit all applications to NFI to carry out post-payment checks.</p> <p>All NFI returns, which are flagged for any reason, are now reviewed, not just those which are high risk. However, the order of review has been prioritised, starting with those which are returned as being the highest risk.</p> <p>Whilst the results may be RAG rated, there are in fact about six sub-categories, depending on what sort of discrepancy may have been identified, for example, applicant name doesn't match that on the bank statement.</p> <p>2. Agreed. Some sample checks were carried out, but possibly these were not evidenced or part of a formal</p>

Subject	Audit Findings	Management Response
<p>COVID-19 – Business Grants – Post Scheme Assurance 2020/21 Contd.</p>	<p>We have made a small number of recommendations, some relating to the grants delivered during 2020/21, and some for consideration should similar circumstances arise in the future. The most significant include:</p> <ol style="list-style-type: none"> 1. Ensuring that details of all successful applicants are submitted to the National Fraud Initiative, to allow bank account and 'active company' checks to be undertaken and the results reviewed on receipt; 2. Updating the revenues system where grant applications have highlighted that the Councils had not been provided with the most recent and/or accurate liable party details, contact addresses, new business premises etc.; and 3. In similar scenarios, giving consideration to undertaking a programme of random checks of both successful and unsuccessful applications, to ensure that all officers are processing these in line with guidance. 	<p>programme of checks.</p> <p>BEIS have also carried out a programme of random sample checks.</p> <p>Should there be a requirement to deliver a similar scheme of grants in the future, random sample checks would again be made by senior officers, but it would be ensured that an audit trail was put in place to evidence these.</p> <p>Meanwhile, the ARG third tranche runs until the end of 2021/22 and so evidenced random sample checks can be put in place for this part of the scheme.</p> <ol style="list-style-type: none"> 3. Agreed. Some sample checks were carried out, but possibly these were not evidenced or part of a formal programme of checks. <p>BEIS have also carried out a programme of random sample checks.</p> <p>Should there be a requirement to deliver a similar scheme of grants in the future, random sample checks would again be made by senior officers, but it would be ensured that an audit trail was put in place to evidence these.</p> <p>Meanwhile, the ARG third tranche runs until the end of 2021/22 and so evidenced random sample checks can be put in place for this part of the scheme.</p>

Definition of Assignment and Overall Assurance Opinions
 Audit Assignment Assurance Opinion Levels – as from May 2020

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Overall / Annual Assurance Opinion Levels – As from May 2020

<p>Substantial Assurance</p>	<p>A sound system of governance, risk management and control exists across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.</p>	<p>Limited Assurance</p>	<p>Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.</p>
<p>Reasonable Assurance</p>	<p>There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.</p>	<p>No Assurance</p>	<p>Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.</p>

Planned Audit 2021/22 – Work Complete (No Audit Report)

Subject	Comments
<p>System of Internal Control (SIC), and Annual Governance Statement (AGS)</p>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit were available to provide support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2020/21 financial year.</p> <p>The S151 Officer presented the 2020/21 AGS to the Audit Committee on 2 September & 28 October 2021.</p>
<p>Exemptions to Financial Procedure Rules</p>	<p>Five applications for Contract / Financial Procedure Rules have been received in the year to date, four were accepted and the remaining one was cancelled.</p>
<p>Fraud / Irregularity</p>	<p>There have been no irregularities to report.</p>
<p>Covid 19 - MHCLG Lost Sales, Fees & Charges Compensation Scheme</p>	<p>Internal Audit were asked to undertake review and challenge of the returns prepared by officers when claiming under the Govt scheme, the first in May 2021 and more recently, in October 2021. In both cases, Internal Audit were able to confirm the accuracy of the claims and provide substantial assurance on the two submissions.</p>

Report to: **Audit Committee**
Date: **9 December 2021**
Title: **Sundry Debt**
Portfolio Area: **Finance and Assets – Cllr H Bastone**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: N/A

Author: **Clare Scotton** Role: **Finance Business Partner**
Pauline Henstock **Head of Finance Practice**
and Deputy S.151 Officer

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Recommendation:

That the Audit Committee note the position in relation to Sundry Debt.

1. Executive summary

- 1.1 The Council is responsible for the collection of: Sundry Debts, Housing Benefit Overpayments, Council Tax and National Non-Domestic Rates (NNDR).
- 1.2 This report provides Members with an update of the position of Sundry Debt and Housing Benefits Overpayments up to 31st October 2021.

2. Background

- 2.1 The Council's management arrangements underpin delivery of all the Councils priorities, including the commitment to providing value for money services. Incorporated within this, is the timely collection of monies due to the Council. Debts are recovered in accordance with the Council's Recovery Policy as published on our website.

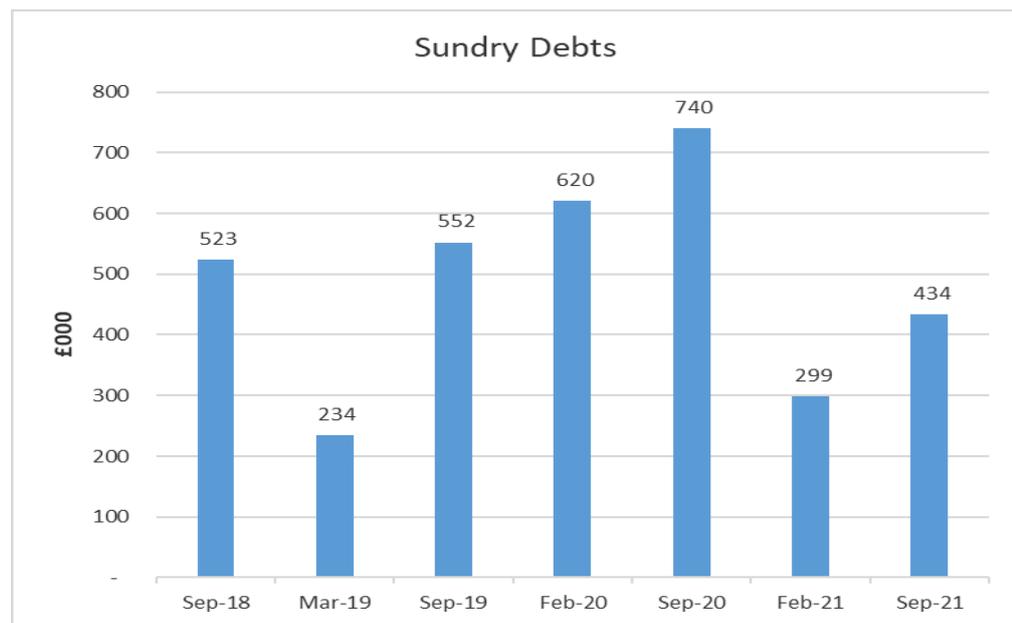
- 2.2 Following the centralisation of debt recovery into one service from October 2017 and the implementation of the Debt Recovery Action Plan, Members requested a series of updates to demonstrate robust control of debt recovery procedures, particularly relating to sundry debt.
- 2.3 The implementation of a comprehensive action plan has resulted in robust recovery procedures. This report outlines the latest positions in collection relating to Sundry Debt and Housing Benefit Overpayments by providing data that demonstrates the progress made.

3. Outcomes/outputs

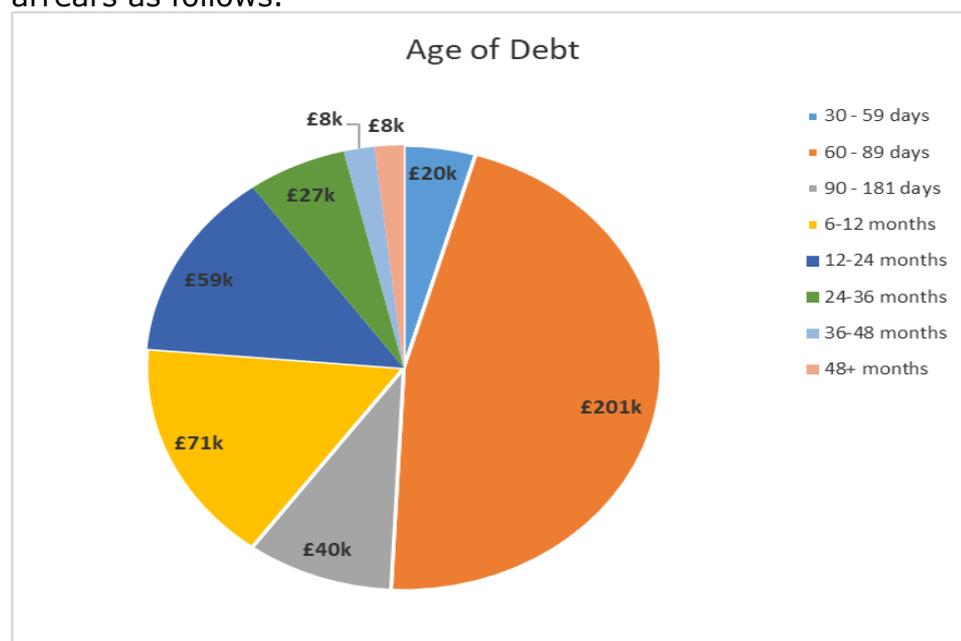
- 3.1 The arrears covered in this report are split into three categories as follows:
 - a. Sundry Debts
 - b. Housing Benefit Overpayment Recoveries from those still in receipt of Housing Benefit
 - c. Housing Benefit Overpayment Recoveries from those no longer in receipt of Housing Benefit
- 3.2 All Council sundry debts are actively pursued, and in most instances are collected in a timely manner. In cases where payment is not received on time, a series of reminder letters are issued promptly to the debtor. If this fails to secure payment, recovery is pursued through the courts.
- 3.3 The Council took the decision to pause the chasing of Sundry Debts at the very start of the pandemic but this process was resumed in the Summer and reminder letters are being sent out regularly.

