



Audit, Governance & Standards Committee

Thu 26 Jan
2023
7.00 pm

Council Chamber
Redditch Town Hall

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**If you have any queries on this Agenda please contact
Mat Sliwinski**

**Town Hall, Walter Stranz Square, Redditch, B98 8AH
Tel: (01527) 64252 (Ext. 3095)
e-mail : mateusz.sliwinski@bromsgroveandredditch.gov.uk**

GUIDANCE ON FACE-TO-FACE MEETINGS

At the current time, seating at the meeting will be placed in such a way as to achieve as much space as possible for social distancing to help protect meeting participants.

If you have any questions regarding the agenda or attached papers, please do not hesitate to contact the officer named above.

GUIDANCE FOR ELECTED MEMBERS ATTENDING MEETINGS IN PERSON

Members and Officers who still have access to lateral flow tests (LFTs) are encouraged to take a test on the day of the meeting. Meeting attendees who do not have access to LFTs are encouraged not to attend a Committee if they have any of the following common symptoms of Covid-19 on the day of the meeting; a high temperature, a new and continuous cough or a loss of smell and / or taste.

The meeting venue will be fully ventilated, and Members and officers may need to consider wearing appropriate clothing in order to remain comfortable during proceedings.

PUBLIC SPEAKING

The usual process for public speaking at Committee meetings will continue to be followed subject to some adjustments which allow written statements to be read out on behalf of residents and the virtual participation of residents at meetings of Audit, Governance and Standards Committee. Members of the public are encouraged to log in virtually, either to speak or observe meetings wherever possible.

Members of the public will be able to access the meeting if they wish to do so. Seating will be placed in such a way as to achieve as much space as possible for social distancing to help protect meeting participants. It should be noted that members of the public who choose to attend in person do so at their own risk.

Members of the public who still have access to lateral flow tests (LFTs) are encouraged to take a test on the day of the meeting. Meeting attendees who do not have access to LFTs are encouraged not to attend a Committee if they have any of the following common symptoms of Covid-19 on the day of the meeting; a high temperature, a new and continuous cough or a loss of smell and / or taste.

Notes:

Although this is a public meeting, there are circumstances when Council might have to move into closed session to consider exempt or confidential information. For agenda items that are exempt, the public are excluded.

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7.00 pm

Council Chamber Town Hall

Agenda

Membership:

Cllrs:

Juma Begum
(Chair)
Andrew Fry (Vice-
Chair)
Salman Akbar
Imran Altaf
Tom Baker-Price

Michael Chalk
Luke Court
Sharon Harvey
Timothy Pearman

1. Apologies and named Substitutes

2. Declarations of Interest

To invite Councillors to declare any Disclosable Pecuniary Interests and/or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.

3. Minutes (Pages 7 - 14)

The minutes of the meeting of the Audit, Governance and Standards Committee held on 15th December 2022 will be considered at this meeting.

4. Public Speaking

Members of the public have an opportunity to speak at meetings of the Audit, Governance and Standards Committee. In order to do so members of the public must register by 12 noon on Tuesday 24th January for this meeting. A maximum of 15 minutes will be allocated to public speaking.

5. Monitoring Officer's Report - Standards Regime (Pages 15 - 20)

6. Feckenham Parish Council Representative's Report - Standards Regime

To receive a verbal report from the Feckenham Parish Council Representative.

7. Verbal Update on submission of Statement of Accounts 2020-21

8. Internal Audit Progress Report (Pages 21 - 94)

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9. Capital and Treasury Management Strategies 2023-24 (Pages 95 - 136)

10. Financial Savings Monitoring Report (Pages 137 - 146)

11. Quarterly Risk Update (Pages 147 - 154)

12. Risk Champion Update

13. Committee Work Programme (Pages 155 - 156)

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Audit, Governance & Standards Committee

Thursday, 15th December,
2022

MINUTES

Present:

Councillor Juma Begum (Chair), and Councillors Salman Akbar, Imran Altaf, Tom Baker-Price, Michael Chalk, Luke Court and Timothy Pearman

Also Present:

Councillor Karen Ashley (Portfolio Holder for Finance and Enabling) – (on Microsoft Teams)
Jackson Murray (Engagement Lead for Grant Thornton) – (on Microsoft Teams)

Officers:

Peter Carpenter, Claire Felton (on Microsoft Teams), Michelle Howell and Andy Bromage (on Microsoft Teams)

Democratic Services Officers:

Mat Sliwinski

34. APOLOGIES AND NAMED SUBSTITUTES

Apologies for absence were received from Councillors Andrew Fry and Sharon Harvey.

