

West Devon Audit & Governance Committee



Title:	Agenda
Date:	Tuesday, 10th October, 2023
Time:	11.00 am
Venue:	Chamber - Kilworthy Park
Full Members:	<p style="text-align: center;">Chairman Cllr Dexter</p> <p style="text-align: center;">Vice Chairman Cllr Oxborough</p> <p><i>Members:</i> Cllr Ball Cllr Sellis Cllr Cheadle Cllr Watts Cllr Cunningham</p>
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. Apologies for absence

2. Declarations of interest

In accordance with the Code of Conduct, Members are invited to declare any Disclosable Pecuniary Interests, Other Registerable Interests and Non-Registerable Interests including the nature and extent of such interests they may have in any items to be considered at this meeting;

3. Items Requiring Urgent Attention

To consider those items which, in the opinion of the Chairman, should be considered by the Meeting as matters of urgency (if any).

4. Confirmation of Minutes

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Meeting held on 25 July 2023

5. Grant Thornton (External Audit) report

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6. Update on the 2023-24 Internal Audit Plan, and Charter and Strategy

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Agenda Item 4

At a Meeting of the **AUDIT & GOVERNANCE COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **25th** day of **July 2023** at **11.00am**

Present: Cllr G Dexter (Chairman)
Cllr R Cheadle
Cllr A Cunningham
Cllr R Oxborough
Cllr D Sellis

Officers in attendance: Section 151 Officer
Deputy Section 151 Officer
Internal Auditor
Head of Devon Audit Partnership
Director of Strategy and Governance
Assistant Director of Strategy & Governance
Senior Democratics Services Officer

Also in attendance: Cllrs C Edmonds (Hub Lead Hub Committee Member), A Johnson and Cllr M Renders (Deputy Leader)

***AC 1 APOLOGIES**

Apologies were received from Cllr K Ball.

***AC 2 DECLARATIONS OF INTEREST**

There were no declarations of interest.

***AC 3 ITEMS REQUIRING URGENT ATTENTION**

There were no items requiring urgent attention.

***AC 4 CONFIRMATION OF MINUTES**

The Minutes of the Committee Meeting held on 14 March 2023 were confirmed by the Committee as a true and correct record.

The Section 151 Officer updated the Committee Members on a letter that had been received from the Minister for Local Government on how to deal with the backlog of outstanding audits. 27% of councils had their previous years accounts signed off and West Devon Borough Council was one of them. Audit firms not only had a backlog of audits to clear, but there was also an issue with recruitment of auditors nationally. Grant Thornton had confirmed that they would be unable to conduct the audit for the 2022/23 accounts, even though they had been prepared, until January 2024. This was because they had to clear the backlog of audit work at other Councils. There is flexibility with audit firms to issue an audit opinion whereby they could say they were issuing an unqualified statement except in areas of concern. This could mean the backlog is cleared quicker and Grant Thornton could start early on the accounts earlier than January 2024.

Officers proceeded to inform the Committee that there could be a more proportionate audit on fixed assets and pensions.

***AC 5**

DRAFT STATEMENT OF ACCOUNTS AND DRAFT ANNUAL GOVERNANCE STATEMENT 2022/23

The Lead Hub Committee Member introduced the report to the Committee. The Council had £8.9million in Earmarked Reserves and £1.7million in Unearmarked Reserves as of March 2023. The pension liability stood at £5.5 million, a significant reduction from the previous year's deficit of £24.2 million. The reduced liability was because of life expectancy projections and an increase in interest rates affecting the discount rates for liabilities. The accounts would not be brought back to the Audit and Governance Committee until March 2024 due to the national delays in the auditing of local government accounts. The Member thanked the finance team for their commitment in completing the audit in a timely manner.

The Section 151 Officer stated that the Council had unspent on its budget by £79,000 (which amounted to 1%). The national pay award last year of a set amount of £1,925 on all pay grading points had resulted in additional salary costs of £230,000. Shared services methodology had resulted in £86,000 being due to be paid to West Devon Borough Council from South Hams District Council, mainly due to the waste contract being brought back inhouse at the District Council. There was a shortfall in planning income, down by 39% and a discussion would be had with the Assistant Director of Planning on an action plan being put in place to address the income shortfall.

There was an overspend on software support for IT, in part due to inflation. The officer also stated that car parking income had shown a shortfall, although figures for this year were suggesting an increase.

The Council had been successful in attracting £13.4 million from the government for a new railway and transport hub in Okehampton. This would be a large capital project that would be included in the accounts of the Council over the next couple of years.

Answering Member questions, the Section 151 Officer explained that the rise in waste collection costs was due to having to enter into a new waste contract with the waste contractors, as the previous contract had been a joint one with South Hams, who had last year brought their waste services back in house. In the new contract, the rise in fuel costs and salary costs were both reflected.

Regarding the shortfall in planning income, it was explained that the number of planning applications had increased, however there was a reduction in major planning applications, and these were the ones that generated the most planning income.

The shortfall in car parking income was raised as an issue and the Section 151 Officer confirmed that a comprehensive review with traders, visitors and Members was to be carried out. The impact of the proposed introduction of on-street parking meters by Devon County Council would also be looked at during the review and Members asked that the Hub Committee take the issues raised into account.

The Section 151 Officer confirmed that a sensitivity analysis was part of the budget setting process when the Members set the budget in February 2023. It was intended that a new Medium Term Financial Strategy would be presented to the Hub Committee in September, where an updated sensitivity analysis would be included.

Regarding the leisure centres, it was confirmed that Meadowlands membership was now 3.3% higher than for figures in March 2020, with Parklands still being lower than pre-covid levels with levels down by 18% on those seen in March 2020. With regard to these figures, the Council was working in partnership with Fusion in an attempt to grow their income stream.

It was then **RESOLVED** that the Draft Statement of Accounts and the Draft Annual Governance Statement (AGS) for the financial year ended 31 March 2023 be noted.

***AC 6 REVIEW OF INTERNAL AUDIT PLAN FOR 2023-24**

The Lead Hub Committee Member introduced the report to Members. In answer to a Member question, the Audit Manager outlined that the auditors did not get involved in conversions with the leisure centres but did review how the Council managed associated risks.

It was then **RESOLVED** that the Committee reconfirm the proposed internal audit plan for 2023-24 (as set out at Appendix A of the published agenda papers).

***AC 7 ANNUAL INTERNAL AUDIT REPORT FOR 2022-23**

The Lead Hub Committee Member introduced the report to the Committee. Following which, the Head of Devon Audit Partnership wanted to put on record his thanks to the Section 151 Officer and her team for delivering the work and producing the report. The Director of Strategy and Governance confirmed that corporate focus was placed on areas that were concluded to have 'limited assurance' as a priority area and these were reported back to the Committee.

The Lead Member reiterated the fact that, during the covid period, staff across the organisation were redeployed to process covid business grants, and other areas involved in dealing with the pandemic giving added pressure to the workforce. He asked that this was considered when looking at the delay in progressing some of the recommendations.

It was then **RESOLVED** that the Committee note the Internal Audit Report for 2022-23 and consider it when reviewing the Annual Governance Statement.

***AC 8 STRATEGIC RISK UPDATE – JUNE 2023**

The Lead Member for the Hub Committee introduced the report to Members.

Having been requested, the lead officer confirmed that more detail on mitigating actions would be included in future strategic risk reports.

It was then **RESOLVED** that the Committee:

1. has considered the current strategic risk register; and
2. notes the intention for the strategic risk profile of the Council, and our adopted Risk and Opportunity Management framework to be updated alongside the development of the new Corporate Strategy.

***AC 9 INDEPENDENT MEMBER(S) OF THE AUDIT AND GOVERNANCE COMMITTEE**

In introducing the report, the lead Hub Committee Member confirmed that the independent Members who were to sit on the Committee would not have voting rights. A remuneration amount would have to be agreed amongst Devon local authorities and, in consultation with, the Council's Independent Remuneration Panel.

It was confirmed that the S151 Officer would work with the Devon Audit Partnership to appoint two independent members to the Audit and Governance Committee.

It was then **RESOLVED** that:

1. The Section 151 Officer be asked to work with the Devon Audit Partnership in progressing the appointment of up to two Independent Members to the Audit and Governance Committee as soon as is reasonably practicable during 2023/24;
2. Consideration be given to joint appointments of independent persons to more than one Devon Local Authority Audit Committee (through a joint exercise with neighbouring Local Authorities in Devon, co-ordinated through the Devon Audit Partnership);
3. Devon Local Authority partners consider setting a consistent remuneration value, to avoid competing with one another in what may be a limited pool of candidates.
4. It be noted that Independent Members would not have voting rights on the Audit and Governance Committee.
5. The S151 Officer present a report to Full Council following the conclusion of the recruitment exercise, to formally appoint the successful co-opted Independent Members to the Audit and Governance Committee.

***AC 10**

PROPOSED AUDIT COMMITTEE WORKPLAN 2023/24

The Committee was informed that a report on tracking the recommendations generated by internal audit would be added as an item to the workplan for the Audit and Governance Committee meeting to be held on 5 December. In addition, a further report on the risk around staffing resources would be brought to that Committee meeting for its consideration.

(The Meeting terminated at 12.35 pm)

Chairman

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West Devon Borough Council Audit Progress Report and Sector Update

September 2023



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

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Introduction

Your key Grant Thornton team members are:

Jackson Murray

Key Audit Partner

E Jackson.Murray@uk.gt.com

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at September 2023

Financial Statements Audit

We notified the March 2023 Audit and Governance Committee that the 2022/23 financial statement audit for the Council would be delayed due to a shortage of Grant Thornton audit staff, meaning that the audit opinion would not be available by the 30 September 2023 publication date for audited accounts. The Council will be required to publish an audit delay notice on its website on or before 30 September 2023.

The draft West Devon Borough Council Statement of Accounts for 2022/23 was published on 30 June 2023, a month after the Government's statutory deadline of publishing draft accounts by 31 May 2023. The Council published a notice on its website stating that this was mainly due to the demand on staff time resolving complex technical matters such as the impact of the triennial pension valuation data on IAS19 Employee Benefits (pensions accounting), which had a material impact on the accounts.

Since we last reported, colleagues have begun some high-level work on the draft financial statements and management have responded to our requests for working papers and other supporting information, making this available to us on our document-sharing software. We have also discussed with management the timing for our detailed audit work. We propose to begin our audit work in November 2023, running through to January 2024. We recognise that the finance team have a number of other priorities, and that from January 2024 a number of our key contacts will be focussed on budget preparation. We are agreeing a priority order for our audit work which ensures that finance staff with significant budget setting responsibilities can focus on this in January 2024.

Value for Money

Our detailed work on the Council's arrangements for the 2021/22 and 2022/23 financial years is largely complete and we intend to present our joint Auditor's Annual Report (covering both financial years) to the December 2023 Committee. We have not identified any significant weaknesses in the Council's arrangements from the work that we have completed.

Proposals to help address Local Authority audit delays

In July 2023 a letter was circulated to Local Authority Chief Executives and Chief Financial Officers in England, and Local Audit Firm Partners, setting out work undertaken by DLUHC and Financial Reporting Council colleagues to address the significant backlog in audits.

The letter noted that at the time of writing, just 27% of audits of the 2021/22 financial year had been completed across Local Government. The 2021/22 audit of South Hams District Council was concluded in March 2023, and so is included within the 27% and at the time of this report, are up to date.

The letter sets out a summary of proposals. These would require legislation, and the letter notes that it is hoped arrangements would be in place to allow implementation from December 2023. The proposals include:

Page 11 Introduction of statutory deadlines for accounts and audits, dating back to 2015/16 (“backstop”)

This would require auditors, where accounts and / or audits are not available or complete, to issue qualified opinions by set deadlines. Whilst the dates have not been confirmed, we do not anticipate this being a requirement for South Hams District Council given that we are currently up to date for audit years up to and including 2021/22.

Changes to NAO Code of Audit Practice

Consideration is being made to the level of audit work required on certain balances – namely the net defined benefit pension liability and non-investment property and land assets. Should these changes be made, it is expected to reduce the level of audit work required on these balances. Your financial statements would still need to comply with the CIPFA Code for reporting these balances. Should any changes come into force before the date of our audit opinions, we will consider if a reduction in the level and/or scope of our work would be appropriate for the 2022/23 financial year.