Sundry Debts

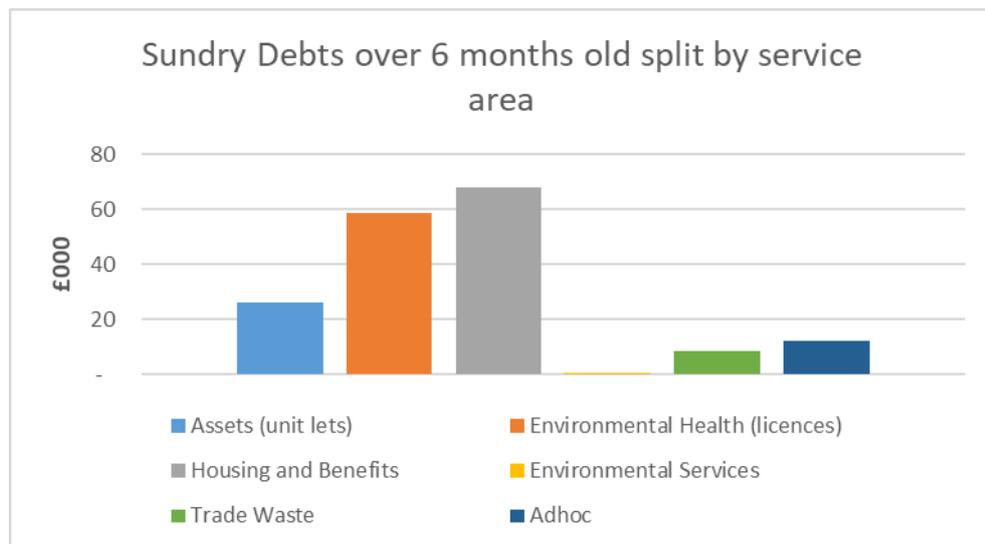
- 3.4 The balance of arrears for Sundry Debts over recent years is summarised below. This figure has increased to £434k since February and this is mainly due to trade waste invoices which make up £207k of this debt. These invoices are raised on 1st September for the year ahead and the majority are paid off monthly by direct debit therefore it is highly likely that they will be recovered. Sundry Debts consist of Estates Management, Licensing, Trade Waste and Housing. This excludes car parking fines which are included on a different system.



- 3.5 This balance of £434k can be further broken down by age category to give a clearer picture of the nature of Sundry Debt arrears as follows.



- 3.6 The current balance for Sundry Debts of £434k does not include any individual debts over £20k.
- 3.7 The Assets team have been actively pursuing unpaid debtor invoices and supporting our customers with options such as payment arrangements.
- 3.8 Sundry debts over six months old total £173k and can be further analysed by service area below. It can be seen that just over £68k relates to Housing and Benefits which are difficult debts to recover. This makes up 39% of the total debt in this age category. £58k relates to Environmental Health invoices. The majority of these are licences and therefore low value, high volume. Licensing invoices were not being chased during the pandemic and customers who had already paid are were offered refunds under the Council's Additional Restrictions Grant (ARG) Business Grant scheme. This scheme has now finished and all outstanding licensing invoices are being actively pursued. Just over £26k relates to rental income from unit lets and slow recovery is expected in the current financial climate. The Assets team are working closely with tenants to work out a payment plan to recover these debts.

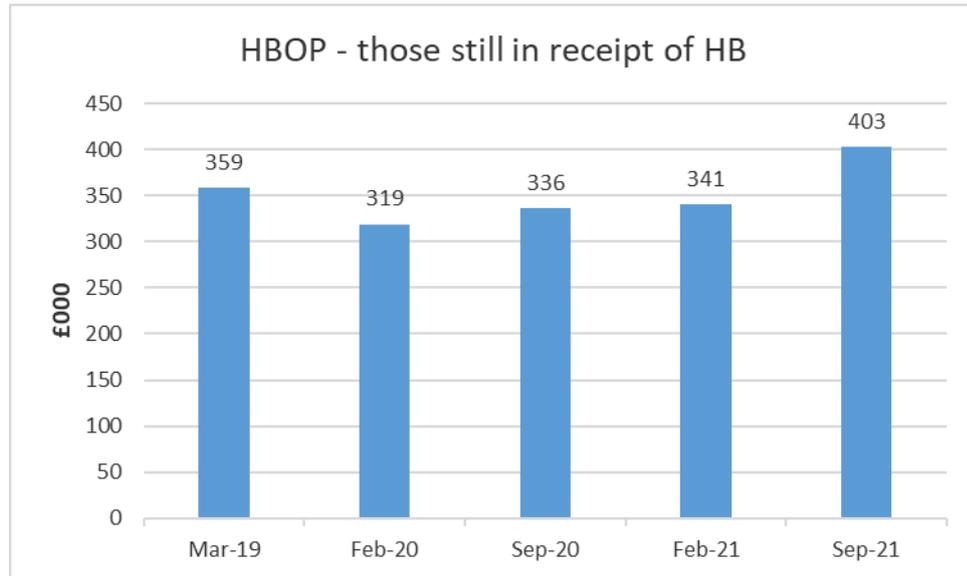


Sundry debt written off

- 3.9 Sundry debts totalling £22,022 were written off in the first six months of 2021/22 due to their size and likelihood of being recovered.

Housing Benefit Overpayment Recoveries from those still in receipt of Housing Benefit

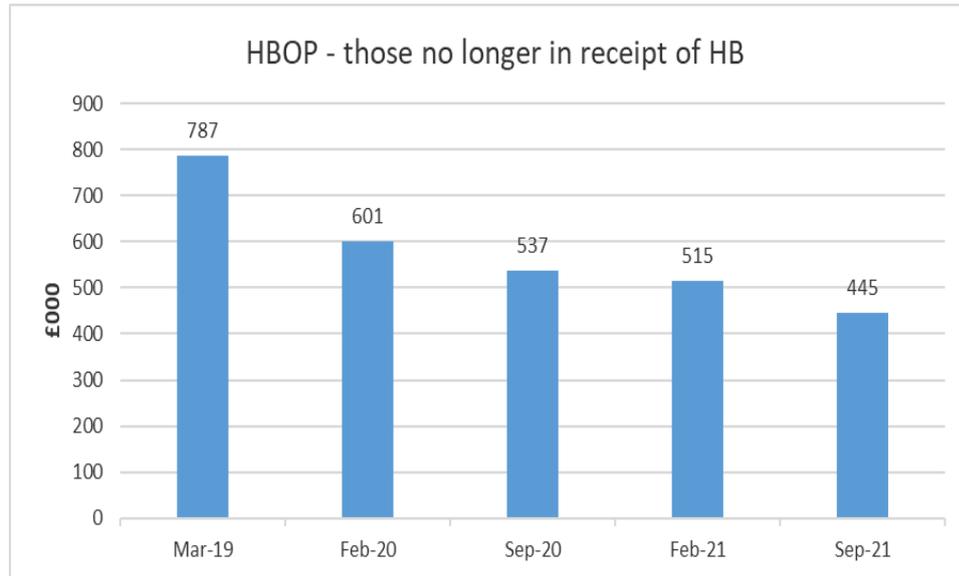
3.10 The balance of arrears for Housing Benefit Overpayment Recoveries from those still in receipt of Housing Benefit is £403k as at 30th September 2021, a slight increase on the balance of £341k as at 28th February 2021. The balance over time can be seen on the chart below.



3.11 Recovery action was paused following the initial lockdown in March but this process is now back up and running. The Case Management team make every effort to identify overpayments promptly and so begin the recover process whilst amounts are still relatively low. By recovering these debts whilst people are still in receipt of Housing Benefit, the ease of recovery is greater, as is the likelihood of full recovery.

Housing Benefit Overpayment Recoveries from those no longer in receipt of Housing Benefit

3.12 The balance of arrears for Housing Benefit Overpayment Recoveries from those no longer in receipt of Housing Benefit is £445k as at 30th September 2021, a slight decrease on the balance of £515k as at 28th February 2021. The balance over time can be seen on the chart below.



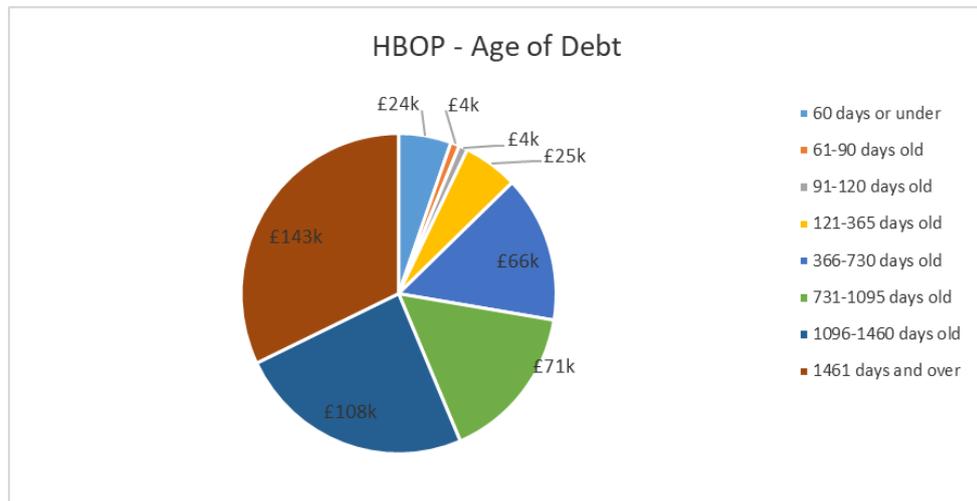
3.13 The amount outstanding is continuously monitored and well managed for both categories of Housing Benefit Overpayment Recoveries. A downwards trend is expected as members of the public move increasingly from the Housing Benefit system over to the Universal Credit system.

3.14 The effect of this will be that less Housing Benefit will be administered by the Authority and so the amount that is overpaid will reduce.