35. DECLARATIONS OF INTEREST

There were no declarations of interest.

36. MINUTES

The minutes from the Audit, Governance and Standards Committee meetings held on 27th October and 10th November 2022 were submitted for Members' consideration.

Chair

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RESOLVED that

the minutes of the Audit, Governance and Standards Committee meetings held on 27th October 2022 and 10th November 2022 be approved as a true and correct record and signed by the Chair.

37. PUBLIC SPEAKING

There were no registered public speakers on this occasion.

38. ANNUAL GOVERNANCE STATEMENT 2020-21

The Interim Director of Finance presented the Annual Governance Statement (AGS) 2020/21 and in doing so highlighted that the AGS formed part of the annual closure of accounts process and provided a corporate overview of the processes and procedures adopted by the Council to manage its affairs.

The preparation of an Annual Governance Statement (AGS) was necessary to meet the statutory requirements as set out in the Accounts and Audit (England) Regulations 2015. The Council's AGS included the review of effectiveness of the Council's governance arrangements, commentary on significant governance issues in 2020/21, and the up-to-date information on their resolution status under the 'progress' column in the AGS document.

It was noted that one of the Governance Recommendations which were highlighted in the external auditors' Section 24 report and the Interim Auditors' Annual Report 2020/21 pertained to the need for Members to be provided with key financial reports, including the Treasury Management Strategy which was not reported to the Committee in 2021/22, and risk monitoring updates. Officers stated that this would be considered by the Committee in the remaining meetings of this municipal year.

Following the presentation, Members asked a number of questions and commented on aspects of the Statement and the following was noted:

- Members requested that references to 'robust financial management' be removed from the Annual Governance Framework Statement for 2020/21 on the basis that the document referred to the financial year 2020/21, with only

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the appended sections in the tables referring to the progress that had been made since.

- Members commented that some of Council's Corporate Plan key performance indicator (KPI) measures were still not available to view on the Council's performance dashboard on the Council's website. Officers responded that some KPIs were still to be added to the dashboard, including council tax collection rates and volume of customer service calls. In the meantime, the Interim Director of Finance undertook to provide Members with data on key finance measures including collection rates for council tax and business rates.
- Members expressed concern that the number of strategic KPIs currently proposed might be excessive and commented that it was preferable for the Council to reduce the number of strategic KPIs to a smaller number and to the areas in which the Council had greater power to influence outcomes such as housing – for example KPIs on housing repairs turnover and on number of people in temporary accommodation were cited as examples of key KPIs that might be used. Officers responded that a review of Corporate KPIs was being undertaken to determine the strategic relevance of the measures currently on the dashboard.
- Members were informed that the provisional local government finance settlement was expected to be released in the week commencing 19th December 2022, which would provide information as to central government allocations to local authorities for 2023/24.

RESOLVED

- (1) that the arrangements for compiling, reporting on and signing the Draft Annual Governance Statement be noted;**
- (2) that the Draft Annual Governance Statement was reviewed and commented on, including any areas which should be considered; and,**
- (3) that subject to changes identified above, the Draft Annual Governance Statement be agreed and approved for signature by the Chief Executive Officer and Leader of the Council for inclusion in the Statement of Accounts.**

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39. STATEMENT OF ACCOUNTS 2020-21

The Interim Director of Finance presented the draft Statement of Accounts 2020/21 and in doing noted that the Council had not been able to deliver these Accounts before the statutory deadline of 30th November 2021, which had resulted in a Section 24 Statutory Recommendation being issued to the Council on the 31st October 2022.