Department for Levelling Up,
Housing & Communities



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Agenda Item 6

Report to: **Audit and Governance Committee**

Date: **10th October 2023**

Title: **Update on the 2023-24 Internal Audit Plan, and Charter and Strategy**

Portfolio Area: **Cllr Chris Edmonds – Resources**

Wards Affected: **All**

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

Author: **Paul Middlemass** Role: **Audit Manager**

Contact: Paul.Middlemass@devon.gov.uk **07736 155687**
Tony.d.Rose@devon.gov.uk **01392 383000**

Recommendations:

Progress made against the 2023/24 internal audit plan, and any key issues arising are noted and approved.

Approve the Internal Audit Charter and Strategy.

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, and to obtain approval for the Audit Charter and Strategy.

2. Background

The Audit and Governance Committee, under its Terms of Reference contained in West Devon Borough Council's Constitution, is required to monitor, and review the internal audit programme and findings, and the associated progress and performance of Internal Audit. As part of that role, it is required to approve the Internal Audit Charter and Strategy.

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 purpose and role of Internal Audit, and of the related Council responsibilities is also contained in the Internal Audit Charter and Strategy.

3. Outcomes/outputs

Members will note the assurances provided on the audited areas and seek management assurance that identified weaknesses are being addressed.

The table below details the assurances we have provided to date this year:

Audit	Business Area	Assurance provided
Energy Bill Support Scheme	Strategic Finance	Substantial Assurance
Insurance	Strategy and Governance	Reasonable Assurance
Food Safety	Place and Enterprise	Reasonable Assurance
Council Tax Rebate Checks	Strategic Finance	Reasonable Assurance
Project Management	Strategy and Governance	Reasonable Assurance
Travel and Subsistence	Strategy and Governance	Reasonable Assurance
Counter Fraud Resilience and Assessment Report	Strategy and Governance	NA
Devon Building Control Partnership	NA	Reasonable Assurance

4. Options available and consideration of risk

No alternative operation has been considered as the function of internal audit is a requirement of Corporate Governance.

5. Proposed Way Forward

That Audit and Governance Committee approves the Internal Audit Charter and Strategy and notes the results of Internal Audit work undertaken since the last meeting.

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	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.

Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Supporting Corporate Strategy	Y	This Progress Report and the work of Internal Audit supports all the Council's corporate strategy themes.
Climate Change – Carbon / Biodiversity Impact	Y	None directly arising from this report. The Internal Audit function, managed by Devon Audit Partnership is 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 support the audit process, although it is inevitable that on-site verification may be required at times. The team use an audit management system (Ideagen) 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

Attachments:

- A – Internal Audit Progress Report
- B- The Internal Audit Charter and Strategy

Background Papers:

Internal Audit Plan 2023/24 as approved by Audit and Governance Committee.

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

Internal Audit Progress Report 2023-24

West Devon Audit & Governance Committee

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10th October 2023

Tony Rose
Head of Audit Partnership

Paul Middlemass
Audit Manager



Auditing for achievement

Introduction

The Audit and Governance Committee, under its Terms of Reference contained in West Devon Borough Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

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

The Internal Audit plan for 2023-24 was presented and approved by the Audit and Governance Committee in March and July 2023. The following report and appendices set out the background to audit service provision and provides a position statement on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report contributes to that annual opinion.

Expectations of the Audit and Governance Committee from this progress report

Audit Committee members are requested to consider:

- the assurance statement within this report.
- the basis of our opinion and the completion of audit work against the plan.
- the revised audit plan provided.
- audit coverage and findings provided.
- the overall performance and customer satisfaction on audit delivery.

In review of the above the Audit and Governance Committee are required to consider the assurance provided alongside that of the Hub Committee, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework and satisfy themselves from this assurance that the internal control framework continues to be maintained.

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Audit Coverage &
Progress Against Plan

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1 – Summary of Audit
Results

2 – Audit Plan Progress

Opinion Statement

Overall, based on work performed during 2022/23 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

This opinion statement will support Members in their consideration for signing the Annual Governance Statement.

Internal Audit assesses whether key, and other, controls are operating satisfactorily within audit reviews. An opinion on the adequacy of controls is provided to management as part of each audit report.

All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified.

Implementation of action plans is the responsibility of management but may be reviewed during subsequent audits or as part of a follow-up process.

Directors and Senior Management are provided with details of Internal Audit's opinion for each audit review to assist them with compilation of their individual annual governance assurance statements at year end.

Executive Summary of Audit Results

Key Financial Systems

We undertook two audits related to grants issued to the council: the Energy Bill Support Scheme, and the Council Tax Rebate Checks. We confirmed that the councils administered the grants in accordance with the scheme guidance.

Risk Based Audits

We provided Reasonable Assurance opinions on four other areas (Insurance, Food Safety, Project Management and Travel and Subsistence). We confirmed that plans exist to address our concerns in the Food Safety audit to ensure the inspection regime meets the Food Law Code of Practice.

We also report that we audited the Devon Building Control Partnership, which supports Teignbridge, South Hams, and West Devon councils, and gave a Reasonable Assurance. This audit was agreed as part of the Teignbridge audit plan, as it hosts the partnership.

Appendix 1 of this report provides more detail on the audits delivered since the last Committee meeting with the overall assurance opinion and recommendations. Where a "substantial assurance" or "reasonable assurance" of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of "limited assurance" has been provided then issues were identified during the audit process that required attention. We have provided a summary of key issues reported that are being addressed by management. We are content that management are appropriately addressing these issues.

Substantial Assurance	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Reasonable Assurance	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.
Limited Assurance	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.
No Assurance	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.

Counter Fraud Work

Recent assessments state that there is an epidemic of fraud cases. Fraud now account for 40% of all crimes; it is anticipated that this will further increase by 25% in the coming years ([see Fraud and the Justice System](#)). The government has responded with formation of the Public Sector Fraud Authority. Given this landscape, it is important for councils to have effective measures to reduce the risk and impact of fraud.

We have provided a Counter Fraud Resilience and Assessment report and helped update the Anti-Fraud, Bribery and Corruption Policy, Response Plans, and Whistleblowing Policy. These will be discussed at the December 2023 Audit and Governance Committee.

We are not aware of any reported fraud issues in the year to date. Management is aware that suspected issues can be referred to our specialist counter fraud team.

The council has agreed to support a review of Single Person Discounts for Council Tax, which is being undertaken by Liberata and paid for by Devon County Council as a spend to save measure.

Internal Audit Recommendation Tracking

We previously reported that officers are working to assess the status of the recommendations made since April 2020.

A report on the status of recommendations from the Assistant Director Strategy and Organisational Development is on this agenda.

In addition to monitoring by the council's Performance Board, we will review closure of High priority recommendations. We will also review implementation of all recommendations while undertaking future audits in the area concerned.

Value Added

It is important that the internal audit service seeks to "add value" whenever it can. We consider internal audit activity has added value to the organisation and its stakeholders by:

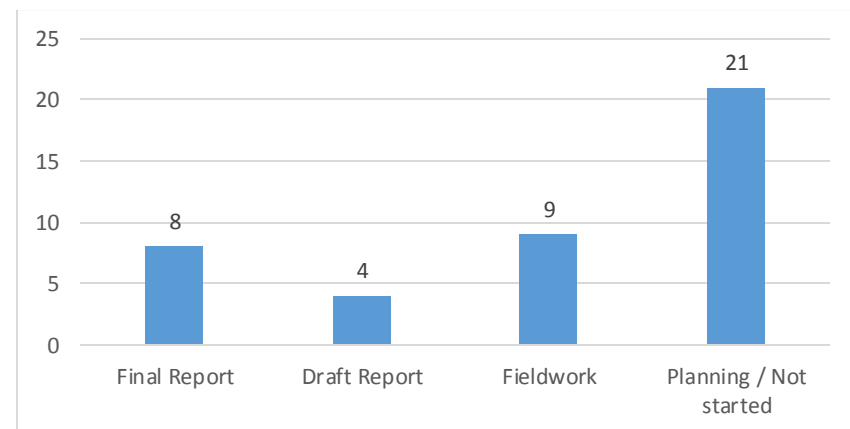
- Providing objective and relevant assurance.
- Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.
- Adjusting the audit plan when needed to provide real time assurance.
- Comparing and contrasting controls across the different Devon Councils that we support.

Audit Coverage and Performance Against Plan

Appendix 2 provides detail on delivery of the audit plan. Since the start of the plan several reviews of grants have been undertaken at client request which has taken resource away from the original plan, and some audits have been paused while management undertake reviews. That said, we are making reasonable progress to deliver the plan.

The chart below shows the status of audits at each stage.

Chart: Delivery of the 2023-24 audit plan



Customer Satisfaction

For every audit we ask the client to complete a customer satisfaction form. We have had the following returned to us recently.

Audit	Overall Score
Procurement	Excellent
Health and Wellbeing	Excellent
Pay	Excellent
Regeneration and Investment	Excellent
Council Tax Rebate Checks	Excellent

DAP Member event – 16 Nov 23

DAP is sponsoring a free half day event for Audit Committee members on 16 Nov 23. This will be a morning session at Buckfast Abbey, with a buffet lunch. We have provided the flyer for the event to member services, for issue to members.

Appendix 1 – Summary of audit reports and findings

Audit / Assurance Opinion	Summary, risk exposure and management actions
<p>Energy Bill Support Scheme</p> <p>Substantial Assurance</p>	<p>The Councils operated and administered the scheme within the guidance provided by BEIS. The portal went live to applicants on 06 March 2023 with applications closing on 31 May 2023 and the Council completing final payments by 30 June 2023. Total payments made by the councils comprise £286,200 (SHAMS £139,200 for 494 Households; WD £147,000 for 520 Households). The Councils were able to process all applications received by the required payment date. The scheme has been extended by BEIS several times and the current final payment date is 1 September 2023. This is to enable process of applications that have already been received by BEIS that may not have been correctly processed. At the time of the report the Councils have not received or processed any late applications past 31 July 2023. Our review is based on the current live scheme processes and has not been to determine the final scheme closure or reconciliation.</p> <p>We tested 14 applications across the two authorities from both schemes, including unverified bank accounts, cancelled, and rejected applications. We confirmed procedures were followed by officers operating the scheme and that checks were operating effectively. We identified a couple of areas where officers were aware of issues and are taking remediation work forward. Given these are being addressed we have not made recommendations.</p> <p>There were no recommendations.</p>
<p>Council Tax Rebate Checks (£150 CT rebate)</p> <p>Reasonable Assurance</p>	<p>The Councils operated and administered the scheme within the guidance provided by the DLUHC for the scheme period April to November 2022. They were able to distribute 98% of the funding provided to its eligible households, roughly 50% by the end of April and 88% by the end of July 2022. We confirm procedures were followed by officers operating the scheme. We have identified process improvements for consideration for the current and future schemes.</p> <p>We have identified as a high risk that Spotlight checks, as stipulated by the DLUHC guidance, have not been completed for discretionary payments where current bank details were not already held. Going forward, Spotlight checks will be completed post payment for additional assurance.</p> <p>For discretionary scheme applications it was not always possible to clearly determine the reason for approval as determination, in line with the scheme policy, was not always included on the application notes. This confirmation of compliance to the scheme may be required for any future award confirmation by DLUHC.</p>

The system identified that two applications were received for the same household and that two £150 discretionary payments were made to the same person. No action has yet been taken to recover this overpayment.

We also identify process improvements for this and future schemes in:

- Completing a risk assessment and or pre/post-payment assurance plan at the start of the project and updating this as the scheme progresses.
- Retaining documentation during the process such as process notes and system change records, publicity, social media, website information and application forms that are more difficult to evidence when the scheme has closed but might be required in post assurance testing.

We agreed one High, one Medium and five Low priority recommendations.

The High recommendation related to undertaking Spotlight checks before payment where applicable – this is being done.

Insurance Reasonable Assurance

The Councils have insurance policies expected as standard which provide appropriate cover for all activities and risks except cyber-attack. For the year 2023, SHDC paid £626k in insurance premiums and WDBC £105k and the excess value varying from £100 to £5k. The method of recording claims prior to October 2022 has meant that the cost of the premiums against the value of claims settled cannot be compared. This would help assess if value for money was being obtained from the insurance held.

Between 2019 and 2022, SHDC received between thirty and fifty claims annually but in 2023 has received fifty in the first five months; half were attributable to the Waste service. WDBC received eleven claims in 2019, reducing to around five per year from 2020 to 2022 and one in the first five months of 2023. Review of claims indicate there is a process to promptly consider whether they are merited and to pay or challenge them. Working practice is to settle any agreed claims valued at less than £1k despite the Excess value set.