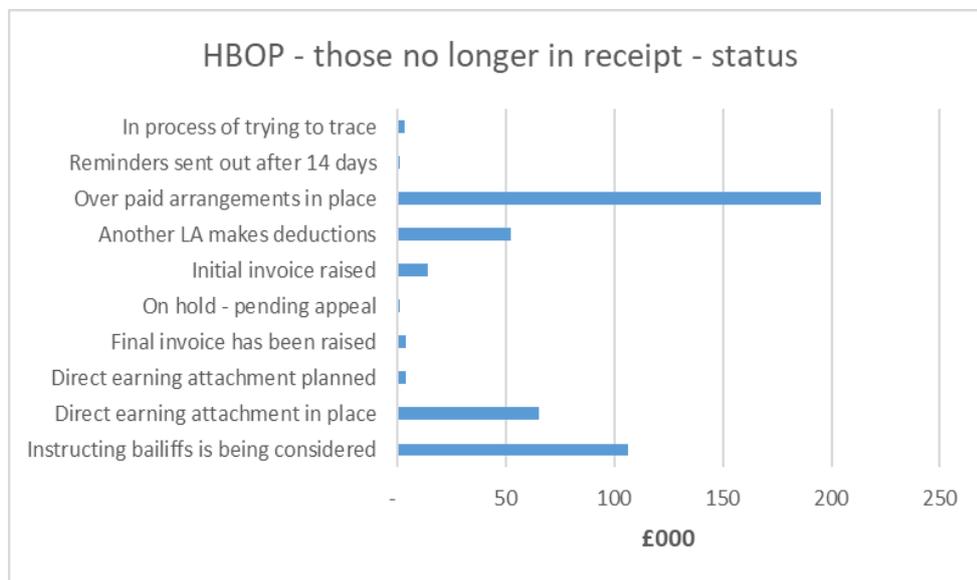
Housing Benefit write offs

3.15 Since 1st April 2021, just over £16,500 of this debt has been written off.

3.16 This balance of £445k can be further broken down by age category to give a clearer picture of the nature of these arrears, as follows.



3.17 Of this balance, £195k relates to debt where overpayment arrangements are in place and consideration is being given to instructing bailiffs on debt totalling £106k. £65k relates to debt where a direct earnings attachment is in place. A full picture showing the status of this debt can be seen below.



4. Options available and consideration of risk

- 4.1 The Business Manager for Case Management is keen to continue to focus on debt recovery and it is anticipated that every effort will be made to recover monies owed to the Council promptly. Where this isn't possible, the debt recovery procedures will be followed and overdue debts will be duly followed up.

5. Proposed Way Forward

- 4.2 The Committee note the content of this report and continue half yearly reporting.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The guidelines for Statutory Interest Charging and adding recovery costs falls under the European Directive 2011/7/EU on Combating Late Payment in Commercial Transactions. Enforcing successful legal action for recovery of debt is dependent upon a robust system of ensuring correct business names are recorded within our systems.
Financial implications to include reference to value for money	Y	Improved income collection, resulting in less impact of uncollectable debt on the Income and Expenditure Account, due to fewer write offs.
Risk	Y	There remains a risk of income not being collected. The Debt Recovery Plan alongside the Debt Recovery Policy seeks to minimise this. Risk to reputation is managed carefully by prompt recovery of amounts due wherever possible. This risk is also mitigated by taking a balanced view and ensuring that resources are not expended on debts which are not cost effective to pursue and these are written off in accordance with the Council's Write Off Policy
Supporting Corporate Strategy		The debt recovery process supports all of the Thematic Delivery Plans outlined in 'Better Lives for all'.
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.

Comprehensive Impact Assessment Implications		
Equality and Diversity	N	All enforcement action that is taken prior to this point is undertaken in accordance with legislation and accepted procedures to ensure no discrimination takes place.
Safeguarding	N	N/A
Community Safety, Crime and Disorder	N	N/A
Health, Safety and Wellbeing	N	N/A
Other implications	N	None

Supporting Information

Appendices:

None

Background Papers:

None

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed/sign off	Yes
SLT Rep briefed/sign off	Yes
Relevant Heads of Practice sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	N/A

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Report to: **Audit Committee**

Date: **9 December 2021**

Title: **Treasury Management Mid-Year Review**

Portfolio Area: **Cllr H Bastone – Finance and Assets**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **N/A**

Author: **Clare Scotton** Role: **Finance Business Partner**

Contact: **01803 861559** clare.scotton@swdevon.gov.uk

RECOMMENDATION:

It is RECOMMENDED that the Audit Committee resolves to endorse the contents of the report.

1. Executive summary

1.1 To date, the Council has underperformed the industry benchmark by 0.03%. The Council has achieved a rate of return of 0.02%, against the Sterling Overnight Interbank Average (SONIA) rate of 0.05%. The Council's budget for investment interest of £203,000 for 2020/21. The current forecast is £109,810 leaving a shortfall against budget of £93,190.

2. Background

2.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

2.3 Treasury management is defined as:

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

2.4 The Council’s Finance Procedure Rules require that a report be taken to the Audit Committee three times a year on Treasury Management. The specific reporting requirements are:

- An annual treasury strategy in advance of the year (Council 25/03/2021 – 51/20)
- A mid-year (minimum) treasury update report (This report)
- An annual review following the end of the year describing the activity compared to the strategy

2.5 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (i.e. Treasury Management Strategy Statement (TMSS), annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code.

3. Economics and Interest Rates

Economics Update

3.1 The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

3.2 There was a major shift in the tone of the MPC’s minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, “the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs” and that “the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures.” In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually

work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.

3.3 In August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

3.4 Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

Interest Rate Forecast

3.5 The Council's treasury advisor, Link Group, has provided the following forecast.

Link Group Interest Rate View		29.9.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70	
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80	
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00	
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70	
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60	
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40	

3.6 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left the Bank Rate unchanged at its subsequent meetings.

3.7 As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

The balance of risks to the UK

3.8 The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

4. Treasury Management Strategy Statement

4.1 The Treasury Management Strategy Statement (TMSS) for 2021/22, was approved by the Council on 25/03/21 – 51/20. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

4.2 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

4.3 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5. Investment Portfolio 2021/22

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by the interest rate forecasts in section 3.5, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020 until the MPC meeting on 24th September 2021 when 6 and 12 month rates rose in anticipation of Bank Rate going up in 2022. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.

5.2 The Council held £59.191m of investments as at 30 September 2021 (£42.09m at 31 March 2021) and the investment portfolio yield for the first six months of the year is 0.02% against a benchmark (SONIA rate) of 0.05%. The £59.191m of investments is made up of Money Market Funds, Fixed Term Deposits and Property Funds.

A full list of investments held as at 30 September 2021 is shown below:

Money Market Funds

Amount £	Investment	Average Interest rate
6,000,000	Aberdeen Standard Investments	0.01%
6,000,000	BlackRock ICS-Inst GBP	0.01%
5,500,000	Deutsche	0.00%
6,000,000	LGIM Sterling Liquidity Fund	0.00%
23,500,000	Total Money Market Funds	

The Council currently has four Money Market Funds. The money market funds allow immediate access to the Council's funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

Fixed Term Deposits – Current

Counterparty	Fixed to	£	Interest Rate
Barclays Banks Plc	15/10/2021	3,500,000	0.02%
Barclays Banks Plc	17/01/2022	2,500,000	0.02%
Lloyds Bank Plc	04/11/2021	1,000,000	0.10%
Lloyds Bank Plc	06/01/2022	5,000,000	0.02%
Debt Management Office	19/10/2021	4,000,000	0.01%
Debt Management Office	19/10/2021	3,000,000	0.01%
Debt Management Office	23/11/2021	2,200,000	0.01%
Debt Management Office	23/11/2021	2,500,000	0.01%
Debt Management Office	25/10/2021	2,000,000	0.01%
Debt Management Office	23/11/2021	2,500,000	0.01%
Debt Management Office	04/01/2022	4,200,000	0.01%
Total Fixed Term Deposits		32,400,000	

5.3 The Council's Investments mid-way through the year are always higher than at the end of the year (at 31st March) due to the cash flow advantage that the Council benefits from part way through the year.

This is, in part, due to the timing differences between the Council collecting council tax income and paying this over to major precepting authorities such as Devon County Council, the Police and the Fire Authority

The Council's current counterparty limit is £6 million (£7 million for Lloyds plc).

Property Funds

Amount £	Investment	Dividend Yield
1,338,007	CCLA – Property Fund	4.04%
1,942,283	CCLA – Diversified Income Fund	2.53%
3,280,290	Total Property Funds	

5.4 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2021/22.

5.5 The Council's budgeted investment return for 2021/22 is £203,000 and based on performance for the year to date a shortfall of £93,190 is expected.

Investment Counterparty Criteria

5.6 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Borrowing Position

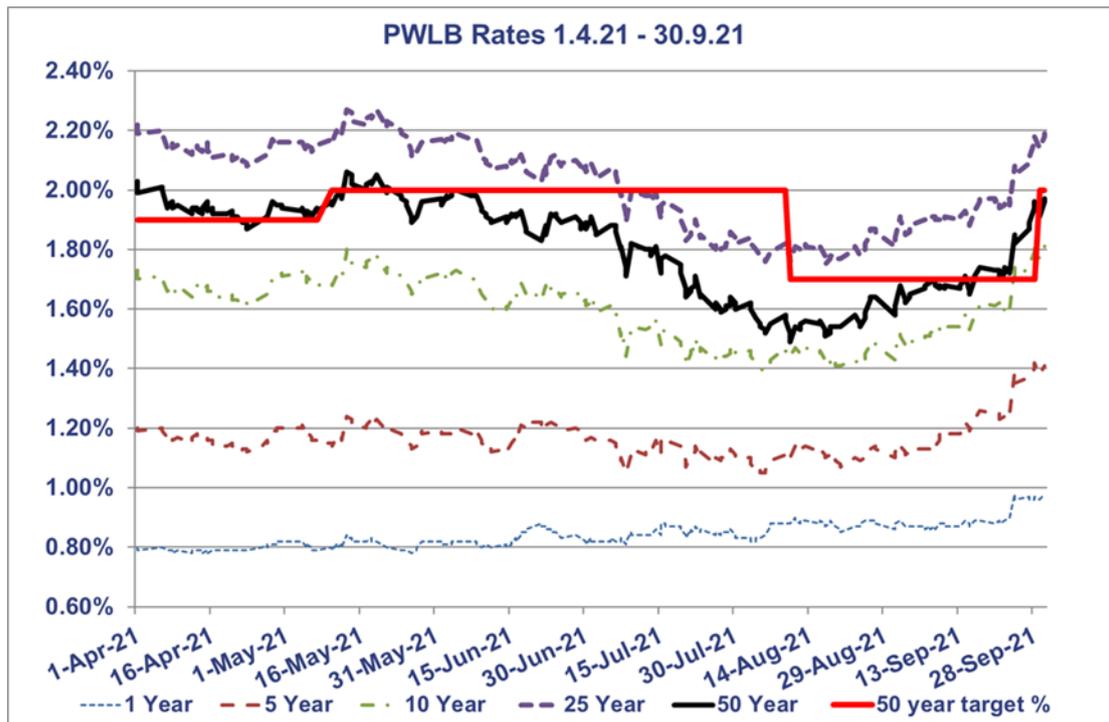
5.7 The Council's capital financing requirement (CFR) for 2021/22 is £17.0million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

A summary of the Council's debt position at 30 September 2021 compared with 31 March 2021 is shown in the table below:

Lender	Maturity	Interest Rate %	Principal held at 31 March 2021 £'000	Principal held at 30 Sept 2021 £'000
PWLB – Maturity Borrowed in May 2018 (23 maturity loans)	5-19 Years	2.41*	5,490	5,490
PWLB – Annuity Borrowed in September 2019	50 Years	1.97	3,928	3,904
PWLB – Annuity Borrowed in December 2019	50 Years	3.09	5,056	5,034
Total			14,474	14,428

*Average interest rate

5.8 Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September. The 50 year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August and returned to 2.00% at the end of September after the MPC meeting of 23rd September.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%

Local Authorities are required to submit a summary of their planned capital spending and PWLB borrowing for the following three years. This is updated on at least an annual basis. In March of each year, Council approves its Capital Strategy, Investment Strategy and Treasury Management Strategy. PWLB borrowing is permitted in the future for the four categories of regeneration, service delivery, housing and refinancing.