It was highlighted that the Accounts had been published in a supplementary agenda because the S151 Officer had to be fully satisfied that they complied with legislation before they were presented before the Committee. It was added that a significant work had been required to reallocate balances in the Council's suspense accounts and the method of this reallocation represented a risk for the 2020/21 Accounts that would need to receive signoff by the external auditors as part of the overall Audit process. Officers reported that they would continue to work on trying to reduce the number of items in suspense in the next couple of weeks before the Accounts were handed over to the external auditors, estimated to take place in mid-January 2023. Officers would provide comments on the progress of this process at the next meeting of the Committee in January.

It was noted that this agenda item provided the Committee with an opportunity to review the draft Statement of Accounts Accounts and formally approve them prior to the commencement of the external audit. Whilst under regulations the Council's Audit Standards & Governance Committee was no longer required to approve the accounts prior to audit, the Council considered it a good practice for Members to have the opportunity to review the draft Accounts.

The Interim Director of Finance proceeded to provide an explanation of the most relevant sections of the Statement of Accounts 2020/21 submitted before the Committee. The following sections and technical notes were highlighted for Members' consideration:

- Page 6 provided an infographic of the volume of core services Council delivered during the first year of the Covid-19 pandemic period.
- Due to the Council's underspend position of £290,000 the General Fund reserves position had increased from an opening position of £1.599 million to a closing position of £1.889 million in 2020/21.

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- The earmarked reserves had increased significantly in 2020/21 from £4.980 million to £11.473 million, with circa £4.5 million of this increase due to the Government provision of various Covid-19 related grants.
- The Housing Revenue Account (HRA) for 2020/21 was showing an underspend of £1.9 million and the HRA capital programme for 2020/21 was underspend by £7 million. This was due to restrictions and lockdowns in response to the Covid-19 outbreak, which resulted in rescheduling of the planned programme of works to future years.
- Note 5 on Page 37 pertaining to material items of income and expenditure, where it was highlighted in particular that the main material items related to the Covid-19 pandemic in particular the distribution of variety of business grants during the 2020/21 financial year.
- In relation to Note 5, Page 37, it was further highlighted that the recent pensions fund revaluation had resulted in an improvement to the Council's pensions fund position.
- Note 10 on Page 40 displayed movement in earmarked reserves from 2019/20 to 2020/21 financial years and it was highlighted that much work could not be undertaken during the period of Covid-19 pandemic and as such many of these earmarked reserves were unspent in the 2020/21 financial year.

Following the presentation, Members made a number of comments and observations relating to the draft Statement of Accounts.

Members expressed concern about the significant underspend on the Housing Revenue Account (HRA) for 2020/21 that was deemed to have a detrimental impact on social housing tenants. Members reported receiving numerous complaints from residents about lack of repairs to their properties and issues with mould and damp remaining unaddressed. In response it was noted that a lot of activity relating to repairs, maintenance, and the overall management of the HRA had to be paused during the period of restrictions and lockdowns relating to the covid-19 pandemic. As such, Council's housing stock non-urgent repairs were stopped at various points during 2020-21 and 2021-22 financial years and the Council was catching up on its repair schedule. It was further noted that there were difficulties with finding contractors to carry out some types of housing repairs and maintenance work but that steps would be taken to prioritise making funds from reserves available for removing mould from social housing properties.

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Members noted that the Council's earmarked reserves had increased significantly to a closing position at end of 2020/21 of £11.473 million and queried whether these were still held for relevant purposes. The Interim Director of Finance responded that a review of the Council's earmarked reserves would take place as part of tranche 2 of budget setting for the 2023/24 to 2025/26 Medium Term Financial Plan (MTFP) period, checking whether the purposes for which earmarked reserves had been set aside remained relevant.

Members asked about reasons for the underspend of circa £223,000 in Environmental Services. It was reported that this was due to increased income from burials in the 2020/21 period and savings on hedge cutting services due to the successful trial of using less agency workers and vehicles in that area.

Regarding the overspend of circa £257,000 in Financial and Customer Services, it was noted that this was due to under-recovery of benefits and debts due to court recoveries not taking place due to the pandemic.

In relation to grant income, it was noted that 2020/21 the Council received an administration subsidy from the Government to cover the internal costs of processing Covid-19 related and other grants as the Council processed almost £18 million in grant income. This administrative subsidy was higher than in previous years.

Officers confirmed that the work on finalising the Council's 2021/22 Accounts would commence once external auditors had commented and approved the 2020/21 Accounts. Officers hoped that the 2021/22 Accounts could be submitted to auditors before the end of the current municipal year.