The Councils do not have a strategy governing their approach to insurance cover, nor is it informed by analysis of claims. Spreadsheet records maintained by officers previously responsible for administering insurance claims do not include the value of claims settled or which services gave rise to the claims. Officers have not used the data to highlight areas where there are large numbers of insurance claims. Work is now underway to analyse the data and use it to identify staff training needs and procedures to be changed to reduce incidents.

In relation to Cyber Security, we have previously identified the council have good prevention and recovery controls. It has not procured Cyber Insurance. The insurance is expensive and difficult to secure but would help mitigate the financial impact of a cyber-incident. The costs and benefits of this insurance should be considered.

We agreed two Medium and five Low priority recommendations.

Food Safety

Reasonable Assurance

There was a good system of governance, risk management and control, supported by comprehensive policies and procedures to manage and deliver the Food Safety service. However, this is undermined by limited staffing levels and significant issues with the software to administer the service. These have contributed to an inability to meet the requirements of the FSA Covid Recovery Plan and the Food Law Code of Practice (England) 2021.

Following the end of Covid-19 measures, the FSA issued a Recovery Plan to move to a normal inspection regime between July 2021 and March 2023. SHDC and WDBC were not able to fully meet this plan, in part due to the failure of contractors brought in to assist. For 2022/23 out of all Recovery Plan inspections of rated food businesses, 46% were completed for SHDC and 51% for WDBC. This has resulted in a significant backlog of 425 unrated premises to be inspected, 18% of the total food businesses across the two authorities. From April 2023 the required inspection frequency has returned to that detailed in the Food Law Code of Practice (England) 2021.

Management has highlighted that the FSA, as the regulating body, has been informed of the issues and their plans to address them, and has not highlighted it as a significant issue. Officers continue to challenge delivery methods, to seek further efficiencies and to address the software issues. To allow service delivery levels to be met by the end of 2024/25 actions are being taken on recruitment and staff training. It was also noted that inspections of high-risk food premises are prioritised, allowing these to be completed on time. However, there remains risk that these actions may not be delivered. Appropriate reporting to members should be introduced to ensure they are aware of the risks and progress made to meet legal requirements.

The team administers registration documents for the movement of shellfish from production areas and issue food export certificates, principally for the South Hams shellfish industry. Due to post Brexit regulations, work for the shellfish industry has increased significantly, with no additional staff resource, although the council should seek to recover costs. While it is not a statutory requirement to provide this export certificate service and it places significant burden on the team, it is considered important to support local business.

We agreed two High, two Medium and three Low priority recommendations.

The two High recommendations related to:

1. Ensure effective steps are taken to increase staff resource to meet legal requirements.
2. Improve the accuracy of the register of Food Businesses.

Project Management

Reasonable Assurance

The formal project management framework is used effectively to deliver the larger council projects. We reviewed three major Council projects: the time critical waste contract moving back in-house; Batson Development part of the capital plan; and the planning project requiring IT support and involvement and part of the Future IT (FIT) plan. In these we found good adherence to project management principles.

We note that the waste project was able to deliver the cessation of part of the waste contract and moving this

and related services back in house within the planned timescales and budgets and met the objectives of the project plan. The Batson Development had issues related to the contractor to deliver the final project but again project planning and management of processes mitigated most issues and delivered the planned outcomes. The planning system is currently progressing to the testing phase and has developed SharePoint Teams software to enable assigning of tasks, tracking progress, and storing of records.

However, work is needed to consider an appropriate and consistent approach to managing smaller projects. Smaller projects although subject to reviews by project boards or line management, are not consistently overseen by trained Project Managers. Project officers were not fully aware of, or used, the Councils Project Process or Toolkit and issues and lessons learnt, as part of a formalised end of project, are not gathered to improve and contribute to the planning process for future projects.

The councils centrally manage its key projects with other projects managed at Service level. A Project Register to record all Council projects is to be created. This would be beneficial, and we suggest this should also record key project performance information like timeliness, budgeting, and effectiveness. This should also consider the centralised recording of project approvals, records, and the wider use of standard project templates.

The waste project was an uncommon and unplanned exceptional project that had to be undertaken in a relatively short timeframe and will have identified issues related to the cessation of a significant agreement mid contract. An advantage of this is that the closedown of this project stage will provide insights into the complexities of undertaking this project which should be considered in producing a business continuity plan for the waste service and applied to other contracts and projects, such as the Leisure Contract.

We agreed three Medium and six Low priority recommendations.

Travel and Subsistence Reasonable Assurance

The Travel and Subsistence Policy outlines the circumstances in which employees may claim for expenses. The Policy is now being updated to reflect changes to the system, business arrangements and corporate objectives. This will align the policy to Financial Procedure Rules and working practice. Our audit has also informed the review including management approval of travel claims, and reminders to staff to deduct travel to work mileage, and holding current driving licence, insurance, and MoT.

The new i-Trent system has simplified the claim process for officers, and reduced Payroll team processing work. Claims are submitted and paid promptly and are coded accurately within the ledgers. While the system has resulted in efficiencies, there have been recent instances of duplicate claim payments through i-Trent which are being investigated. There is also potential to make better use of system reporting to help monitor claims.

Officers currently self-certify their claims. This is significantly at variance to public sector practice and increases the risk of fraud and error. Receipts are often not submitted with claims; without checks to identify such instances expenses are reimbursed in full without deduction of tax, as required by HMRC rules. The Councils do not recover VAT from HMRC, this being dependent on ensuring receipts are provided with all claims. 10% of claims are checked by the payroll team, however their knowledge of the journey need is limited. We identified

	<p>claims which were not within the scope of the Policy, although we do not consider them fraudulent. In relation to VAT, there is no process for the councils to recover VAT incurred on travel and subsistence payments.</p> <p>Detailed examination of claims highlighted some deviations from the Travel and Subsistence Policy. Not all claims deducted home-to-work mileage for journeys starting or finishing at home. This may be a genuine error as the practice was suspended during the Covid pandemic and its re-introduction in May 2022 was only notified in a single e-newsletter. Other errors were also noted but the complexity of the Policy may contribute to these. This complexity has arisen from efforts to ensure fairness to all officers and to operate across two headquarters.</p> <p>The Payroll team recently became aware the system is paying occasional historic claims a second time. This is believed to have only affected a handful of staff and has been logged with the software supplier for resolution.</p> <p>The induction process for new staff includes a check of their driving licence, MOT, and insurance, which should include “business use”. However, no further checks are made. Reliance is placed on the certification statement within the travel and subsistence claim form. Staff are not required to confirm they acknowledge and agree the certification, nor does it refer to the need for “business use car insurance”, only “car insurance”. This may result in staff using their own vehicles without appropriate insurance or tax.</p> <p>We agreed six Medium and six Low priority recommendations.</p>
<p>Devon Building Control Partnership</p> <p>Good (equates to a Reasonable Assurance)</p>	<p>The management of the DBCP is very experienced and the team are providing the statutory service to a high standard. Our ‘Good’ level of assurance is mainly due to factors outside of Building Control as they are reliant on IT services provided by Teignbridge which have weaknesses. We would consider an ‘Excellent’ opinion if these were not included.</p> <p>Board meetings are held regularly and documented on the TDC website (albeit the March 2023 meeting minutes have not yet been published). Meetings have been well supported in the past and appropriate DBCP plans and reports, and other relevant documents are shared with committee members. New members will be appointed to the committee following the elections.</p> <p>Operations are undertaken in accordance with current legislation and the Head of Service has close links with the Local Authority Building Control (LABC) service as the South West Chair. There are changes to the way surveyors are regulated coming into effect in 2024, and the team are undertaking the necessary qualifications in Q4 2023 including Level 6 qualifications required for Fire Safety. There is currently a review of the Partnership Agreement being done to ensure that it encompasses the appropriate wording to protect itself from potential future changes in non-fee work for large or ‘relevant buildings’ which may otherwise adversely impact DBCP.</p> <p>Performance monitoring is excellent with an impressive central dashboard which we consider a major asset to the operation and the standard other authorities should aspire to. We examined various performance measures which were all being met. Workloads are high across the team, and there is risk related to the impact of staff</p>

departure or sickness. We are told that some work e.g., plan checking can be outsourced if required, however this will impact profitability.

The financial position of the partnership has faced challenges in the last three years due to unexpected (inherited) pension costs necessitating use of the Building Control partnership reserves. However, an increase in reserves to £150k has been approved which should make it more robust. With interest rates rising and a cost-of-living crisis it is conceivable that a downturn in the housing market is a potential future threat. A pricing review led to an average 14% increase in fees across all lines in May 2023 to maintain a zero impact in-year. Budget monitoring is thorough with monthly meetings between accountants and Head of Service. For 2022-23 there was a surplus of £53.6k.

Market share remains strong at c.85% and the team work hard to sustain and develop their reputation and network of contacts in the professional community. This leads to significant new and repeat business. Maintaining the current staffing levels is also a challenge for the partnership. An experienced, mature team with several staff approaching retirement age raises concerns about future planning and sustainability, particularly when recruiting is difficult in this specialist sector. Training and retention will require careful management, even with the external funding secured from the LABC for two new apprentices.

Due to the databases of the three districts being combined there are legacy data protection concerns relating to the data being held by the DBCP. A software cleanse is being progressed via Strata; however, this will take time to complete.

We also highlight our concerns around the security of accepting telephone card payments. This is an out-of-date process, which is not compliant with the Payment Service Directive (part 2). A solution is likely to be provided by the external payment provider Adelante at a future date (currently unknown). The processes are otherwise robust with payments for the Building Control service being received in advance of work commencing. This has also raised the question of whether staff who handle sensitive card / payment / personal data should have any vetting prior to employment e.g., Disclosure Barring Service checks.

There are very low levels of complaints recorded. Feedback from customers is sought via email, and whenever this highlights concerns, customers are contacted to discuss and resolve. However, DBCP does not have a 'how to complain' link on its website, though feedback is clear and easy to provide using the 'Customer Feedback' link. Complaints are expected to be routed through the customers own council website and follow their procedure, but this is not possible as none of the three authorities have a category for Building Control in their online complaints process.

We agreed four Medium and one Low priority recommendation.

Appendix 2 – Progress to deliver the audit plan.

Audit	Business Area	Assurance Opinion	Comments
Final Report issued / Work Completed			
Energy Bill Support Scheme	Strategic Finance	Substantial Assurance	
Insurance	Strategy and Governance	Reasonable Assurance	
Food Safety	Place and Enterprise	Reasonable Assurance	
Council Tax Rebate Checks	Strategic Finance	Reasonable Assurance	
Project Management	Strategy and Governance	Reasonable Assurance	
Travel and Subsistence	Strategy and Governance	Reasonable Assurance	
Counter Fraud Resilience and Assessment Report	Strategy and Governance	NA	Provided as separate report in December 2023 meeting.
Devon Building Control Partnership	NA	Reasonable Assurance	Organisation hosted by Teignbridge but provided as a partnership for South Hams, West Devon, and Teignbridge.

Audit	Business Area	Comments
Draft Report		
Electoral Registration	Strategy and Governance	
Main Accounting System	Strategic Finance	
Creditors	Strategic Finance	
Comments and Complaints	Customer Services and Delivery	
Fieldwork		
Social Networking, Communications and Media	Strategy and Governance	We have provided an initial summary report to officers to inform development work. We will provide a formal audit report in Quarter 4.
Recruitment	Strategy and Governance	We have provided an initial summary to officers to inform development work. We will provide a formal audit report in Quarter 4
Housing	Place and Enterprise	
Homelessness	Place and Enterprise	
Main Accounting System	Strategic Finance	
Creditors	Strategic Finance	
Building Maintenance and Works – Follow Up	Customer Services and Delivery	We are holding monthly meetings with officers to discuss their work to improve controls and implement our recommendations. A formal audit report will be provided in Quarter 4.
Safeguarding	Strategy and Governance	
Members Allowances	Strategy and Governance	

Audit	Business Area	Comments
Planning / Not Yet Started		
Business Rates	Customer Services and Delivery	Follow up of Limited Assurance report
Council Tax	Customer Services and Delivery	Follow up of Limited Assurance report
ICT / Cyber Security	Customer Services and Delivery	
Housing Benefits	Customer Services and Delivery	
Household Waste and Recycling	Customer Services and Delivery	
Contract Management: Waste and Recycling	Customer Services and Delivery	
Car Parking	Customer Services and Delivery	
Corporate Governance	Strategy and Governance	
Performance Management including KPIs and Data Quality – Follow Up	Strategy and Governance	Follow up of Limited Assurance report
Culture and Ethics	Strategy and Governance	
Health and Safety	Strategy and Governance	
Planning - Development Management	Strategy and Governance	
Debtors	Strategic Finance	
Environmental Services (Health and Safety)	Place and Enterprise	
UK Shared Prosperity Fund	Strategic Finance	
Treasury Management	Strategic Finance	
Commercial Properties and Rents Follow Up	Place and Enterprise	Follow up of Limited Assurance report

Salcombe Harbour	Place and Enterprise	
Grounds Maintenance	Customer Services and Delivery	
Procurement	Strategy and Governance	Follow up of Limited Assurance report
Depot and Stores Control	Customer Services and Delivery	

INTERNAL AUDIT CHARTER AND STRATEGY WEST DEVON BOROUGH COUNCIL (October 2023)



REFERRAL TO WEST DEVON AUDIT COMMITTEE OCTOBER 2023

This Internal Audit Charter and Strategy is referred to the Audit Committee for approval.