Debt Rescheduling

5.12 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

6. Outcomes/outputs

6.1 The Council's budget for investment interest of £203,000 for 2021/22 is not expected to be met. A forecast of £109,810 will leave a shortfall of £93,190 against budget.

6.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The average SONIA rate at the end of September was 0.05% which is 0.03% higher than our average return of 0.02% as at 30 September 2021.

7. Options available and consideration of risk

7.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £6m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

7.2 The Council's treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

7.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members' attention in treasury management update reports.

8. Proposed Way Forward

8.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

8.2 Following the increase in the cost of borrowing from the PWLB (1% increase), work is currently being undertaken to reassess the financial viability of capital projects included in the capital programme and business cases being considered under the Commercial Investment Strategy.

9. Compliance with Treasury Limits and Prudential Indicators

9.1 During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2021/22 are detailed and shown in Appendix B.

10. Future changes being enacted within the 2022/23 Capital Strategy, Investment Strategy and Treasury Management Strategy.

- 9.1 CIPFA plan to publish new principles in December 2021 that Councils should adopt from 1 April 2022, in their Capital Strategy, Investment Strategy and Treasury Management Strategy for 2022-23.
- 9.2 The Prudential Code will be strengthened to clarify borrowing in advance of need and that local authorities must not borrow to fund solely yield-generating investments.
- 9.3 CIPFA will include proportionality as an objective in the Prudential Code. CIPFA is of the view that whilst local authorities should not be investing in assets primarily for yield, it is recognised, for example, that commercial activity is often a component of successful regeneration projects. CIPFA will propose that Local Authorities assess the proportionality of the risk of all projects, including regeneration, to quantify the risk to their resources.

11. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are the Local Government Act 1972 Section 151 and the Local Government Act 2003.
Financial implications to include reference to value for money	Y	To date, the Council has underperformed the industry benchmark by 0.03%. The Council has achieved a rate of return of 0.02%, against the Sterling Overnight Interbank Average rate (SONIA) of 0.05%. The Council’s investment income target of £203,000 for 2021/22 is not expected to be met with a shortfall of £93,190.
Risk		<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p>

		The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Executive through the quarterly budget monitoring reports.
Supporting Corporate Strategy		The treasury management function supports all of the Thematic Delivery Plans within 'Better Lives for all'.
Climate Change – Carbon/Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Lending list as at 01 November 2021

Appendix B – Prudential and Treasury Indicators 2021/22

Background Papers:

None

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed/sign off	Yes
SLT Rep briefed/sign off	Yes
Relevant Heads of Practice sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	N/A

APPENDIX A

Counterparty as at 1st November 2021		Fitch Rating				Moody's Ratings			S&P Ratings		Suggested Duration		
		Long Term	Short Term	Viability	Support	Long Term	Short Term	Long Term	Short Term				
United Kingdom													
AAA Rated and Government Backed Securities	Collateralised LA Deposit*										Y - 60 mths		
	Debt Management Office										Y - 60 mths		
	Multilateral Development Banks										Y - 60 mths		
	Supranationals										Y - 60 mths		
	UK Gilts										Y - 60 mths		
Banks	Al Rayan Bank PLC					SB	A1	P-1			R - 6 mths		
	Bank of Scotland PLC (RFB)	SB	A+	F1	a	5	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a	5	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	SB	A+	F1	a	1	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Close Brothers Ltd	SB	A-	F2	a-	5	NO	Aa3	P-1				R - 6 mths
	Clydesdale Bank PLC	SB	A-	F2	bbb+	5	SB	Baa1	P-2	SB	A-	A-2	G - 100 days
	Co-operative Bank PLC	SB	B+	B	b	5	PO	B2	NP				N/C - 0 months
	Goldman Sachs International Bank	SB	A+	F1		1	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	SB	AA	F1+		1				SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	NO	AA-	F1+	a	1	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	HSBC UK Bank Plc (RFB)	NO	AA-	F1+	a	1	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A+	F1		1	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	SB	A+	F1	a	5	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	National Bank of Kuwait Plc	NO	AA-	F1+		1				NO	A	A-1	O - 12 mths
	NatWest Markets Plc (NRFB)	SB	A+	F1	WD	1	PO	A2	P-1	SB	A-	A-2	R - 6 mths
	Santander Financial Services PLC (NRFB)	SB	A+	F1		1	SB	A1	P-1	SB	A-	A-2	R - 6 mths
	Santander UK PLC	SB	A+	F1	a	2	SB	A1	P-1	SB	A	A-1	R - 6 mths
	SMBC Bank International Plc	NO	A	F1		1	SB	A1	P-1	SB	A	A-1	R - 6 mths
Standard Chartered Bank	NO	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	R - 6 mths	
Building Societies	Coventry Building Society	SB	A-	F1	a-	5	SB	A2	P-1				R - 6 mths
	Leeds Building Society	SB	A-	F1	a-	5	SB	A3	P-2				G - 100 days
	Nationwide Building Society	SB	A	F1	a	5	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Nottingham Building Society						SB	Baa3	P-3				N/C - 0 months
	Principality Building Society	SB	BBB+	F2	bbb+	5	SB	Baa2	P-2				N/C - 0 months
	Skipton Building Society	SB	A-	F1	a-	5	SB	A2	P-1				R - 6 mths
	West Bromwich Building Society						SB	Baa3	NP				N/C - 0 months
Yorkshire Building Society	SB	A-	F1	a-	5	SB	A3	P-2				G - 100 days	
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	SB	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	SB	A+	F1	a	5	SB	A1	P-1	SB	A	A-1	B - 12 mths

Watches and Outlooks		Duration	
SB	Stable Outlook	Yellow - Y	60 Months
NO	Negative Outlook	Blue - B	12 Months
NW	Negative Watch	Orange - O	12 Months
PO	Positive Outlook	Red - R	6 Months
PW	Positive Watch	Green - G	100 Days
EO	Evolving Outlook		
EW	Evolving Watch		

APPENDIX B

PRUDENTIAL AND TREASURY INDICATORS 2021/22

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

Capital Expenditure

This prudential Indicator is a summary of the Council's capital expenditure.

	2020/21 Actual £000	2021/22 Budget £000	2021/22 Estimate £000
General Fund services	5,645	8,431	7,406
Ivybridge Regeneration	-	510	210
TOTAL	5,645	8,941	7,616

The table below summarises the financing of the Council's capital programme.

	2020/21 Actual £000	2021/22 Budget £000	2021/22 Estimate £000
External sources	1,400	2,183	1,158
Own resources	2,393	2,277	2,277
Debt	1,852	4,481	4,181
TOTAL	5,645	8,941	7,616

The Council's Borrowing Need (the Capital Financing Requirement)

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	2020/21 Actual £000	2021/22 Budget £000	2021/22 Estimate £000
General Fund services	13,002	18,899	17,003
Community Housing	-	5,187	-
TOTAL CFR	13,002	24,086	17,003

There is a separate report on the December Executive agenda on Housing, which includes an update on housing projects. At Council on 25th November 2021, Members approved a housing project for St Anns Chapel for £4.2million, to deliver up to 8 affordable homes, 3 open market units and 2 serviced plots.

The Council's Gross Debt and the Capital Financing Requirement

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is lower than the CFR by £2.62m in the forecast for 2021/22.

	2020/21 Actual £000	2021/22 Budget £000	2021/22 Estimate £000
Debt	14,474	19,568	14,380
Capital Financing Requirement	13,002	24,086	17,003

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

The financing costs were increased in the 2021/22 budget to reflect the proposals within the investment strategy, and therefore this increased this indicator. There are now limited opportunities for the investment strategy if investment has to be within the South Hams boundary.

	2020/21 Actual	2021/22 Budget	2021/22 Estimate
Financing costs (£m)	550,144	813,311	735,446
Proportion of net revenue stream	5.85%	8.4%	7.6%

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2020/21	2021/22
	£	£
Borrowing	70,000,000	70,000,000
Other long term liabilities	-	-
Total	70,000,000	70,000,000

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

Authorised limit	2020/21	2021/22
	£	£
Borrowing	75,000,000	75,000,000
Other long term liabilities	-	-
Total	75,000,000	75,000,000

South Hams District Council's current level of borrowing as at 30 September 2021 was £14.43 million.

As part of the Medium Term Financial Strategy, Members approved an overall Borrowing Limit of £75 million.

Report to: **Audit Committee**

Date: **9 December 2021**

Title: **Strategic Risk Update**

Portfolio Area: **Councillor Judy Pearce
Leader (Strategic Direction)**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken:

Author: **Neil Hawke** Role: **Head of Strategy**

Contact: Neil.Hawke@swdevon.gov.uk

Recommendations:

That Audit Committee:

1. Consider the Strategic Risk Register as set out in Appendix A

1. Executive summary

- 1.1 In accordance with the Risk and Opportunity Management Strategy adopted by Council in 2018, this report forms the required bi-annual update to Audit Committee Members.
- 1.2 The Strategy sets out the roles and responsibilities for various Council Committees and officer groups. The Audit Committee is to "Provide independent assurance to the Council on the effectiveness of the Council's risk and opportunity management, internal control and overall assurance framework"
- 1.3 This report aims to provide the Committee with the information required in order to provide that assurance to the Council.