It was highlighted that the audit sector experienced significant capacity issues across both internal and external audit, with Officers reporting that nationally more than half of all local authorities had yet to have their 2021/22 accounts signed off.

The Interim Director of Finance stated that if Members had any additional comments on the draft Statement of Accounts 2020/21 these could be submitted to Officers before the end of the year.

RESOLVED

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that the draft Statement of Accounts be approved prior to the commencement of the Audit.

40. COMMITTEE WORK PROGRAMME

The Committee's Work Programme was presented for Members' consideration.

The Interim Director of Finance confirmed that as discussed earlier in the meeting, an item on the explanation of how actuary valuation of the pension fund took place would be added to the Committee Work Programme for the March meeting of the Committee.

The Democratic Services Officer confirmed that any additional items that had been identified by Members during the course of the meeting would be added to the Committee's Work Programme.

RESOLVED that

the Committee Work Programme be updated as per the preamble above.

The Meeting commenced at 7.01 pm
and closed at 7.56 pm

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MONITORING OFFICER'S REPORT

Relevant Portfolio Holder	Councillor Karen Ashley – Portfolio Holder for Finance and Enabling
Portfolio Holder Consulted	Yes
Relevant Head of Service	Yes
Report Author Claire Felton	Job Title: Head of Legal, Democratic and Property Services Contact email: c.felton@bromsgroveandredditch.gov.uk
Wards Affected	N/A
Ward Councillor(s) consulted	N/A
Relevant Strategic Purpose(s)	An Effective and Sustainable Council
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. RECOMMENDATIONS

The Audit, Governance and Standards Committee is asked to RESOLVE that:-

1) subject to Members' comments, the report be noted

2. BACKGROUND

- 2.1 This report sets out the position in relation to key standards regime matters which are of relevance to the Audit, Governance and Standards Committee since the last update provided at the meeting of the Committee in October 2022.
- 2.2 It has been proposed that a report of this nature be presented to each meeting of the Committee to ensure that Members are kept updated with any relevant standards matters.
- 2.3 Any further updates arising after publication of this report, including any relevant standards issues raised by Parish Councils, will be reported on orally by Officers at the meeting.

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3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial implications arising out of this report.

4. LEGAL IMPLICATIONS

- 4.1 Chapter 7 of Part 1 of the Localism Act 2011 ('the Act') places a requirement on authorities to promote and maintain high standards of conduct by Members and co-opted (with voting rights) Members of an authority. The Act also requires the authority to have in place arrangements under which allegations that either a district or parish councillor has breached his or her Code of Conduct can be investigated, together with arrangements under which decisions on such allegations can be made.

5. STRATEGIC PURPOSES - IMPLICATIONS

Relevant Strategic Purpose

- 5.1 It is important to ensure that the Council manages standards regime matters in an appropriate manner. The issues detailed in this report help to ensure that there is an effective and sustainable Council.

Climate Change Implications

- 5.2 There are no specific climate change implications

6. OTHER IMPLICATIONS

Equalities and Diversity Implications

- 6.1 There are no direct implications arising out of this report. Details of the Council's arrangements for managing standards complaints under the Localism Act 2011 are available on the Council's website and from the Monitoring Officer on request.

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Operational Implications**6.2 Member Complaints**

Since the last meeting of the Committee, there have been a number of Borough Member to Member complaints regarding social media which are being dealt with locally by the Monitoring Officer in conjunction with the Group Leaders.

Member Support Steering Group

- 6.3 The Member Support Steering Group has met twice since the last meeting of the Committee.
- 6.4 At a meeting of the group that took place on 14th December the group considered feedback that had been received from Members elected in 2022 about their induction process. The information provided in completed copies of the survey helped to inform the group's discussions about requirements for the induction process in May 2023.
- 6.5 At a subsequent meeting of the group held on 17th January 2023, Members considered the draft content of the induction programme for Councillors due to be elected in May 2023. In addition, the group considered feedback from a survey that had been circulated for Members' consideration on the subject of the potential to reduce the amount of paperwork issued for Committee meetings and the possibility of paperless meetings.
- 6.6 Based on the feedback provided in completed copies of the survey, the group has decided not to require all Members to go paperless. Instead, Members will be able to choose to opt in to receiving paper copies of agenda packs in the future and further communications will be issued on this subject in due course.