MISSION

The Mission of Devon Audit Partnership is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight across its partners.

TERMS OF REFERENCE

This document details the **Internal Audit Charter** and **Internal Audit Strategy** for West Devon as required by the Public Sector Internal Audit Standards (PSIAS). The Audit Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the [Devon Audit Partnership \(DAP\)](#), and the scope of Internal Audit work. This Charter complies with the mandatory requirements of the PSIAS. The accompanying Audit Strategy is designed to deliver the requirements outlined in the Charter.

DEFINITIONS

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. The PSIAS set out the requirements of a ‘Board’ and of ‘Senior Management’. For the purposes of the internal audit activity within The Council the role of the Board within the Standards is taken by the Council’s Audit Committee and Senior Management is the Council’s Leadership Team. They also make reference to the role of “Chief Audit Executive”. For The Council this role is fulfilled by the Head of Devon Audit Partnership (HoDAP).

INDEX TO SECTIONS OF THE CHARTER AND STRATEGY

Charter

1. Statutory Requirements and Purpose of Internal Audit
2. Professionalism, Ethics and Independence
3. Authority
4. Accountability
5. Responsibilities
6. Management
7. Internal Audit Plan and Resources
8. Internal Audit Reporting
9. Relationship with the Audit Committee and Non Conformance to the Charter
10. Quality Assurance and Improvement Programme

Strategy

- Audit Strategy - Purpose
- Annual Audit Opinion
- Audit Planning & Delivery
- Performance Management & Quality Assurance
- Resources and skills
- Staff Development and use of MKI

CHARTER - STATUTORY REQUIREMENTS AND PURPOSE OF INTERNAL AUDIT

Statutory Requirements

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

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

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer responsible for the proper administration of its financial affairs. In The Council, the Director of Strategic Finance is the 'Section 151 Officer'. One way in which this duty is discharged is by maintaining an adequate and effective internal audit service.

The Purpose and Aim of Internal Audit

The role of Internal Audit is to understand the key risks of the Council, to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation, and contribute to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- Support the Section 151 Officer to discharge his / her statutory duties
- Contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems
- Support the corporate efficiency and resource management processes by conducting value for money and efficiency studies and supporting the work of corporate working groups as appropriate
- Provide a quality fraud investigation service which safeguards public monies.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Internal Audit for The Council is provided by Devon Audit Partnership. We aim to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of The Council, adding value whenever possible.

CHARTER - PROFESSIONALISM, ETHICS AND INDEPENDENCE

Being Professional

Devon Audit Partnership will adhere to the relevant codes and guidance. In particular, we adhere to the Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to The Council's relevant policies and procedures and the internal audit manual. Internal Auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not, however, imply infallibility.

Our Ethics

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by IIA. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing.
2. Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services. The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

CHARTER - PROFESSIONALISM, ETHICS AND INDEPENDENCE (Continued)

Being Independent

Internal Audit should be independent of the activities that it audits. The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

The Head of Devon Audit Partnership should have direct access to and freedom to report in his or her own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit Committee). In the event of the necessity arising, the facility also exists for Internal Audit to have direct access to the Chief Executive, the S.151 Officer and the Chair of the Audit Committee.

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence.

The Head of Devon Audit Partnership should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

Auditors should be mindful of being independent, and must:

- Have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- Notwithstanding employment by the Partnership / Council, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;
- Be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- Not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.



CHARTER - AUTHORITY

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2015 section 5(2-3) that state that: Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit:

- (a) make available such documents and records; and
- (b) supply such information and explanations; as are considered necessary by those conducting the internal audit.
- (3) in this regulation “documents and records” includes information recorded in an electronic form.

In addition, Internal Audit, through the HoDAP, where deemed necessary, will have unrestricted access to:

- The Chief Executive
- Members
- individual Directors
- Section 151 Officer
- Monitoring Officer
- All authority employees
- All authority premises.

CHARTER - ACCOUNTABILITY

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each founding partner. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. DAP operates within a framework that allows:

- Unrestricted access to senior management and members;
- Reporting in its own name;
- and Separation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit members of audit staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

The HoDAP fulfils the role of Chief Audit Executive at the Authority and will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity. The Section 151 Officer will liaise with the HoDAP and is therefore responsible for monitoring performance and ensuring independence.

The HoDAP reports functionally to the Audit Committee on items such as:

- Approving the internal audit charter;
- Approving the risk based internal audit plan and resources;
- Receiving reports from the Head of Devon Audit Partnership on the section's performance against the plan and other matters;
- Approving the Head of Devon Audit Partnership's annual report'
- Approve the review of the effectiveness of the system of internal audit.

The HoDAP has direct access to the Audit Committee, and has the opportunity to meet privately with the Audit Committee.

CHARTER - RESPONSIBILITIES

The Chief Executive, Directors and other senior officers are responsible for ensuring internal control arrangements are sufficient to address the risks facing their services. The HoDAP will provide assurance to the Section 151 Officer regarding the adequacy and effectiveness of the Council's financial framework, helping meet obligations under the LGA 1972 Section 151.

The HoDAP will provide assurance to the Monitoring Officer in relation to the adequacy and effectiveness of the systems of governance within the Council helping him/her meet his/her obligations under the Local Government and Housing Act 1989 and the Council's Constitution. The HoDAP will also work with the Monitoring Officer to ensure the effective implementation of the Council's Whistleblowing Policy.

Internal Audit responsibilities include:

- Examining and evaluating the soundness, adequacy and application of the systems of internal control, risk management and corporate governance arrangements.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with policies, plans, procedures and regulations which could have a significant impact on operations.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management.
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money studies.
- Working in partnership with other bodies to secure robust internal controls that protect the Council's interests.
- Advising on internal control implications of new systems.
- Providing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
- Reporting significant risk exposures and control issues identified to Audit Committee and to senior management, including fraud risks, governance issues.

CHARTER - MANAGEMENT

The PSIAS describe the requirement for the management of the internal audit function. This sets out various criteria that the HoDAP (as Chief Audit Executive) must meet, and includes:

- Be appropriately qualified;
- Determine the priorities of, deliver and manage the internal audit service through a risk based annual audit plan;
- Regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- Include in the plan the approach to using other sources of assurance if appropriate;
- Be accountable, report and build a relationship with the Council's Audit Committee and S.151 Officer; and
- Monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

These criteria are brought together in an Audit Strategy which explains how the service will be delivered and reflect the resources and skills required.

The HoDAP is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The HoDAP should also have the opportunity for free and unfettered access to the Chief Executive and meet periodically with the Monitoring Officer and S.151 Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

CHARTER - INTERNAL AUDIT PLAN AND RESOURCES

At least annually, the HoDAP will submit to Audit Committee a risk-based internal audit plan for review and approval. The HoDAP will:

- Develop the annual plan through discussions with senior management based on an understanding of the significant risks of the organisation;
- Submit the plan to the Audit Committee for review and agreement;
- Implement the agreed audit plan;
- Maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan and carry out continuous review of the development and training needs;
- Maintain a programme of quality assurance and a culture of continuous improvement;

The internal audit plan will include timings as well as budget and resource requirements for the next fiscal year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

Internal Audit resources must be appropriately targeted by assessing the risk, materiality and dependency of the Council's systems and processes. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

A requirement of the Council's Anti-Fraud and Corruption Strategy is that the HoDAP be notified of all suspected or detected fraud, corruption or impropriety. All reported irregularities will be investigated in line with established strategies and policies. The audit plan will include sufficient resource to undertake proactive anti-fraud work. Internal audit activities will be conducted in accordance with Council strategic objectives and established policies / procedures.

Monitoring of internal audit's processes is carried out on a continuous basis by internal audit management. Council's members and management may rely on the professional expertise of the HoDAP to provide assurance. Periodically, independent review may be carried out: for example, through peer reviews; ensuring compliance with the PSIAS is an essential approach to such a review.

CHARTER - INTERNAL AUDIT REPORTING

The primary purpose of Internal Audit reporting is to provide to management an independent and objective opinion on governance, the control environment and risk exposure and to prompt management to implement agreed actions. Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit Committee).

A written report will be prepared for every internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the overall control environment.

The aim of every Internal Audit report should be to:

- Give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment; and
- Recommend and agree actions for change leading to improvement in governance, risk management, the control environment and performance.

The Manager will be asked to respond to the report within 30 days, although this period can be extended by agreement.

The response must show what actions have been taken or are planned in relation to each risk or control weakness identified. If action is not to be taken, this must also be stated. The HoDAP is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The HoDAP will:

- Submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken;
- Submit an Annual Internal Audit Report to the Audit Committee, incorporating an opinion on the Council's control environment. This will also inform the Annual Governance Statement.

CHARTER - RELATIONSHIP WITH THE AUDIT COMMITTEE, AND NON CONFORMANCE TO THE CHARTER

The Council's Audit Committee will act as "the Board" as defined in the Public Sector Internal Audit Standards (PSIAS), The Specific Functions of the Audit Committee are set out in the Council's Constitution (Part 2 Article 9 – Audit Committee).

The HoDAP will assist the Committee in being effective and in meeting its obligations. To facilitate this, the HoDAP will:

- Attend meetings, and contribute to the agenda;
- Ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);
- report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;
- present an annual report on the effectiveness of the system of internal audit; and
- present an annual internal audit report including an overall opinion on the governance, risk and control framework

Any instances of non conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Head of Devon Audit Partnership will advise the Audit Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit Committee.

CHARTER - QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The PSIAS states that a quality assurance and improvement programme must be developed; the programme should be informed by both internal and external assessments.

An external assessment must be conducted at least once in five years by a suitably qualified, independent assessor. For DAP this was recently conducted at the end of 2021 by the Head of Southwest London Audit Partnership, and the Chief Internal Auditor of Orbis (a partnership organisation covering Brighton and Hove, East Sussex, and Surrey County Council).

The assessment result was that *“Based on the work carried out, it is our overall opinion that DAP generally conforms* with the Standards and the Code of Ethics”*.

The report noted that *“As a result of our work, a small number of areas where partial conformance was identified. These were minor observations, none of which were significant enough to affect the overall opinion”*.

DAP is actively addressing these improvement areas, which include: Develop the use of data analytics; rotate staff across clients; consider how to support the development of audit committees; consider a range of cross partner audits, and share best practice; review current arrangements for the delivery of IT audit to ensure maximum value; develop the role of Senior Auditors.

* **Generally Conforms** – This is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards

AUDIT STRATEGY - PURPOSE

The PSIAS require the HoDAP to produce an Audit Charter setting out audits purpose, authority and responsibility. We deliver this through our Audit Strategy which:

- Is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities;
- Should be approved, but not directed, by the Audit Committee.
- Will communicate the contribution that Internal Audit makes to the organisation and should include:
 - Internal audit objectives and outcomes;
 - How the HoDAP will form and evidence his opinion on the governance, risk and control framework to support the Annual Governance Statement;
 - How Internal Audit's work will identify and address significant local and national issues and risks;
 - How the service will be provided, and
 - The resources and skills required to deliver the Strategy.

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The Strategy should be kept up to date with the organisation and its changing priorities.



AUDIT STRATEGY - OPINION ON THE GOVERNANCE, RISK AND CONTROL FRAMEWORK

A key objective of Internal Audit is to communicate to management an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Significant issues and risks will be brought to the attention of the S.151 Officer as and when they arise. Regular formal meetings will be held to discuss issues arising and other matters.

The HoDAP will report progress against the annual audit plan and any emerging issues and risks to the Audit Committee. The HoDAP will also provide a written annual report to the Audit Committee, timed to support their recommendation to approve the Annual Governance Statement, to the Council.