2. Background

- 2.1 Successful Risk Management is an essential part of delivering good governance across the Council and reduces the uncertainty or achieving our ambitions (as set out in Better Lives for All).
- 2.2 Risk management is about adopting a planned and systematic approach to identifying, evaluating and controlling the things that will prevent us delivering on our priorities.
- 2.3 The Council has adopted a Risk and Opportunity Management Strategy requiring the Senior Leadership Team to Identify, evaluate, prioritise and control risks and opportunities.

- 2.4 In doing so it must ensure that the Council implements and manages appropriate measures to respond to identified risks.
- 2.5 The Senior Leadership Team regularly consider strategic risks and these are presented to Audit Committee on a bi-annual basis.

3. Outcomes/outputs

- 3.1 In response to feedback from Members, the Strategic Risk Register format has been changed to make it clearer and easier to understand. It also provides a demonstration of the 'risk history' to enable Members to track the progress of reducing risks.
- 3.2 The Strategic Risk register does not capture all risks to the Council and its services. Each service holds their own risk registers with those risks that Heads of Service are responsible for managing.

4. Options available and consideration of risk

- 4.1 The risk register is a regularly updated document that enables the Senior Leadership Team to actively manage risks.
- 4.2 Members should note the current risks and progress made in mitigating them. If deemed necessary, Audit Committee may make recommendations to the Executive on amendments or additions to the register.

5. Proposed Way Forward

- 5.1 It is suggested that the Committee focus attention on those risks with the highest score i.e. those risks with a score of 16 and over.
- 5.2 The Senior Leadership Team will continue to monitor the existing Strategic Risks, seek to identify any new risks and provide a further update to Audit Committee in six months' time.

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Audit Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management. There are no direct legal implications arising from the report although a strategic focus on risk and opportunity management is good practice. Any specific legal implications are to be considered in individual risk assessments.
Financial implications to include reference to value for money	Y	There are no direct financial implications arising from the report, although effective corporate risk and opportunity management

		can help protect the Council from budget variances.
Risk	Y	Members should note that while risk and opportunity is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.
Supporting Corporate Strategy	Y	Strategic Risks are those which could, if not managed, prevent us from delivering on our strategic priorities. Effective risk management is therefore a key element of our Performance Management Framework and process.
Climate Change - Carbon / Biodiversity Impact	N	There are no direct carbon/biodiversity impacts arising from the recommendations as this will be factored into individual risk assessments where appropriate.
Comprehensive Impact Assessment Implications		
Equality and Diversity		Factored in to individual risk assessments where appropriate
Safeguarding		Factored in to individual risk assessments where appropriate
Community Safety, Crime and Disorder		Factored in to individual risk assessments where appropriate
Health, Safety and Wellbeing		Factored in to individual risk assessments where appropriate
Other implications		

Supporting Information

Appendices:

Appendix A – Strategic Risk Register November 2021

Background Papers:

Approval and clearance of report

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South Hams
District Council

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Strategic Risk Register

November 2021 Update

Audit Committee 9th December 2021



Better lives for all

Introduction

What Do we mean by Risk?

Risk is unavoidable in any organisation. It is ever present and a certain amount of risk-acceptance is inevitable if we are to achieve our objectives of our Better Lives for All Strategy.

What Is Risk Management?

Successful Risk Management is an essential part of delivering good governance across the Council and reduces the uncertainty of achieving our ambitions (as set out in Better Lives for All).

It is about adopting a planned and systematic approach to identifying, evaluating and controlling the things that will prevent us delivering on our priorities.

How does Risk Management fit in to our business planning?

Effectively identifying and managing risks will support the Council in acting in the best interests of our residents, businesses and communities through the ever changing environment of local government.

It is the 5th step in our Performance Management Framework



Step 5: Risk Management
Identify risks that may prevent us delivering our vision and how we will mitigate them



Our Risk Management Objectives

We have 6 key objectives that guide our approach to Risk Management

- Page 75
1. Adopt a strategic approach to risk management in order to make well informed decisions
 2. Integrate risk management into how we run Council services and deliver key projects.
 3. Support a culture of well-measured risk taking throughout the Council including setting risk ownership and accountabilities.
 4. Accept that even with good risk management and our best endeavours, things can go wrong. We will learn lessons where this happens.
 5. Ensure that the Council continues to meet all statutory and best practice requirements in relation to risk management
 6. Ensure that risk management continues to be a key and effective element of our Corporate Governance

Benefits of Effective Risk Management



Improved Strategic Management

- Greater Ability to deliver against our corporate objectives and targets
- Improved decision making, planning and prioritisation



Improved Operational Management

- Plans in place to respond to incidents when they occur
- Better service delivery



Improved Financial Management

- Better informed financial decision making
- Greater financial control
- Minimising waste and improving Value for Money



Improved Customer Service

Service disruption to customer minimized



Our Risk Management Process

Identification of risks, deciding what action to take to minimise the risk and assessing how successfully we did it is an activity that we are all doing constantly in our personal lives. The same approach is applied by the Council in assessing risks to our priorities and services.

To do this we follow a 5 step approach



Our Risk Management Scoring

Likelihood

How possible is it that the risk will occur?

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Impact

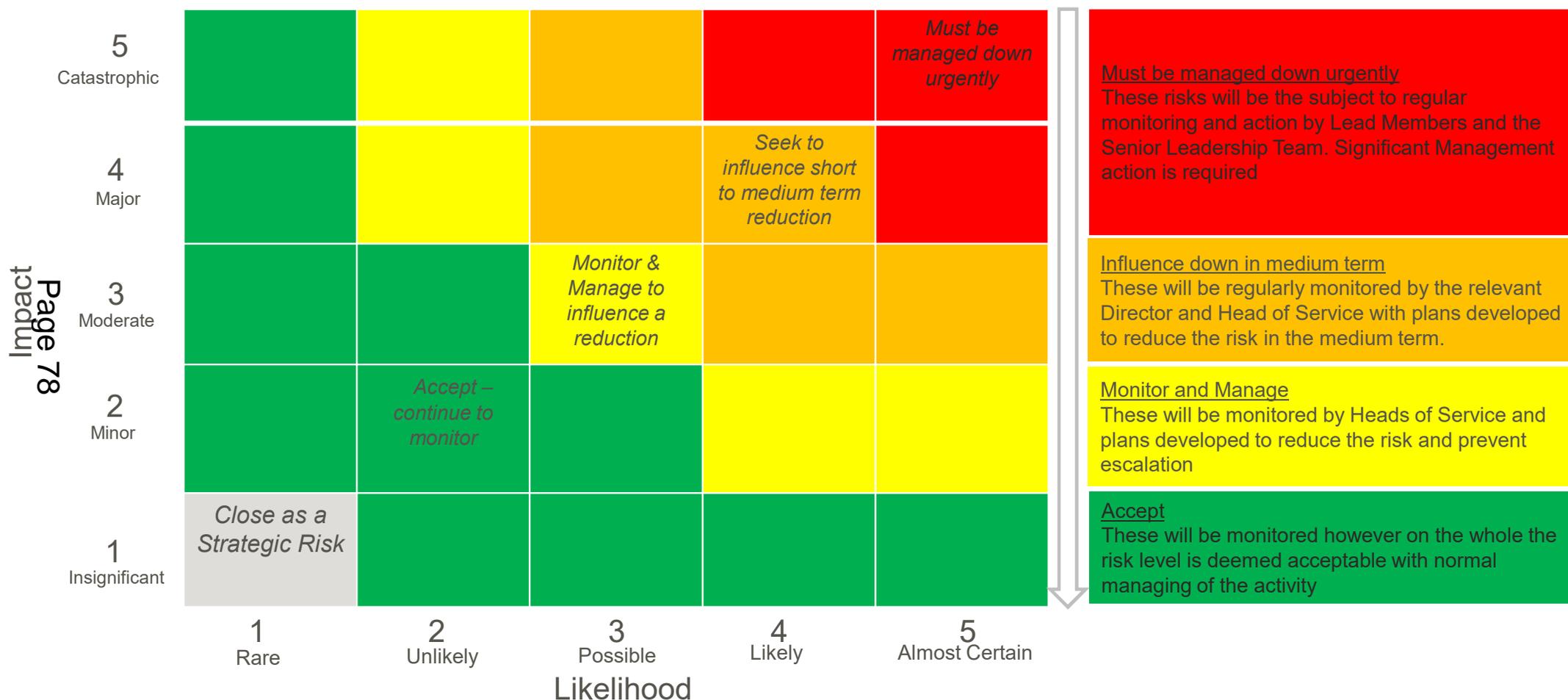
If the risk does occur, what is the impact?

#	Likelihood	Chances of occurring	
1 – Rare	Unlikely to occur under normal circumstances	0-10%	Very unlikely this will ever happen e.g. Once in 100 years
2 – Unlikely	Potential to occur however likelihood remains low	10-25%	Not expected to happen, but is possible e.g. Once in 25 years
3 - Possible	Possible - Could occur	25-50%	May happen occasionally, e.g. Once in 10 years
4 – Likely	Likely - Most likely will occur	50-80%	Will probably happen, but not a persistent issue e.g. Once in 3 years. Has happened in the past.
5 – Almost Certain	Almost certainly will occur	80-100%	Will undoubtedly happen, possibly frequently e.g. Annually or more frequently. Imminent/near miss.