Constitutional Review Working Party

- 6.7 The Constitutional Review Working Party continues to meet regularly. The latest meeting of the group is due to take place on 23rd January

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2023. Any recommendations arising from meetings of this group are reported to Council for Members' consideration.

Member Training

6.8 Since the last meeting of the Committee the following training has been delivered for Members:

- Cyber security training, which took place on 14th December 2022.
- Standards and Code of Conduct training, which was arranged following changes made to the Members' Code of Conduct in 2022. This training took place on 30th November 2022.

7. RISK MANAGEMENT

7.1 The main risks associated with the details included in this report are:

- Risk of challenge to Council decisions; and
- Risk of complaints about elected Members.

8. APPENDICES and BACKGROUND PAPERS

No appendices.

Chapter 7 of the Localism Act 2011.

9. REPORT SIGN OFF

Department	Name and Job Title	Date
Portfolio Holder	Councillor Karen Ashley – Portfolio Holder for Finance and Enabling	17/01/2023
Lead Director / Head of Service	Claire Felton - Head of Legal, Equalities and Democratic Services and Monitoring Officer	17/01/2023
Financial Services	N/A	

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Legal Services	Claire Felton - Head of Legal, Equalities and Democratic Services and Monitoring Officer	17/01/2023

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AUDIT, GOVERNANCE & STANDARDS COMMITTEE

THE INTERNAL AUDIT PROGRESS REPORT

Relevant Portfolio Holder	Councillor Karen Ashley
Portfolio Holder Consulted	Yes
Relevant Head of Service	Peter Carpenter, s151 Officer
Report Author	Job Title: Head of Internal Audit Shared Service Worcestershire Internal Audit Shared Service Contact email: andy.bromage@worcester.gov.uk Contact Tel: 01905 722051
Wards Affected	All Wards
Ward Councillor(s) consulted	No
Relevant Strategic Purpose(s)	Good Governance & Risk Management Underpins all the Strategic Purposes.
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. RECOMMENDATIONS

The Audit, Governance & Standards Committee is recommended-

1) that the report is noted.

2. BACKGROUND

The involvement of Member's in progress monitoring is considered an important facet of good corporate governance, contributing to the internal control assurance given in the Council's Annual Governance Statement.

This section of the report provides commentary on Internal Audit's performance for the period 01st April 2022 to 31st December 2022.

Summary Dashboard 2022/23:

Total reviews planned for 2022/23	15 (minimum)
Reviews finalised to date for 2022/23:	5 (incl. bus operator grant)
Assurance of 'moderate' or below:	2
Reviews awaiting final sign off:	2
Reviews ongoing:	8
Reviews to commence (Q4):	2
Number of 'High' Priority recommendations reported:	1
Satisfied 'High' priority recommendations to date:	0
Revised Plan delivery to December 2022:	67%

Since the last progress report presented to the Committee, three reports have been finalised, one grant return has been completed, two reports are at clearance/draft report stage and eight reviews are ongoing.

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Follow Up outcomes are reported in Appendices 4 and 5 and by exception.

All 'limited' or below assurance reviews go before Corporate Management Team for full consideration.

2022/23 AUDITS TAKING PLACE AS AT 31st DECEMBER 2023

A rolling programme of testing has taken place during quarters 1 to 3 for Debtors, Creditors and Payroll. The results will be reported during quarter 4.

The reviews that have been finalised since the last committee:

- Fuel usage across the fleet
- North Worcestershire Community Safety Partnership Grant
- Homelessness Grants

The reviews that are at draft report or clearance stage are:

- Debtors
- Main ledger

Reviews that had commenced and at planning and testing stages included:

- Transformation Team Utilisation
- Workshop Licensing Compliance
- Creditors
- Treasury Management
- Council Tax
- National Non-Domestic Rates
- Benefits
- Payroll

As the above are classified as 'on going' the assurance and outcome of the reviews will be reported at Committee on completion.