The Head of Devon Audit Partnership's annual report to the Audit Committee will:

- Provide an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
- Draw attention to any issues the HoDAP judges particularly relevant to the preparation of the Annual Governance Statement;
- Compare audit work actually undertaken against the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and
- Comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

AUDIT STRATEGY - PLANNING & AUDIT DELIVERY

INCLUDING LOCAL AND NATIONAL ISSUES AND RISKS

The audit planning process includes the creation of and ongoing revision of an “audit universe”. This seeks to identify all risks, systems and processes that may be subject to an internal audit review.

The audit universe will include a risk assessment scoring methodology that takes account of a number of factors including: the Council’s own risk score; value of financial transactions; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. This will inform the basis of the resources allocated to each planned audit area.

The results from the audit universe will be used in creating an annual audit plan; such a plan will take account of emerging risks at both local and national level.

Assignment Planning & Delivery

Further planning and risk assessment is required at the commencement of each individual audit assignment to establish the scope of the audit and the level of testing required.

The primary objective of the audit is to provide management with an independent opinion on the risk and control framework through individual audits in the audit plan. Individual audits will be completed using our methodology in our Audit Manual to the standards set by PSIAS, to independently evaluate the effectiveness of internal controls. Our audit assignment report will communicate our opinion and include agreed management action, where required, to improve the effectiveness of risk management, control and governance processes.

AUDIT STRATEGY - PERFORMANCE MANAGEMENT & QUALITY ASSURANCE

The PSIAS state that the HoDAP should have in place an internal performance management and quality assurance framework; this framework must include:

- A comprehensive set of *targets to measure performance*. These should be regularly monitored and the progress against these targets reported appropriately.
- Seeking *user feedback* for each individual audit and periodically for the whole service.
- A periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit Committee.
- Internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self-assessment).
- An action plan to implement improvements.

The PSIAS and the Internal Audit Manual state that internal audit performance, quality and effectiveness should be assessed for each individual audit; and for the Internal Audit Service as a whole. The HoDAP will closely monitor the performance of the team to ensure agreed targets are achieved. A series of performance indicators have been developed for this purpose (please see the following pages).

Customer feedback is also used to define and refine the audit approach. Devon Audit Partnership will seek feedback from: auditees; senior leadership; and executive management. The results from our feedback will be reported to Senior Management and the Audit Committee in the half year and annual reports.

The HoDAP is expected to ensure that the performance and the effectiveness of the service improves over time, in terms of both the achievement of targets and the quality of the service provided to the user.

AUDIT STRATEGY - PERFORMANCE MANAGEMENT & QUALITY ASSURANCE (2)

Performance Indicator	Full year target
Percentage of Audit Plan completed	90%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%
Draft reports produced with target number of days (currently 15 days)	90%
Final reports produced within target number of days (currently 10 days)	90%

Task	Performance measure
Agreement of Annual audit plan	Agreed by Chief Executive, Leadership Team and Audit Committee prior to start of financial year
Agreement of assignment brief	Assignment briefs are agreed with and provided to auditee at least two weeks before planned commencement date.
Undertake audit fieldwork	Fieldwork commenced at agreed time
Verbal debrief	Confirm this took place as expected; was a useful summary of the key issues; reflects the findings in the draft report.
Draft report	Promptly issued within 15 days of finishing our fieldwork. Report is "accurate" and recommendations are both workable and useful.
Draft report meeting (if required)	Such a meeting was useful in understanding the audit issues
Annual internal audit report	Prepared promptly and ready for senior management consideration by end of May. Report accurately reflects the key issues identified during the year.
Presentation of internal audit report to Management and Audit Committee.	Presentation was clear and concise. Presented was knowledgeable in subject area and able to answer questions posed by management / members.
Contact with the audit team outside of assignment work.	You were successfully able to contact the person you needed, or our staff directed you correctly to the appropriate person. Emails, letters, telephone calls are dealt with promptly and effectively.

Internal Audit
Performance
Monitoring
Targets

Other indicators
measured as part
of the audit
process that will be
captured and
reported to senior
management



AUDIT STRATEGY - RESOURCES AND SKILLS

The PSIAS and the Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources.
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management.
- The Chief Audit Executive (Head of Devon Audit Partnership) should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

DAP currently has c.40 staff who operate from any one of our three main locations (Plymouth, Torquay and Exeter), we also operate from offices at Torrridge DC (Bideford), Mid Devon DC (Tiverton) and South Hams/West Devon Councils (Tatnes). The Partnership employs a number of specialists in areas such as Computer Audit, Contracts Audit and Counter Fraud Investigators as well as a mix of experienced, professionally qualified and non-qualified staff.

The Partnership draws on a range of skilled staff to meet the audit needs. Our current staff includes: -

- 4 x Chartered Accountants.
- 7 x qualified IIA (CMIIA and PIIA).
- 1 x qualified computer audit (QICA & CISA).
- 1 x risk management (IRM).
- 10 x AAT (qualified and part qualified).
- 6 x ACFS / ACFT (accredited counter fraud specialists).
- 5 x ILM (Institute of Leadership & Management) level 5 or above.
- 5 Apprentices (Finance, Data Analyst, IIA, Business Admin).

AUDIT STRATEGY - STAFF DEVELOPMENT AND TRAINING AND USE OF MK AUDIT

Staff Skills and Development

Devon Audit Partnership management assess the skills of staff to ensure the right people are available to undertake the work required.

Staff keep up to date with developments within internal audit by attending seminars, taking part in webinars and conferences, attending training events and keeping up to date on topics via websites and professional bodies. Learning from these events helps management to ensure they know what skills will be required of our team in the coming years, and to plan accordingly.

Devon Audit Partnership follows formal appraisal processes that identify how employees are developing and create training and development plans to address needs.

Internal Audit Software System

Devon Audit Partnership uses Ideagen as an audit management system. This system allows Partnership management to effectively plan, deliver and report audit work in a consistent and efficient manner. The system provides a secure working platform and ensures confidentiality of data. The system promotes mobile working, allowing the team to work effectively at client locations or at remote locations should the need arise.

Report to: **Audit and Governance Committee**

Date: **10 October 2023**

Title: **Internal Audit Recommendations Tracker**

Portfolio Area: **Councillor Chris Edmonds**
Lead Member Resources

Wards Affected: **All**

Author: **Drew Powell** Role: **Director Strategy and Governance**
Neil Hawke **Assistant Director Strategy**

Contact: Directors@swdevon.gov.uk

Recommendations:

That the Audit and Governance Committee note the progress against implementation of Internal Audit Recommendations as set out in this report.

1. Executive summary

- 1.1 The Council's Internal Audit team carry out a planned programme of audits to inform business development and ensure compliance with policy and procedure.
- 1.2 A key part of each audit is the making of recommendations and identification of opportunities. These are considered by relevant managers and, where agreed, implementation timescales are set out in the final audit.
- 1.3 This report sets out an update on progress against Internal Audit recommendations since 2021.

2. Background

- 2.1 Since 2021, 378 High, Medium, or Low recommendations made by Internal Audit have been due for completion.
- 2.2 The Council has assessed progress against those recommendations and set the results out in this report.
- 2.3 It should be noted that management of the Internal Audit tracker and progress against recommendations is now carried out by the Councils Performance Board, consisting of Director of Customer Services Delivery, Director of Strategy and Governance, Assistant

Director Strategy, and the Head of Customer Services & Improvement. This board has been in place since late 2022 to drive organisational performance and risk management.

2.4 The tracker is a detailed Excel spreadsheet that requires Heads of Service to provide updates on recommendations under the following headings:-

- Complete – action complete as agreed or closed due to no longer being required (for example a recommendation that is no longer relevant due to changes to process or systems).
- In progress – work is underway to implement but not fully complete.
- Not yet started.

2.5 While recommendations can be made and indicative timescales given, these can be required to move due to operational priorities. Decisions on this are made by Directors and Heads of Service on a risk basis.

2.6 The following table sets out the status of recommendations made by the Internal Audit team since 2021 and the priority of the recommendation (High / Medium/ Low). It also includes details on those 'High' priority recommendations that are overdue.

2.7 Target Implementation Year: - 2021

Total recommendations due for completion during the year:- 174

Priority	Completed	In Progress	Not Started	Total
High	20	2		22
Medium	105	30		135
Low	14	3		17
Total	139	35		174
%	80%	20%		100%

The recommendations that are still '**In Progress**' with '**High**' Priority are as follows:-

2.7.1 Health & Safety: Consideration should be given to the level of staff resource available to deliver the health and safety function, including the Councils' response to the Covid-19 pandemic, and whether this is sustainable in terms of staff welfare, as well as meeting the Councils' aspirations with respect to health and safety.

Update September 2023: – Health and Safety capacity is kept under continual review with a cross-department network of officers working to ensure we operate safely. Revised completion date – ongoing as we should always keep H&S capacity under review.

2.7.2 Insurance: Consideration should be given to seeking advice from an impartial external consultant, or another local authority which has in-house insurance expertise, to assist in a review of the type and value of insurance cover held by each of WDBC & SHDC. **Update**

September 2023: – We are continually reviewing the insurance

cover in place and update as required. The Council continues to access the services of an insurance broker and will seek specialist advice where required during the retendering for insurance. Revised completion date – December 2024.

2.8 Target Implementation Year: - 2022

Total recommendations due for completion during the year: - 151

Priority	Completed	In Progress	Not Started	Total
High	29	11	3	43
Medium	61	30	2	93
Low	10	3	2	15
Total	100	44	7	151
%	66%	29%	5%	100%

The recommendations that have '**Not Started**' and given a '**High**' priority are as follows:-

- 2.8.1 Council Tax: The new enforcement agent contract should allow for monitoring of the performance of the appointed company, to ensure that an effective service is received. **Update September 2023**: – Will be incorporated into individual objectives following the letting of the new enforcement agent's contract. Revised completion date – May 2024.
- 2.8.2 Creditors: The publication of planning notices should be carried out in line with Contract Procedure Rules, with the advice and assistance of the Procurement Officer. **Update September 2023**: - To be considered as part of the review of publicity of applications. Revised completion date – March 2024.
- 2.8.3 Debtors: It should be ensured that managers are aware of the need to take legal action promptly, for those debts which are of sufficient value to warrant being pursued through the courts. **Update September 2023**: – we continue to take steps to increase the capacity within the Legal team to progress this action with priority on higher value debts. Revised completion date – ongoing attempt to increase legal team capacity.

The recommendations that are still '**In Progress**' and with a '**High**' priority are as follows:-

- 2.8.4 Council Tax: The new enforcement agent contract should allow for monitoring of the performance of the appointed company, to ensure that an effective service is received. **Update September 2023**: – This will be included in the contract retender. Revised completion date – March 2024.

- 2.8.5 Business Rates: We support the intention to tender a new enforcement agent contract, encompassing the additional services identified as being available from some enforcement agents. **Update September 2023:** Revised completion date – new contract in place by March 2024.
- 2.8.6 Business Rates: As part of the detailed review of revenues recovery, opportunities for proactive enforcement, and the resources to undertake this, should be identified. **Update September 2023:**– This is being addressed through the current Revenues and Benefits service review. Revised completion date – December 2023.
- 2.8.7 Council Tax: As part of the detailed review of revenues recovery to be made the most effective means of undertaking manual reviews should be considered and whether any can be automated. **Update September 2023:**- This is being addressed through the new Revenues and Benefits Structure implementation. Revised completion date – December 2023.
- 2.8.8 Council Tax: We support the intention to review and update the Corporate Debt Policy, at which time those points raised above should be considered. **Update September 2023:**- In progress with a corporate debt policy being developed during 2023/24. Revised completion date – March 2024.
- 2.8.9 Creditors: Procurement of specialist agricultural planning advice. **Update September 2023:**– There is a limited market for this advice and while the intention is still to carry out a procurement, it is unlikely to result in a significantly different outcome to the current provision. Revised completion date – December 2024.
- 2.8.10 Debtors:- The amount of staff resource available for debt recovery should be reviewed, to ensure that this is sufficient to allow recovery to take place on a timely basis across all values and types of debt, helping reduce the amount of aged debt and to allow all available recovery options to be utilised. **Update September 2023:**– The principal accountant will oversee this, and the intention is for a new Corporate Debt policy and enforcement agent contract to be in place during 2023. Revised completion date – March 2024.