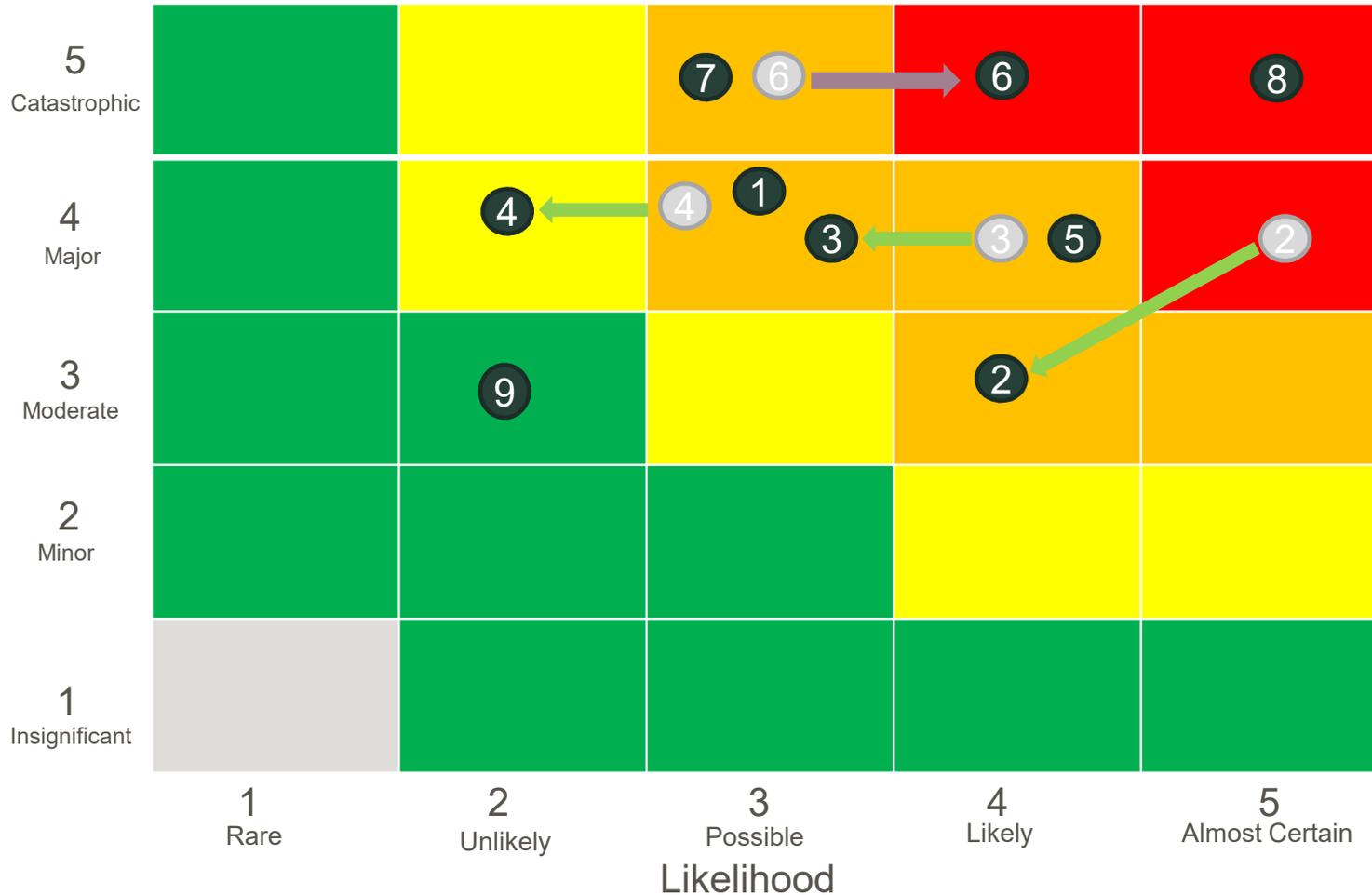
#	Impact Category					
	Financial	Service Quality	Reputation	Legal/Regulatory	Health and Safety	Morale / Staffing
1 – Insignificant Impact	Financial loss of less than £10k	Drop in performance or delays to a process or temporary loss of an access route to a service	Limited local interest, single story	Not reportable to regulator/Ombudsman, simple fix	Minor first aid required	Isolated staff dissatisfaction
2 – Minor Risk	Financial loss of between £10k & £100k	Drop in performance or delays to a service area or sustained loss of access routes for services	Local or 'industry' interest, single story over multiple news outlets	Reportable to regulator/Ombudsman, no or little follow up needed	Minor injuries to employees or third parties	Pockets of staff morale problems and increased turnover
3 – Moderate Risk	Financial loss of between £100k & £500k	Drop in performance or delays to delivering a wide range of services	Short term negative media exposure	Regulator/Ombudsman report with immediate correction to be implemented, or risk of prosecution	Simple 'medical professional' type care for employees or third parties, e.g. GP visit, minor injuries unit visit	General staff morale problems and increased turnover
4 – Major Risk	Financial loss of between £500k & £1Mill	Major drop in performance or inability to deliver discretionary services	Sustained negative media coverage, or South West or 'affected industry' publication exposure	Regulator/Ombudsman report requiring major project to correct or prosecution with fines, etc.	Limited hospital care required for employees or third parties	Widespread morale problems and high turnover. Not perceived as employer of choice
5 – Catastrophic	Financial loss of over £1Mill	Major drop in performance or inability to deliver mandatory services	Long term negative media coverage, or national media exposure	Significant prosecution or fines, incarceration of directors	Significant injuries or fatalities to employees or third parties	Some senior leaders leave / high turnover of experienced staff, insufficient staff to complete statutory functions

To calculate the overall risk score, we multiply the likelihood by the highest impact category score.

Our Risk Management Treatment



Summary of Strategic Risks November 2021



⊗ Previous Period Score
 ⊗ Current Period Score

- Risk Title**
- Adherence to Medium Term Financial Strategy
 - Covid-19 Impact on in-house Services
 - Inadequate Staffing Resource
 - Commitment to change across the organisation
 - Health and Wellbeing Service Provision
 - Business Continuity
 - Emergency Response
 - Waste and Recycling Changes
 - RHSS Town Recovery Fund compliance

Risk Title: Adherence to Medium Term Financial Strategy

Overall Scoring

What is the risk? Failure to sustain a robust on-going medium term financial strategy in SHDC with adequate reserves to meet unforeseen circumstances, due to cost pressures and reduced income targets, council decisions, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFs, particularly if national/regional businesses successfully appeal against business rate valuations or litigation proceedings / legal challenges / planning appeals, etc.

Risk Score (Current)



What could cause the risk to occur? Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. a reduction in sales, fees and charges income or business rate appeals. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn, the effects of the pandemic and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area.

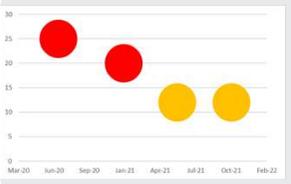
Likelihood 3 x Impact 4

Page 80	Likelihood of risk occurring		3 (Possible)
	Impact	Financial	4 (Major)
		Service Quality	4 (Major)
		Reputation	4 (Major)
		Legal / Regulatory	4 (Major)
		Health and Safety	2 (Minor)
		Morale / Staffing	2 (Minor)

What are we doing to reduce the risk?

- Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council is not intending to rely heavily on sources of income which may not be sustainable e.g. New Homes Bonus.
- SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans.
- SLT engaged in the development of the MTFs.
- The latest Medium Term Financial Strategy was approved at Executive on 16 September 2021. The latest Revenue and Capital Budget Proposals for 2022/23 to 2024/25 will be considered by the Executive on 2 December 2021 and the Joint Development Management Committee and Overview & Scrutiny Panel on 13 January 2022.

Risk Score History



Current Update (November 2021) Due to the volatility of Business Rates income Council on 23 September 2021 approved the use of funding from the Business Rates Retention Earmarked Reserve to smooth the volatility in business rates income over the next three years. The volatility is due to the business rates baseline reset anticipated in 2023/24 (this will mean the Council will have negative revenue support grant in 23/24) and the predicted reduction in business rates pooling gains at the same time in 23/24. There is a risk that the Government may introduce a more aggressive business rates tariff in 22/23 to account for the fact that the baseline reset is highly likely to be delayed until at least 23/24. If this happens, it would be recommended that a higher amount of funding from the business rates retention reserve is used in 22/23, to offset the higher tariff rate and the ensuing lower business rates income. More will be known on this when details of the Local Government Finance Settlement are announced around mid December.

The forecast budget gap for 2022/23 is currently £28,500, 0.3% of the Net Budget of 2021/22 of £9.7 million. A cumulative budget gap of £349,925 is predicted for 2023/24 (the £349,925 assumes that the 22/23 budget gap of £28,500 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.1 million, if no action has been taken in each individual year to close the budget gap annually. The Council awaits the details of the Local Government Finance Settlement announcement in mid December, which will enable the Council to further firm up some of the assumptions within the Budget for 2022/23 onwards.

Risk Direction



Risk Title:	Covid-19 Impact on in-house services
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Overall Scoring

What is the risk?	The risk is that Covid-19 (Coronavirus) will impact on the ability for the Council to deliver its in-house services leading to a drop in operational performance and customer satisfaction. There is the potential for additional financial implications due to increased demand for services or a reduction in income.
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Risk Score (Current)

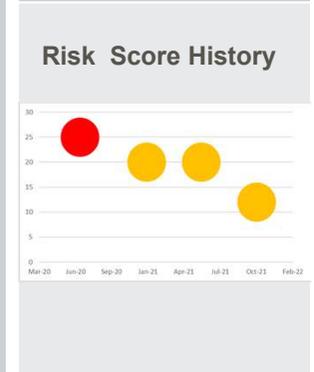


12

Likelihood 4 x Impact 3

What could cause the risk to occur?	<p>This risk has arisen as a result of the global pandemic that has been difficult to predict.</p> <p>There remain a number of uncertainties about how the pandemic will continue to progress and therefore the level of response required by the Council and in turn the impact on our services. A new variant of covid-19 (Omicron) is seeing the government re-implement mandatory mask wearing in some sectors with a review scheduled in 3 weeks.</p>
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Risk Scoring		Likelihood of risk occurring	4 (Likely)	<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> 1. Monitor national and local situation and guidance 2. Continue to encourage staff to work from home where possible to reduce any potential spread of Covid and in turn reduce likelihood of staff requiring time off from work 3. Work with partners to implement measures to respond to the pandemic
		Impact	Financial	
	Service Quality		3 (Moderate)	
	Reputation		3 (Moderate)	
	Legal / Regulatory		3 (Moderate)	
	Health and Safety		3 (Moderate)	
	Morale / Staffing	3 (Moderate)		



Current Update (November 2021)	<p>Our office based staff continue to work from home in order to mitigate the risk of spreading Covid 19 and in turn reducing the capacity of our workforce. Our frontline staff continue to employ safety measures to reduce the risk of transmission of Covid with risk assessments continually being updated.</p> <p>Member meetings have resumed face to face for many months and with the exception of wearing facemasks when moving around the building and maintaining social distancing, other safety measures have been removed. This has not so far resulted in any significant outbreaks.</p> <p>We will continue to monitor the impact on our in-house services (particularly given Omicron variant developments) over the winter and if required, in-institute our incident management approach.</p>
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Risk Direction



Risk Title:	Inadequate Staffing Resource
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Overall Scoring

What is the risk?
 The risk is that the Council fails to have sufficient staffing capacity or capability to deliver the services that our customers expect and to meet the level of demand. This would lead to customers being unable to access the services they require or an unacceptable wait for access to services.