- 2.8.11 Debtors:- It should be ensured that there is sufficient staff resource available to allow the timely recovery of sundry debts, to avoid the otherwise seemingly inexplicable delays in progressing recovery action, such as in some of the cases we reviewed. **Update September 2023:-** The Principal Accountant who has responsibility for Sundry Debt, is new in post, and has taken further steps on the recovery of sundry debts with the relevant departments. The Head of Finance and the Head of Revenues and Benefits will oversee this work. The intention is for a new Corporate Debt policy and enforcement agent contract to be in place during 2023. Revised completion date – March 2024.
- 2.8.12 Debtors:- We support the intention to ensure that all officers are using the web-based version of Civica Financials, including seeking training for officers from the software supplier. **Update September 2023:-** The Head of Finance in conjunction with the Head of Revenues and Benefits will oversee this. Finance team members have received training from Civica however it is considered that the 'web' version is not currently user friendly for the wider organisation. Work continues with the software provider to address this, and training will be rolled out in 2024. Budget holders still have access to manage budgets via the non-web version. Revised completion date – October 2024.
- 2.8.13 Housing Benefit:- A programme of quality checks, reviewing the accuracy of the Benefits Assessors' work, should be re-introduced as soon as possible. **Update September 2023:-** The PMQA module is went live in June 2023 and a Quality Assurance and Training Officer post is proposed in the new structure. Revised completion date - March 2024.
- 2.8.14 Grounds Maintenance:- The prioritisation of the work delivered by the Property and Ground Maintenance teams should be primarily guided by the Assets strategy, to ensure that the strategic objectives and priorities of the wider Assets service are met. **Update September 2023:-** We are currently developing an updated Asset Management Strategy which will address this. Revised completion – March 2024.

2.9 Target Implementation Year: - 2023 (up to June 2023)

Total recommendations due for implementation:- 26

Priority	Completed	In Progress	Not Started	Total
High	1	6		7

Medium	6	9	2	17
Low		1		1
Total	7	16	2	25
%	28%	64%	8%	100%

The recommendations that are still '**In Progress**' due for completion by June 2023 and with a '**High**' Priority are as follows:-

- 2.9.1 Business Rates:- We support the intention to require customers with a business rates account to provide evidence of their ownership or tenancy of a premises, in order that the correct legal liable party is billed for business rates and allowing any potential future recovery to be undertaken correctly. **Update September 2023:-** Being implemented into new procedures and training for the team.
- 2.9.2 Business Rates:- Regular, targeted reviews should be implemented for those reliefs and exemptions where there is the greatest risk of the Councils not being informed of changes. We support the work commenced by the Revenues team with respect to this. **Update September 2023:-** Annual timetable for reviews commenced May 2023.
- 2.9.3 Business Rates:- We support the intention to make a detailed review of the revenues recovery and enforcement procedures. **Update September 2023:-** Partially implemented and will be fully addressed through the Revenues and Benefits Service review.
- 2.9.4 Business Rates:- We support the intention to make a detailed review of the revenues recovery and enforcement procedures. **Update September 2023:-** This will be addressed through the current Revenues and Benefits Service review.
- 2.9.5 Council Tax:- Regular, targeted reviews should be made of those discounts and exemptions where there is the greatest risk of the Councils not being informed of changes. **Update September 2023:-** This will be included in the 2023/24 service plan update for Revenues and Benefits.
- 2.9.6 Council Tax:- The recommendations with respect to introducing more efficient or alternative HBOP recovery methods, should be built into procedures and used to best effect. **Update September 2023:-** This will be picked up as part of a suite of measures reviewing the recovery of OBHP.

3. Proposal and Next Steps

- 3.1 Overall, since 2021, 70% of the recommendations made have been completed with a further 27% in progress. All Internal Audit recommendations will continue to be monitored by the Performance Board and managed to completion by the relevant Director and Head of Service.
- 3.2 It is recommended that the Audit & Governance Committee note progress against the Internal Audit recommendations tracker and request a further update in six months' time to monitor progress against the above progress.

4. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Internal Audit function is important to advising Managers on compliance and improvement opportunities and therefore an important aspect of the Councils overall governance framework.
Financial implications to include reference to value for money.	Y	Ensuring recommendations are implemented is important to ensuring value for money and compliance in delivering our services.
Risk	Y	Ensuring audit recommendations are implemented is important to managing overall risk to the Council and its services
Supporting Corporate Strategy	Y	Council Services
Consultation & Engagement Strategy	N	
Climate Change - Carbon / Biodiversity Impact	N	
Comprehensive Impact Assessment Implications		
Equality and Diversity	NA	

Safeguarding	NA	
Community Safety, Crime and Disorder	NA	
Health, Safety and Wellbeing	NA	
Other implications	NA	

Supporting Information

Appendices:

None

Background Papers:

None

Agenda Item 8

Report to: **Audit and Governance Committee**

Date: **10 October 2023**

Title: **Annual Treasury Management Report
2022/23**

Portfolio Area: **Cllr C Edmonds – Resources**

Wards Affected: **ALL**

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

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

Author: Clare Scotton Role: **Principal Accountant**

Pauline Henstock **Head of Finance Practice**

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Recommendations:

That the Audit and Governance Committee:

1. Approves the actual 2022/23 prudential and treasury indicators in this report.
2. Notes the Annual Treasury Management report for 2022/23.

1. Executive summary

- 1.1 Income from investments this year was £600,571 which is £575,250 higher than the budget of £25,321 at an average return of 2.08%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.11% return on investments below the benchmark for 22/23. The reason for the benchmark not being met is that rates were very low at the start of 2022/23 (0.04%) and then substantially rose throughout the year.

2. Background

- 2.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 2.2 Treasury management is defined as:
- “The management of the local authority’s 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”.
- 2.3 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:
- An annual treasury strategy in advance of the year (Minute CM 73)
 - A mid-year (minimum) treasury update report (Minute AC 29)
 - An annual review following the end of the year describing the activity compared to the strategy (this report)
- 2.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by Members.
- 2.5 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during 2020/21 and will be carried out again in November 2023 in order to support their scrutiny role.

3. The Economy and Interest Rates

- 3.1 **UK. Economy.** Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.
- 3.2 Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

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

- 3.3 Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.
- 3.4 Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

- 3.5 The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.
- 3.6 Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

4. Overall Treasury Position as at 31 March 2023

4.1 At the beginning and the end of 2022/23 the Council's treasury position was as follows:

Treasury Portfolio	31 March 2022		31 March 2023	
	£'000	Rate%	£'000	Rate%
Treasury Investments:				
Short term – fixed	17,200	0.74	*10,200	3.98
Money Market Funds	9,650	0.38	10,800	3.98
Property Funds	553	3.25	462	4.26
Total treasury investments	27,403		21,462	
Treasury External Borrowing				
PWLB	28,341	2.54	27,726	2.54
Total external borrowing (£27.012m of long term borrowing and £714k of short term borrowing)	28,341		27,726	
Net treasury investments / (borrowing)	(938)		(6,264)	

* The reduction in investments as at 31 March 2023 of £7m partly relates to the timing of the Council Tax energy rebate grant (£2.99m) which was received at the end of 2021/22 and the payments were made on behalf of Central Government at the beginning of 2022/23. In addition the Council also administered various Business Grants on behalf of Central Government in 2021/22 and part of the reduction in investments relates to unapplied funding being repaid to Central Government in 2022/23.

4.2 The following is a list of the Council's investments at 31 March 2023.

Fixed Term Deposits

Amount	Investment	Average Interest rate
£3,000,000	Lloyds Bank Plc	4.35%
£3,000,000	Standard Chartered	3.82%
£4,200,000	DMO	3.77%
£10,200,000	Total	

Money Market Funds

Amount	Investment	Average Interest rate
£1,800,000	Aberdeen Standard Investments	3.95%
£3,000,000	BlackRock	4.06%
£3,000,000	Deutsche	3.95%
£3,000,000	LGIM	3.97%
£10,800,000	Total	

Property Funds

Amount	Investment	Dividend Yield
£461,930	CCLA – Property Fund	4.26%

- 4.3 At Council in February 2017, it was approved (Minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in April 2017.
- 4.4 The investment was made with a view to a long term commitment. The bid market value as at 31 March 2023 for the Council's investment was £461,930. As at August 2023, the value is £456,640.

South West Mutual

- 4.5 South West Mutual have provided an update on their website which references that for the past few years, they have worked hard to find the starting point for a regional mutual bank for Devon, Cornwall, Somerset and Dorset. However they have reached a point that it has become clear to them that while there will be a time to launch the bank, that time has not yet come and they are moving forwards as a lean, volunteer-led member organisation.
- 4.6 In December 2018 the Council supported the formation of the South West Mutual with an economic grant of £49,995 which was funded out of the business rate pilot gain from 2018/19. Further information is available on their website. <https://southwestmutual.co.uk/>

5. The Strategy for 2022/23

Investment strategy and control of interest rate risk

- 5.1 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.
- 5.2 Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24. As at September 2023 the bank base rate is 5.25%.
- 5.3 The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.
- 5.4 Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.
- 5.5 Nonetheless, while the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- 5.6 The Treasury Management Strategy Report for 2022/23 was approved by the Council on 5 April 2022 (Minute – CM73).

Borrowing strategy and control of interest rate risk

- 5.7 During 2022/23, the Council has a slightly over-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement) is lower than the external borrowing of the Council. This is a temporary position and future Housing capital projects will bring this back into line.
- 5.8 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when this Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

5.9 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Strategic Finance (S.151 Officer) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.10 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

5.11 Interest rate forecasts during 2022/23 are shown below (as at 27.03.2023).

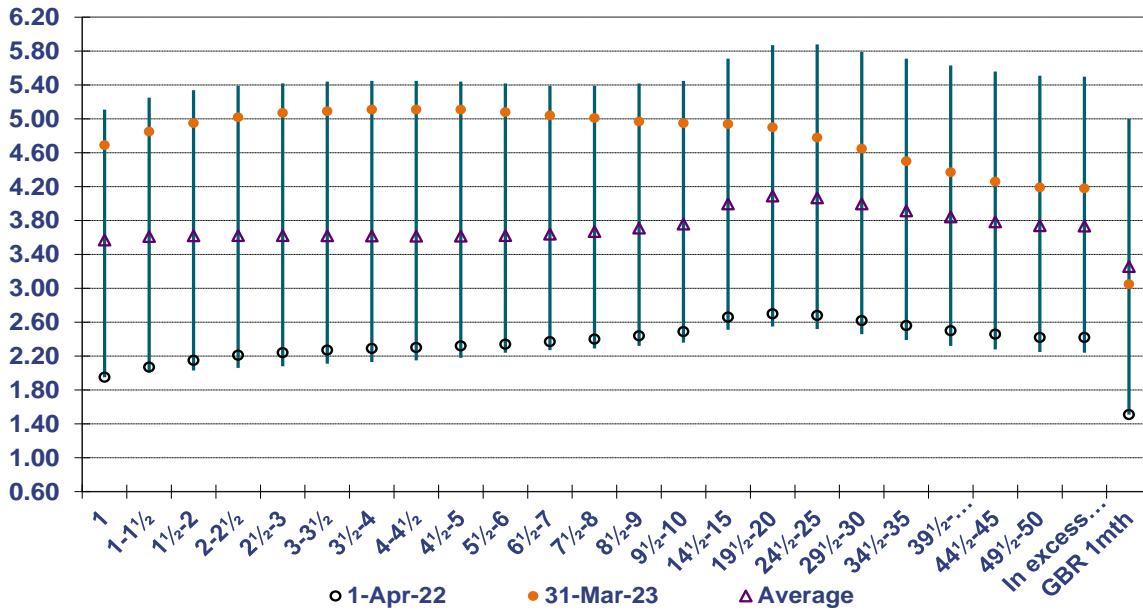
Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings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

5.12 The latest interest rate forecasts as at 25 September 2023 are shown below.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

5.13 Actual PWLB borrowing rates - the graph below shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

PWLB Certainty Rate Variations 1.4.22 to 31.3.23



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

5.14 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

- 5.15 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.
- 5.16 At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.
- 5.17 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

6. Borrowing Outturn for 2022/23

6.1 Details of the loans outstanding at 31 March 2023 are shown below:

Lender	Type	Maturity	Interest Rate %	Principal held at 31 March 2022 £'000	Principal held at 31 March 2023 £'000
PWLB - Maturity	Fixed Interest Rate	45 Years	4.55	2,100	2,100
PWLB - Annuity	Fixed Interest Rate	9 Years	1.92	1,528	1,234
PWLB - Annuity	Fixed Interest Rate	22 Years	1.95	1,331	1,273
PWLB - Annuity	Fixed Interest Rate	50 Years	2.65	12,241	12,105
PWLB - Annuity	Fixed Interest Rate	50 Years	2.60	3,471	3,432
PWLB - 23 maturity loans	Fixed Interest Rate	49 Years	2.54*	3,592	3,592
PWLB - Annuity	Fixed Interest Rate	50 Years	2.31	1,740	1,720
PWLB - Annuity	Fixed Interest Rate	30 Years	1.73	2,338	2,270
Total				28,341	27,726

*Average interest rate

Repayments

6.2 During 2022/23 the Council repaid interest of £733,000 at an average rate of 2.54%.

Borrowing in advance of need

6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. The Council has not taken out any borrowing in 2022/23.

- 6.4 In September 2019, when borrowing rates fell to a point where it was considered optimal to do so in order to finance capital expenditure which would be incurred within the time frame of the forward approved Capital Financing Requirement estimates, the Council borrowed £2.5 million at an interest rate of 1.73% for future forecast capital expenditure. In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, the current economic climate and that the Council could ensure the security of such funds placed on temporary investment.

Debt rescheduling

- 6.5 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn for 2022/23

- 7.1 **Investment Policy** – the Council’s investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 5 April 2022 (Minute – CM73). This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).
- 7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 7.3 **Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. Income from investments this year was £600,571 which is £575,250 higher than the budget of £25,321 at an average return of 2.08%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.11% return on investments below the benchmark for 22/23. The reason for the benchmark not being met is that rates were very low at the start of 2022/23 (0.04%) and then substantially rose throughout the year.
- 7.4 By March 2023 the rate of investment return achieved on investments was 4.19% (Link Services March 2023 report).

7.5 The Council's core cash resources comprised as follows:

Balance Sheet Resources £'000	31 March 2022	31 March 2023
General Fund Balance	1,490	1,569
Earmarked Reserves	9,189	8,902
Usable Capital Receipts	56	70
Provisions	921	733
Other (Collection Fund and Capital contributions unapplied)	(511)	2,125
Total	11,145	13,399

8. Other Issues 2022/23

IFRS 9 fair value of investments

8.1 Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

9. Outcomes/outputs

9.1 Income from investments this year was £600,571 which is £575,250 higher than the budget of £25,321.

9.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The SONIA rate at the end of March was 2.19% which is 0.11% higher than our average return of 2.08% as at 31 March 2023.

10. Options available and consideration of risk

10.1 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 £3m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

10.2 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.

10.3 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.

11. Proposed Way Forward

11.1 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.

12. Compliance with Treasury Limits and Prudential Indicators

12.1 During 2022/23 the Council 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 2022/23 are detailed and shown in Appendix B.

13. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003
Financial Implications to include reference to value for money	Y	<p>Income from investments this year was £600,571 which is £575,250 higher than the budget of £25,321 at an average return of 2.08%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.11% return on investments below the benchmark for 22/23.</p> <p>By March 2023 the rate of investment return achieved on investments was 4.19% (Link Services March 2023 report).</p> <p>Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.</p>
Risk	Y	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>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> <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 Members.</p>
Supporting Corporate Strategy		The income from treasury management supports all the Council's corporate strategy themes.
Climate Change - Carbon / Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	None directly arising from this report.
Safeguarding	N	None directly arising from this report.
Community Safety, Crime and Disorder	N	None directly arising from this report.
Health, Safety and Wellbeing	N	None directly arising from this report.
Other implications	N	None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Lending list as at 31 March 2023

Appendix B - Prudential and Treasury Indicators 2022/23

Background Papers:

Annual treasury strategy in advance of the year (Council 5 April 2022 – CM73)

A mid-year treasury update report (Audit Committee 14 March 2023 – AC29)

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
Accessibility checked	Yes

APPENDIX A

Counterparty as at 31st March 2023		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		
	Al Rayan Bank PLC	SB					SB	A1	P-1			R - 6 mths	
	Bank of Scotland PLC (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a	WD	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Close Brothers Ltd	NO	A-	F2	a-	WD	SB	Aa3	P-1				R - 6 mths
	Clydesdale Bank PLC	SB	A-	F2	bbb+	WD	SB	A3	P-2	SB	A-	A-2	G - 100 days
	Co-operative Bank PLC (The)	SB	BB	B	b	WD	PO	Ba1	NP				N/C - O mths
	Goldman Sachs International Bank	SB	A+	F1		WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	SB	AA	F1+		WD				SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	SB	AA-	F1+	a	WD	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	HSBC UK Bank Plc (RFB)	SB	AA-	F1+	a	WD	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A+	F1		WD	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	National Bank of Kuwait (International) PLC	SB	A+	F1		WD				SB	A	A-1	R - 6 mths
	NatWest Markets Plc (NRFB)	SB	A+	F1	WD	WD	SB	A1	P-1	SB	A-	A-2	R - 6 mths
	Santander Financial Services Plc (NRFB)	SB	A+	F1		WD	NO	A1	P-1	SB	A-	A-2	R - 6 mths
	Santander UK PLC	SB	A+	F1	a	WD	NO	A1	P-1	SB	A	A-1	R - 6 mths
	SMBC Bank International PLC	SB	A-	F1		WD	SB	A1	P-1	SB	A	A-1	R - 6 mths
Standard Chartered Bank	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	
Building Societies	Coventry Building Society	SB	A-	F1	a-	WD	SB	A2	P-1				R - 6 mths
	Leeds Building Society	SB	A-	F1	a-	WD	SB	A3	P-2				G - 100 days
	Nationwide Building Society	SB	A	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Principality Building Society	SB	BBB+	F2	bbb+	WD	SB	Baa2	P-2				N/C - O mths
	Skipton Building Society	SB	A-	F1	a-	WD	SB	A2	P-1				R - 6 mths
	West Bromwich Building Society						SB	Ba3	NP				N/C - O mths
Yorkshire Building Society	SB	A-	F1	a-	WD	SB	A3	P-2				G - 100 days	
Nationalised and Part Nationalised Banks	National Westminster Bank PLC (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A	A-1	B - 12 mths

Key	
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 2022/23

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 and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure and how this was financed.

Capital Expenditure	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000
General Fund services	1,103	*3,945	*2,032
TOTAL	1,103	3,945	2,032

*This estimate included a housing redevelopment project. These estimates were prepared in January 2022.

**The main projects included in the actual for 2022/23 were Private Sector Renewal Grants, Disabled Facilities Grants and Green Homes Grants.

Capital Expenditure and Financing	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000
Capital Expenditure	1,103	3,945	2,032
Financed by:			
External sources	(607)	(2,288)	(1,774)
Own resources	(334)	(1,165)	(258)
Unfinanced capital expenditure	(162)	*492	0

*The 2022/23 estimates were prepared in January 2022. See the Capital Expenditure table above for an explanation of the differences in value between the estimates for capital schemes and the actual expenditure in 2022/23.

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

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLb], or the money markets), or utilising temporary cash resources within the Council.

CFR	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000
Opening balance	25,361	24,738	24,900
Add unfinanced capital expenditure (as above)	162	*492	0
Less MRP/VRP	(623)	(636)	(647)
Closing balance	24,900	24,594	24,253

*The 2022/23 estimates were prepared in January 2022. See the Capital Expenditure table above for an explanation of the differences in value between the estimates for capital schemes and the actual expenditure in 2022/23.

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 slightly higher than the CFR by £3.47m in 2022/23. This is only a short term position as this will finance future capital expenditure which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

	2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000
Debt	28,341	27,726	27,726
Capital Financing Requirement	24,900	24,594	24,253
Over/(under) funding of CFR	3,441	3,132	3,473

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. The Council is asked to approve the following indicators:

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.

	2021/22 Actual	2022/23 Estimate	2022/23 Actual
Financing costs (£)	1,333,593	1,343,363	*778,880
Proportion of net revenue stream	18.3%	17.3%	10.0%

*The estimates were prepared in January 2022. During the year income from investments was £600,571 which was £575,250 higher than the budget of £25,321. This was due to successive increases in the bank base rate. As at March 2023 the Council was achieving 4.19% return from its treasury management investments. In addition to this the Council took out no external borrowing in 2022/23 and therefore financing costs were lower than estimated.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary – this is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Operational Boundary	2021/22	2022/23
	£	£
Borrowing	47,500,000	35,000,000
Other long term liabilities	-	-
Total	47,500,000	35,000,000

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	2021/22	2022/23
	£	£
Borrowing	50,000,000	50,000,000
Other long term liabilities	-	-
Total	50,000,000	50,000,000

West Devon Borough Council's current level of borrowing as at 31 March 2023 was £27.726 million.

The maturity analysis of fixed rate borrowing is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

Refinancing rate risk indicator	Approved minimum limits	Approved maximum limits	Actual 31 March 2022		Actual 31 March 2023	
			£million	%	£million	%
	%	%				
Less than 1 year	0%	10%	0.615	2.2	0.713	2.6
Between 1 and 2 years	0%	10%	0.713	2.5	0.642	2.3
Between 2 and 5 years	0%	30%	2.057	7.3	1.869	6.7
Between 5 and 10 years	0%	30%	2.185	7.7	2.135	7.7
Between 10 and 20 years	0%	50%	5.018	17.7	5.037	18.2
20 years and above	0%	100%	17.753	62.6	17.330	62.5
Total			28.341	100	27.726	100

Report to: **Audit and Governance Committee**

Date: **10 October 2023**

Title: **Sundry Debt**

Portfolio Area: **Resources – Cllr C Edmonds**

Wards Affected: **All**

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

Date next steps can be taken: N/A

Author: **Martin Pound** Role: **Principal Accountant**
Pauline Henstock **Head of Finance Practice**
and Deputy S.151 Officer

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Recommendation:

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

1. Executive summary

1.1 This report provides Members with an update of the position of Sundry Debt up to 31st August 2023. The report concentrates on debts over 45 days old.

1.2 The key points within this report are:

- Sundry debts have increased slightly from £135k in January 2023 to £142k
- One debt (£18k) relates to a rental property where the level of service charges are being discussed
- One debt (£16k) relates to Environment Health remedial work.
- One debt (£10k) relates to an overpaid covid business grant but efforts to recover this overpayment are proving difficult.

2. Background

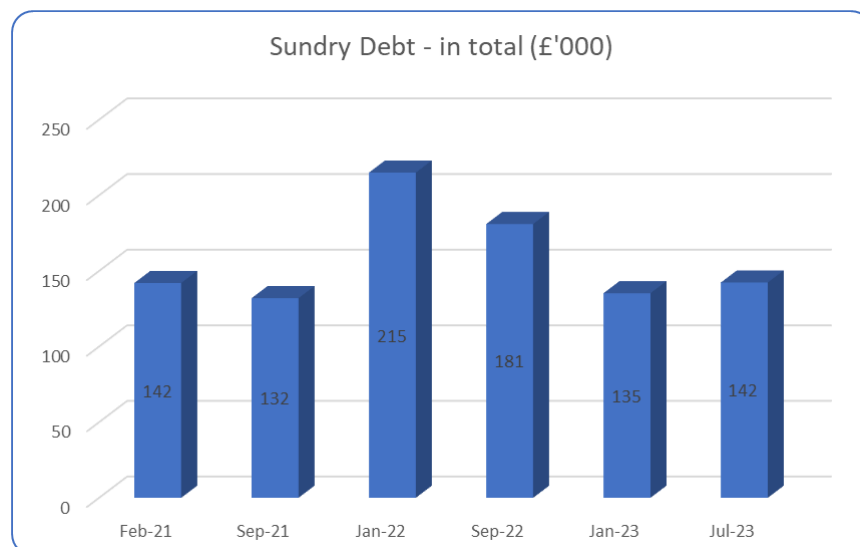
- 2.1 The Council's management arrangements underpin delivery of all the Council's priorities, including the commitment to providing value for money services. Incorporated within this, is the timely collection of monies due to the Council. Debts are recovered in accordance with the Council's Recovery Policy as published on our website.
- 2.2 The implementation of a debt recovery comprehensive action plan has resulted in robust recovery procedures. This report outlines the latest positions in collection relating to Sundry Debt by providing data that demonstrates the progress made.

3. Outcomes/outputs

- 3.1 This report covers the;
- Level of Sundry Debts over 45 days old
 - An analysis of the age of this debt.
 - A breakdown of the debts over 120 days old by department.
- 3.2 All Council sundry debts are actively pursued, and in most instances are collected with little difficulty. In cases where payment is not received on time, a series of reminders are issued promptly to the debtor. If this fails to secure payment, recovery is pursued through the courts.