Risk Score (Current)



What could cause the risk to occur?
 There are a number of things that could cause this risk to occur including a lack or unclear strategic direction and priorities, inadequate training and re-skilling of staff, failure to engage with staff appropriately and negative changes to employee terms and conditions could all result in a demotivated workforce that is not responsive to customer needs.

Page 82	Risk Scoring		Likelihood of risk occurring	3 (Possible)	What are we doing to reduce the risk? <ol style="list-style-type: none"> 1. Establish a clear and prioritised strategic direction so that all employees understand the importance of their role in the Councils success 2. Undertake regular Customer Satisfaction Surveys in order to understand the quality of the service being provided 3. Mechanism in place for ELT to appoint staff within budget where appropriate without recourse to SLT. Apprenticeship scheme developed by HR. 4. Regular staff 1:1's with managers and a new performance management / appraisal process implemented 5. Identifying opportunities for training and development including defining professional development pathways. 6. Carry out service reviews to ensure our services are performing well and that staff are fully supported
	Impact	Financial	4 (Major)		
		Service Quality	4 (Major)		
		Reputation	4 (Major)		
		Legal / Regulatory	4 (Major)		
		Health and Safety	2 (Minor)		
		Morale / Staffing	2 (Minor)		

Likelihood 3 x Impact 4



Current Update (November 2021)

Good progress has been made in reducing this risk.

- Planning (Development Management) Review has identified a requirement for additional planning officers. This has been approved by Members and recruitment underway.
- Extended Leadership Team has been realigned to better support delivery of our priorities and also to ensure an even spread of management across the organisation which will enable improved support for staff across the Council.
- New performance management and appraisal process has begun to be rolled out which will ensure we enhance our understanding of training and development requirements for staff.
- 'Better Lives for All' is now guiding the work planning and in turn enabling better resource planning.

Risk Direction

Risk Title: Organisational Commitment to Change

What is the risk? The risk is that there is a lack of on-going organisational commitment to support changes needed for ongoing financial sustainability & community resilience.

What could cause the risk to occur? The Council is required to continually adapt to meet the needs of our communities, residents and businesses. It is important that there is both political and organisational wide commitment to change. This risk could impact on our ability to deliver our services if there is a reluctance to change.

What is the level of the risk?

Likelihood of risk occurring	2 (Unlikely)
Impact	Financial 4 (Major)
	Service Quality 3 (Moderate)
	Reputation 4 (Major)
	Legal / Regulatory 4 (Major)
	Health and Safety 1 (Insignificant)
	Morale / Staffing 4 (Major)

What are we doing to reduce the risk?

- Keep Members informed and updated on central government policy relating to local government services.
- Ensure that staff are provided the opportunity (and encouraged) to identify areas for change and improvement.
- Provide change management governance to manage projects well.
- Provide Members with training and ongoing development.
- Ensure Members are fully briefed on options within the policy and budgetary framework in order to inform decisions.
- Ensure policy changes are brought forward in a timely way for decision making, that due process is followed and that there is appropriate consultation, information and scrutiny. Provide regular L&DL briefings, group meetings and Member briefings and drop-ins.

Current Update (November 2021) In September 2021, Council unanimously adopted 'Better Lives for All' its longer term plan for the Council and District as a whole. Developed over many months and with full Member engagement through workshops, it is now underpinned by detailed delivery plans. This is a positive step and will guide the work of the Council, its resource allocations and its priorities for lobbying and partnership working.

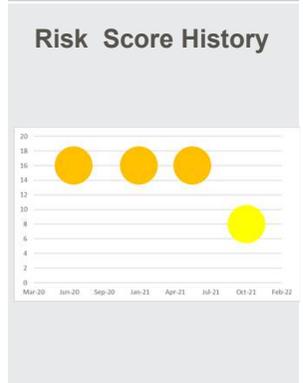
We will also soon have much greater certainty around funding with proposals for a three year financial settlement from government. This will further enhance our future financial planning capabilities.

Overall Scoring

Risk Score (Current)

8

Likelihood 2 x Impact 4



Risk Direction

Risk Title:	Health and Wellbeing Service Provision
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What is the risk?	Covid-19 has a significant impact on Leisure provision given the nature of activities and hygiene requirements. The risk is that as leisure centres make adjustments to reduce the risk of Covid-19 to both staff and customers, the capacity of the centres is significantly reduced while many overheads and operating costs remain the same.
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What could cause the risk to occur?	<ul style="list-style-type: none"> - Re-implementation of further restrictions that reduce Leisure Centres ability to deliver the full range of services - Even without restrictions, customer appetite for participation in activities in enclosed environments may take some time to return to previous levels
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Risk Scoring Page 84	Likelihood of risk occurring		4 (Likely)	<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> 1. Continue to engage with Leisure Services provider to understand issues and support where possible 2. Continue to monitor local and national position (given that all leisure providers will be in the same position)
	Impact	Financial	4 (Major)	
		Service Quality	2 (Minor)	
		Reputation	2 (Minor)	
		Legal / Regulatory	2 (Minor)	
		Health and Safety	4 (Major)	
		Morale / Staffing	2 (Minor)	

Current Update (November 2021)	<p>At their meeting in March 2022, the Executive will consider an update from Fusion Leisure which will set out the impact Covid-19 continues to have on participation and what steps they are taking to encourage a return to pre-pandemic levels.</p> <p>The Councils lead for Fusion continue to promote the available activities within the centres.</p>
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Overall Scoring

Risk Score (Current)

16

Likelihood 4 x Impact 4



Risk Direction

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Risk Title:	Business Continuity
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What is the risk?	The risk is that we do not develop and keep maintained robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems leading to inability to deliver key council services.
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What could cause the risk to occur?	Developing and maintaining robust Business Continuity Plans requires significant and sustained focus. During Covid-19 response, the Councils risk profile has changed as we have relied much heavier on working in different ways (for example more staff working from home the majority of time) and with significant pressures being placed on some of our key delivery partners/ contractors. Work is required to update our BCP's to the changing environment that we are operating in. We are also entering a period where extreme weather events increase the risk of a business continuity event triggering.
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Risk Scoring Page 85	Likelihood of risk occurring		4 (Likely)	<p><u>What are we doing to reduce the risk?</u></p> <ul style="list-style-type: none"> • Having two HQ locations is main mitigating factor - however an outage of power/ICT at either location would lead to a serious disruption of service. • Agile working further reduces reliance on two office buildings. • Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. • Business Continuity plans have been updated - priority areas - ICT Networking - Payroll & Creditors Payments; other plans need to be made more robust – further work underway for the new year
	Impact	Financial	5 (Catastrophic)	
		Service Quality	5 (Catastrophic)	
		Reputation	4 (Major)	
		Legal / Regulatory	2 (Minor)	
		Health and Safety	3 (Moderate)	
		Morale / Staffing	3 (Moderate)	

Current update (November 2021)	<p>While we still find ourselves in the 'response' phase of the pandemic however focus is now changing to refining our broader business continuity plans to cover other scenarios.</p> <p>Our ability to work online is fundamental to our ongoing delivery of services and this is therefore a key focus for our Business Continuity Planning. We are aware of rising incidents of cyber attacks on local authorities and are monitoring their learning closely in order to refine our own response plans. Where cyber attacks on those have been successful (i.e. not prevented by their systems and processes) they have been without core operating systems for many months and with the cost of recovery being in the several millions of pounds. As a result of this learning we have increased the financial impact score to 5.</p> <p>Additionally, our contracted waste collection services continue to be under significant pressure triggered in part by the national HGV driver shortage which could be compounded as we enter the typical flu season and also the added covid-19 infection and isolation risk.</p> <p>We have commissioned external advice to support us in updating our ICT Business Continuity Plans with this work aiming to complete in January 2022. Following this we can update our other service business continuity plans.</p> <p>A group of core officers will be recommencing a dedicated work stream to reduce this risk to acceptable levels</p>
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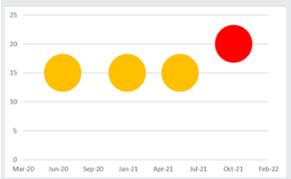
Overall Scoring

Risk Score (Current)



Likelihood 4 x Impact 5

Risk Score History



Risk Direction



Risk Title:	Emergency Response
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What is the risk?	The risk is that the council fails to meet the high public expectation in relation to supporting communities during storm damage/flooding/ other events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and expectations during an event.
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What could cause the risk to occur?	The Council has a key role in supporting the response to emergency incidents within the District, These are, by there very nature, difficult to predict when and where they will occur. The type of events that the Council could be called upon to support include storm events, floods, major accidents, incidents requiring temporary or longer term re-accommodation of residents etc.
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Risk Scoring Page 86	Likelihood of risk occurring	3 (Possible)	<p><u>What are we doing to reduce the risk?</u></p> <ol style="list-style-type: none"> Continued management and officer focus on this area to ensure risk is minimised as much as possible Continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity. 	
	Impact	Financial		3 (Moderate)
		Service Quality		4 (Major)
		Reputation		5 (Catastrophic)
		Legal / Regulatory		3 (Moderate)
		Health and Safety		4 (Major)
		Morale / Staffing		4 (Major)

Current Update (November 2021)	<p>The Council continues to engage with the Local Resilience Forum and is keeping its emergency response plans up to date. Winter plans are developed and in place.</p> <p>Most of our emergency response support will be provided by the Environmental Health Team who are also the team that are involved in supporting any requirements to respond to Covid-19. To support their ability to respond to any other emergencies through the winter, we have extended the contract of the covid-19 support officers until end of March 2022.</p>
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Overall Scoring

Risk Score (Current)



15

Likelihood 3 x Impact 5



Risk Direction



Risk Title: Delivery of Waste and Recycling Service

What is the risk? The risk is that our contractor for Waste and Recycling Services (FCC Environment) lacks the capacity or ability to rectify the issues being experienced by residents resulting in further delays, increased reputational damage and overall significant frustration for our residents.