Sundry Debts

- 3.3 The balance of arrears for Sundry Debts over recent years is summarised below. The balance has increased slightly from £135k in January 2023 to £142k.

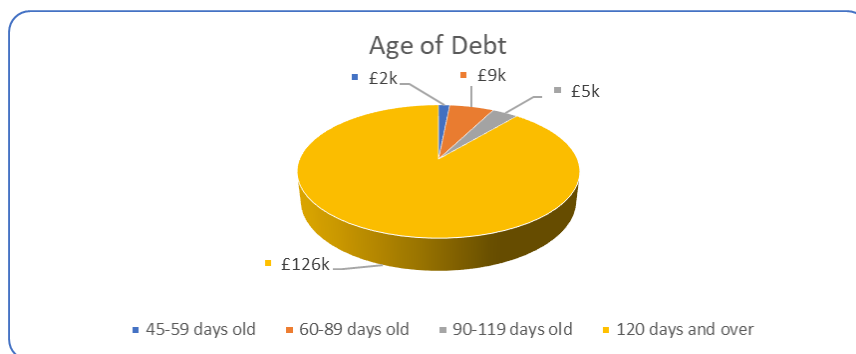


3.4 Sundry Debts consist of Estates Management, Licencing and Housing. This excludes car parking fines which are included on a different system.

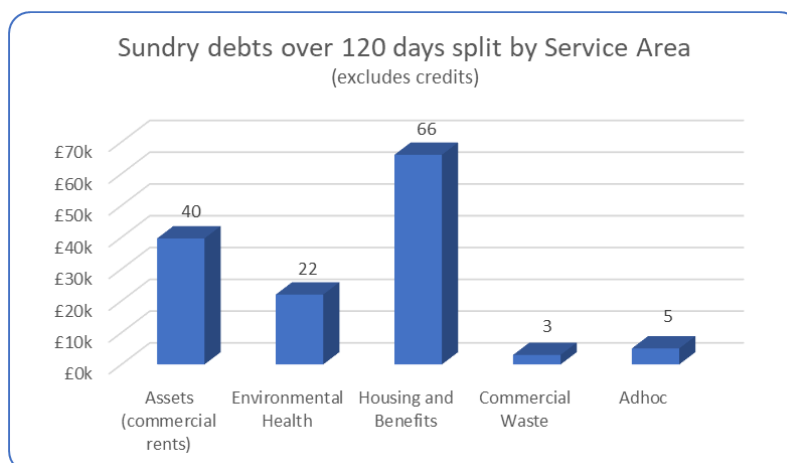
3.5 The current balance for Sundry Debts of £142k includes three high value debtors (£10k or above).

- One debt (£18k) relates to a rental property where the level of service charges are being discussed. This is being clarified by the Assets team.
- One debt (£16k) relates to Environment Health remedial work. The department are seeking to undertake legal action against the debtor.
- One debt (£10k) relates to an overpaid covid business grant but efforts to recover this overpayment are proving difficult.

3.6 This balance can be further broken down by age category to give a clearer picture of the nature of Sundry Debt arrears, as follows.



3.7 The Sundry debts over 120 days can be further analysed by service area and is shown in the graph below.



3.8 The above detailed figures exclude the credits held on a number of accounts. The total of debts excluding credits is £136k.

3.9 It can be seen that £66k relates to Housing and Benefits which are notoriously difficult debts to recover. This makes up 49% of the total debt in this age category. Nearly half of the £40k debts for the Asset team relate to the debtor detailed in paragraph 3.5. £22k (16%) relates to Environmental Health invoices, mainly due to the high-value debtor mentioned in the same paragraph above.

Sundry debt written off

3.10 There have been no sundry debts written off during the current financial year.

4. Proposed way forward

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

5. Implications

Implications	Relevant 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 'A Plan for West Devon'.
Climate Change - Carbon / Biodiversity Impact		None directly arising from this report.
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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Proposed Workplan for the Audit & Governance Committee for the 2023/24 Municipal Year

Committee Meeting Date	Agenda Items
5 December 2023	<ul style="list-style-type: none"> i) Grant Thornton Sector update reports ii) Grant Thornton – Auditors’ Annual Report (AAR) iii) Update on Progress on 2023/24 Internal Audit Plan iv) Strategic Risk Register and Risk Strategy v) Anti-Fraud, Bribery and Corruption Strategy/Response Plan – Report of the s151 Officer vi) Counter Fraud and Resilience – Report of the s151 Officer vii) Whistleblowing Policy – Report of the s151 Officer viii) Treasury Management Mid-Year Report 2023/24; ix) Treasury Management – Review of the Investment and Treasury Management Strategy x) Ombudsman Annual Review Letter; xi) Committee Workplan;
19 March 2024	<ul style="list-style-type: none"> i) Audited Annual Statement of Accounts and Annual Governance Statement 2022/23 ii) Grant Thornton – Audit Opinion on the 2022/23 Statement of Accounts iii) Grant Thornton – Value for Money assessment 2021/22 and 2022/23 iv) Bishop Fleming – Audit Plan for the 2023/24 Statement of Accounts v) Proposed Internal Audit Plan for 2024/25; vi) Update on Progress on 2023/24 Internal Audit Plan; vii) Internal Audit Recommendations Tracking viii) 2024/25 Capital Strategy; 2024/25 Treasury Management Strategy; and 2024/25 Investment Strategy; ix) Budget Book 2024/25; x) Shared Services Methodology 2023/24; xi) Sundry Debts – Update on the Debt position as at the end of January (Month 10) xii) Committee Workplan

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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 and 2)

Report to: **Audit and Governance Committee**

Date: **10 October 2023**

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

Portfolio Area: **Resources – Cllr Edmonds**

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**

Authors: **Chris Brook** Roles: **Director of Place and Enterprise**

Lisa Buckle **Director of Strategic Finance**

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

Recommendations: That the Audit Committee:

1. Notes the performance and risks of the investment property portfolio to date.

1. Executive summary

- 1.1. This report considers the performance of the investment portfolio to date and the risks associated therewith looking forward.
- 1.2. Four purchases have been made to date totalling £21.5m including costs representing 43% of the agreed borrowing limit for all Council services (£50m).
- 1.3. The net revenue income (an ancillary benefit) from the investment properties, after allowing for management, maintenance and risk mitigation, was £300,000 in 2022/23. Since 2018/19 when the investment properties were purchased, the net revenue income has totalled £1.35million in aggregate.

- 1.4. The portfolio has achieved a geographic and sector balance in line with the Regeneration and Investment Strategy. It has not achieved a balance of spread between tenants (one of the reasons for this is that the PWLB guidance changed in 2020 and the portfolio has been restricted to in-area purchases only) and there are future pressure points in 2028 created by lease events.
- 1.5. Over the last 12 months no investment opportunities have been identified and no purchases have been made since September 2019.
- 1.6. The impact of the COVID pandemic on the portfolio and its tenants is reviewed in Appendices 1 and 2.
- 1.7. The report sets out the latest portfolio valuation information as shown in Appendix 2.
- 1.8. On 2nd May 2023, the Regeneration and Investment Committee considered a report on the end of year update for the investment properties and the monitoring report (Minute RE7/22). The Committee noted the current position relating to two investment properties and delegated authority to the Head of Assets to enter into the Deed of Surrender with the existing tenant of a unit at one of the investment properties.

2. **Background**

- 2.1. Four investment property acquisitions have been made by the Council, totalling £21.5m including associated costs.
- 2.2. The investment properties generated a net revenue income of £300,000 in 2022/23, which is an ancillary benefit which contributes to the financial sustainability of the Council, enabling it to continue to deliver, and where possible improve, frontline services.
- 2.3. The Regeneration and Investment Strategy was approved on 5 April 2022. This replaced the Investment Property Acquisition Strategy.
- 2.4. The Council has an upper borrowing limit of £50m (for all Council services).
- 2.5. At 31 March 2023, the Council's current level of borrowing (for all services) is £27.73m.

Four investment property purchases were made totalling £21.5m including acquisition costs. All of the borrowing taken out with the PWLB is on a fixed rate interest rate, so the Council is protected from the current interest rate rises.

- 2.6. This report sets out the risks, statistics and performance of the investment property portfolio to date.

3. **Outcomes/outputs**

- 3.1. The average net income of the portfolio is 1.4% which is above the minimum target of 1% set out in the Regeneration and Investment strategy.
- 3.2. As at the end of March 2023, 90% of the Council's investment portfolio income has been received. Therefore of the rental income from the portfolio of £1.19million, an amount of £114,632 is outstanding in arrears. This is detailed in Appendix 1.
- 3.3. On 2nd May 2023, the Regeneration and Investment Committee considered a report on the end of year update for the investment properties and the monitoring report (Minute RE7/22). The Committee noted the current position relating to two investment properties and delegated authority to the Head of Assets to enter into the Deed of Surrender with the existing tenant of a unit at one of the investment properties.
- 3.4. A net revenue income of £300,000 per annum is currently generated as an ancillary benefit of the investment property portfolio. This is after deducting an allowance of 10% for the management, maintenance and risk mitigation fund (a fund set up to deal with maintenance, repairs or unforeseen risks).
- 3.5. The Investment Property portfolio has a property in each of the main asset classes – Office, Industrial and Retail.
- 3.6. A geographical spread within the South West Peninsula has been achieved; Regional - Bristol, Sub-regional – Exeter & Plymouth, Local – Okehampton. Following the November 2020 Public Works Loans Board review, the portfolio has been restricted to in-area purchases only.
- 3.7. Single and Multi-let opportunities have been acquired, with a mix of tenants (11 in total), including those with the strongest covenant strength.
- 3.8. A spread of lease expiries and breaks have been achieved, however, there are certain points, particularly 2028, at which there is a concentration of lease events. Any future purchases need to avoid having similar lease event dates. The acquired properties have various unexpired lease terms.
- 3.9. The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £417,502.
- 3.10. Opportunities for further acquisitions within West Devon (although limited) could further balance the investment property portfolio and the management of risk, by increasing the number of rental streams, spreading the points at which the income into the portfolio ceases (e.g. lease ends and break clauses) and increasing the diversity of tenants.
- 3.11. The Portfolio was revalued at March 2023 as part of the annual valuation for the Statement of Accounts, details are shown in Appendix 2 (Exempt).
- 3.12. Full details of the investment property portfolio performance and rental income can be found in Appendix 1.

4 **Options available and consideration of risk**

4.1 With the opportunities for future purchases being limited, this would leave the investment property portfolio with some risks as highlighted in the report.

4.1.1 As an example, 55% of the rental income of the investment property portfolio is currently paid by one tenant.

4.1.2 Therefore, the net income into the Council's budget from the investment property portfolio could be affected should it suffer a tenant default or tenancies ending coinciding with each other. The gross rental income from the investment property portfolio is currently just under £1.2million.

4.1.3 The Council will avoid future purchases of investment properties with significant lease events in 2028 and balance the investment property portfolio with expiry dates before and after 2028.

5 **Proposed Way Forward**

5.1 If in area development projects are further considered (such as employment assets), the Council should consider this impact on the portfolio balance and remain true to the risk-based approach set out in the Regeneration and Investment strategy, so as not to over expose the Council to one sector or area.

6 **Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Under section 12 of the Local Government Act 2003 the Council has the power to invest not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs. The Council is required to have regard to guidance issued by the Secretary of State. The current guidance requires the Council to have at least one investment strategy. The Council's Regeneration and Investment Strategy is referred to in the report and is publicly available on the Council's website.

		<p>Appendices 1 and 2 to the report contain information relating to both the financial and business affairs of the Council and the occupiers of the investment properties. The information is not information that would be required to be published under the Companies Act 1985, the Friendly Societies Acts 1974 and 1992, the Industrial and Provident Societies Acts 1965 to 1978, the Building Societies Act 1986, or the Charities Act 1993. Such information is exempt from publication if and so long as, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing it.</p> <p>While there is a strong public interest in understanding how public money is spent or invested, this is met by the overall report which can be understood without reference to the detailed information set out in the Appendices which is specific to individual properties and occupiers. Accordingly, the public interest lies in non-disclosure at this time.</p>
Financial	Y	As at the end of March 2023, 90% of the Council's investment portfolio income has been received. Therefore of the rental income from the portfolio of £1.19million, an amount of £114,632 is outstanding in arrears. This is detailed in Appendix 1.
Risk	Y	Refer to section 4 and Appendix 1
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 – Rent position
- EXEMPT Appendix 2 – Valuation information

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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