What could cause the risk to occur? The risk has already occurred. The key issue at this stage is the capacity and ability of FCC to rectify the problems being experienced in the delivery of the service. These relate to the national HGV driver shortage, the capacity of the transfer station at Ivybridge, the collection round design, the fleet design and work force management.

Risk Scoring Page 87	Likelihood of risk occurring		5 (Almost Certain)	<p>What are we doing to reduce the risk?</p> <ol style="list-style-type: none"> We have paused the rollout of the full Devon aligned recycling service for 22,500 properties in order to stabilise the existing service. Continuous, focused dialogue between the Council and our contractor (FCC Environment). FCC Environment have submitted a recovery plan to deliver the full contracted services to contractually specified levels. South Hams staff supporting FCC on the ground where required and particularly with the management of the service. Enabling more focus on delivery of statutory services (household recycling and non-recyclable waste) by suspending the garden waste collection service. Contractor has been asked for a plan to restart this by 31st March 2022 (or sooner).
	Impact	Financial	4 (Major)	
		Service Quality	5(Catastrophic)	
		Reputation	5 (Catastrophic)	
		Legal / Regulatory	4 (Major)	
		Health and Safety	3 (Moderate)	
		Morale / Staffing	4 (Major)	

Current Update (November 2021) Issues with the new service continue to be experienced at the time of this update. The Council is working with FCC Environment to resolve ongoing issues.

The Executive continue to meet regularly with FCC Senior Management. The Council continues to use contractual mechanisms to improve service performance. The contractor was not able to rectify the issues with collection by the end of July 2021 as previously updated in the risk register.

To alleviate the pressure on the service, the decision has been taken to temporarily suspend garden waste collections, enabling the contractor to focus available resources on collection of waste and household recycling. The Executive have asked that FCC provide a detailed plan to the Council by 31st December 2021 for resuming the service by 31st March 2022 (or sooner) FCC have attended Overview and Scrutiny and regular updates continue to be provided by the Lead Member to the Executive on a regular basis.

Overall Scoring

Risk Score (Current)



Likelihood 5 x Impact 5

Risk Score History



Risk Direction



Risk Title: Maximising use of government economic support funds

Overall Scoring

What is the risk?
 The risk is that the Council does not maximise the use of government high street support funding and business grants which in turn support the economic recovery of the area leading to a longer term negative impact as we begin to recover from Covid-19.

Risk Score (Current)



Likelihood 2 x Impact 3

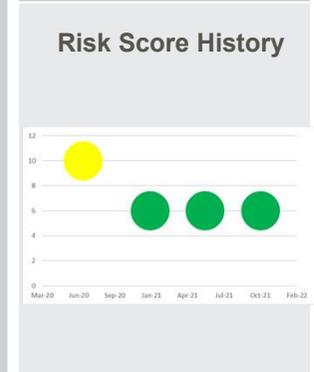
What could cause the risk to occur?
 The ongoing impact on the economy as we continue through response and in to recovery remains to be fully understood. Government have provided funding for both grants to businesses and for the Council to support the recovery of the highstreets. This funding must be spent in a compliant way.

- Clarity of eligible expenditure that delivery partners wish to incur
- The longer term impact as restrictions continue to change or potential for reimplementaion of restrictions that negatively impact on our key economic centres.
- Ability to demonstrate sufficient evidence to support claim to draw down government funding.

Risk Scoring Page 88	Likelihood of risk occurring		2 (Unlikely)
	Impact	Financial	2 (Minor)
		Service Quality	1 (Insignificant)
		Reputation	3 (Moderate)
		Legal / Regulatory	3 (Moderate)
		Health and Safety	2 (Minor)
		Morale / Staffing	1 (Insignificant)

What are we doing to reduce the risk?

1. Implementation of a dedicated team to support the economic and 'place based' activities required to support the area
2. Clear guidance related to the Government funding schemes to be issued
3. Work with our town councils, the LEP, DCC (Team Devon) and other key stakeholders to develop co-ordinated plans
4. Delivery partner agreements in place in order to make responsibilities clear



Current Update (November 2021)

As part of its Better Lives for All Strategy, the Council has placed a significant emphasis on the support to the economy of South Hams with a clear delivery plan in place for the next three years.

One aspect of supporting project activity is funded by ERDF monies. The Council has recently been notified that its first claim for funding was successful and payment is being processed. We were able to demonstrate through the claim process our compliance with the requirements of the scheme. It is a requirement of the scheme that the funding scheme is included on the Councils strategic risk register.

This funding has enabled to support projects in all of our key towns and we have plans for further promotional and marketing activities over the Christmas period.

Risk Direction



NOT FOR PUBLICATION

This report contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (matters affecting the financial affairs of the Council) - (applies to Appendix 1)

Report to: **Audit Committee**

Date: **9th December 2021**

Title: **Investment Properties – Update and monitoring report**

Portfolio Area: **Economy – Cllr Bastone**

Wards Affected: **All Wards**

Relevant Scrutiny Committee: N/A

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **N/A**

Author: **Chris Brook** Role: **Director of Place and Enterprise**

Contact: **Telephone/email: chris.brook@swdevon.gov.uk**

Recommendations:

1. Note the 31 March 2021 valuation figures of the Council's two Investment Properties and the rental income being received.

1. Executive summary

- 1.1. This report considers the financial information in respect of the Investment Property portfolio to date.
- 1.2. The portfolio comprises a historically owned property at Lee Mill, Ivybridge and a property purchased in 2019 in Dartmouth.
- 1.3. The report sets out the latest portfolio valuation information as shown in Appendix 1.

2. Background

- 2.1. One recent property acquisition in Dartmouth was made in December 2019. The purchase price was £4.7million plus acquisition costs of approximately £300,000. A report to the Executive on 6th February 2020 set out further details of the purchase. The investment was for 12,575 sqft retail store plus eight flats (all within one lease to the tenant, the flats are sub-let).

- 2.2. The Dartmouth purchase was funded through long term Public Works Loans Board borrowing with both the principal and the interest being repaid fully over the 50 year life of the asset. The lease expires in March 2031.
- 2.3. The historic property at Lee Mill, Ivybridge has been let to the Tenant on a ground lease (the tenant built the store) since 1978 and runs for 99 years to December 2077.
- 2.4. The properties combined generate a net income of £651,930 (see Appendix 1) in the financial year, an ancillary benefit which contributes to the financial sustainability of the Council, enabling it to continue to deliver, and where possible improve, frontline services.
- 2.5. The recent valuation information can be found in Appendix 1.

3. **Outcomes/outputs**

- 3.1. The net income of the combined properties is £651,930. This allows for borrowing costs and the Maintenance Management and Risk Mitigation reserve (MMRM Reserve) for the recently acquired property in Dartmouth.
- 3.2. Both tenants are up to date with their rental payment.
- 3.3. Both Tenants are (or are guaranteed by) secure covenants, reflecting a low risk of business failure.
- 3.4. The valuation figures as at 31st March 21 are shown in Appendix 1. Both properties are valued by external Chartered Surveyors with the current knowledge, skills and understanding to value this type of property. The valuers are Members of the RICS (Royal Institution of Chartered Surveyors) and Registered Valuers.

The basis of the valuations is Fair Value – ‘The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date’.

- 3.5. The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £37,194 at 31.3.2021. This is shown in the Earmarked Reserve Note to the Statement of Accounts for 2020-21. 10% of rent from the recently acquired property in Dartmouth goes into the Revenue Earmarked Reserve for MMRM which will fund void periods, management costs and repairs as and when they arise.
- 3.6. Details of the Council’s investment strategy can be found in the report approved by Full Council on 19th December 2019 – minute Reference CM53/19.

<http://mg.swdevon.gov.uk/ieListDocuments.aspx?CIId=151&MIId=1334&Ver=4>

4 **Options available and consideration of risk**

- 4.1 The current income is backed by secure low risk covenants.
- 4.2 There is still a long period until the ground lease would expire (56 years) and just under 10 years for the other tenancy.
- 4.3 Consideration need to be given at the appropriate time in respect of the ending of both tenancies.
- 4.4 The project has a management, maintenance and risk mitigation (MMRM) Reserve fund to help off-set any situations that may arise where there are void periods, management costs or repairs required.

5 **Proposed Way Forward**

- 5.1 Continue to monitor the payments for the quarterly rent.
- 5.2 Continue to build the MMRM Earmarked Reserve.
- 5.3 Ensure the properties are revalued as required in March 22. The Investment properties require an annual valuation.

6 **Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The public interest test has been applied as to whether Appendix 1 should be published and the public interest lies in non-disclosure at this time.
Financial	Y	The net income (an ancillary benefit) is anticipated to be £651,930 in 2021/22 from both Investment properties. This is set out in Appendix 1.
Risk	Y	Refer to section 4
Supporting Corporate Strategy		The external audit process supports all of the Thematic Delivery Plans outlined in 'Better Lives for all'.
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A

Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		

Supporting Information

Appendices:

Exempt Appendix 1 – Investment Property Valuation

Background Papers:

None

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Cabinet/Scrutiny)	Yes

Document is Restricted

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Proposed Workplan for the Audit Committee for the 2021/22 financial year

Committee Meeting	Proposed workplan/timetable for Audit Committee 2021/22
9 TH December 2021	<ul style="list-style-type: none"> i) External Auditor Appointment ii) Update on Progress on the 2021/22 Internal Audit Plan; iii) Sundry Debt update iv) Treasury Management Mid-year report 2021/22 v) Strategic Risk update vi) Investment Property update and Monitoring report
10 th March 2022	<ul style="list-style-type: none"> i) Pensions presentation by Devon County Council ii) Grant Thornton - External Audit Plan 2021/22 iii) Grant Thornton Update report; iv) Grant Thornton - Informing the risk assessment for 2021/22 (Planning for the 2021/22 Accounts) v) 2022/23 Internal Audit Plan; vi) Update on Progress on the 2021/22 Internal Audit Plan; vii) Capital Strategy, Treasury Management Strategy and Investment Strategy for 2022/23 viii) Draft Budget Book 2022/23; ix) Cost Methodology for Shared Services 2021/22 x) Annual Review of Council Constitution; xi) Strategic Risk update xii) Sundry Debt update xiii) Update on the Whistle-Blowing Policy

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