Critical review audits are designed to add value to an evolving Service area. Depending on the transformation that a Service is experiencing at the time of a scheduled review a decision is made regarding the audit approach. Where there is significant change taking place due to transformation, restructuring, significant legislative updates or a comparison required a critical review approach will be used. To assist the service area to move forwards challenge areas will be identified using audit review techniques. The percentage of critical reviews will be confirmed as part of the overall outturn figure for the audit programme. The outturn from the reviews will be reported in summary format as part of the regular reporting.

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Internal Audit are continuing to consider new processes emerging from the ongoing changing working arrangements that have been necessary to continue to provide Redditch residents with services post pandemic. Plan flexibility is continuing to be required to include and provide assurance on potential areas of change.

Follow up reviews are an integral part of the audit process. There is a rolling programme of review that is undertaken to ensure that there is progress with the implementation of the agreed action plans (Appendix 4). The outcomes of the follow up reviews are reported in full (Appendix 5) so the general direction of travel and the risk exposure can be considered by Committee. An escalation process involving CMT and SMT is in place to ensure more effective use of resource regarding follow up to reduce the number of revisits necessary to confirm the recommendations have been satisfied.

3.4 AUDIT DAYS

Appendix 1 provides a summary of delivery. At the 31st December 2022 a total of 202 days had been delivered against an overall revised target of 300 days for the year.

Appendix 2 shows the indicative plan for the year and the progress made to deliver it.

Appendix 3 provides copies of the reports that have been completed and final reports for 2022/23 issued since the previous progress report presented to Committee.

Appendix 4 provides a summary overview of the follow up programme.

Appendix 5 provides copies of the completed Follow Up Reports.

3.5 OTHER KEY AUDIT WORK

Much internal audit work is carried out “behind the scenes” but is not always the subject of a formal report. Productive audit time is accurately recorded against the service or function as appropriate. Examples include:

- Governance for example assisting with the Annual Government Statement
- Risk management
- Transformation review providing support as a ‘critical appraisal’
- Dissemination of information regarding potential fraud cases likely to affect the Council
- Drawing managers’ attention to specific audit or risk issues
- Audit advice and commentary

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- Internal audit recommendations: follow up review to analyse progress
- Day to day audit support and advice for example control implications, etc.
- Networking with audit colleagues in other Councils on professional points of practice
- National Fraud Initiative coordination of uploads.
- Investigations

National Fraud Initiative

- 3.6 National Fraud Initiative data set uploads were completed by the end of November 2022. The next upload of data sets is during January 2023 regarding Council Tax Single Person Discount and Electoral Registration which is in hand. WIASS continue to provide advice and assistance regarding the process.

Monitoring

- 3.7 To ensure the delivery of the 2022/23 plan and any revision required there continues to be close and continual monitoring of the plan delivery, forecasted requirements of resource – v – actual delivery, and where necessary, additional resource will be secured to assist with the overall Service demands. The Head of Internal Audit Shared Service remains confident his team have provided the required coverage for the year to ensure an internal audit opinion can be reached using reviews from the authority's core financial systems, as well as other systems. Changes to the plan have been discussed with the s151 Officer and reported to Committee.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising out of this report.

5. LEGAL IMPLICATIONS

- 5.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2018 to "maintain in accordance with proper practices an adequate and effective system of internal audit of its accounting records and of its system of internal control".

6. STRATEGIC PURPOSES - IMPLICATIONS

Relevant Strategic Purpose

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- 6.1 Good governance along with risk management underpin all the Corporate strategic purposes. This report provides an independent assurance over certain aspects of the Council's operations.

Climate Change Implications

- 6.2 The actions proposed do not have a direct impact on climate change implications.

7. OTHER IMPLICATIONS

Equalities and Diversity Implications

- 7.1 There are no implications arising out of this report.

Operational Implications

- 7.2 There are no new operational implications arising from this report.

8. RISK MANAGEMENT

- 8.1 The main risks associated with the details included in this report are to:
- Insufficiently complete the planned programme of audit work within the financial year leading to an inability to produce an annual opinion; and,
 - a continuous provision of an internal audit service is not maintained.

9. APPENDICES and BACKGROUND PAPERS

Appendix 1 ~ 2022/23 Internal Audit Plan summary of delivery
Appendix 2 ~ 2022/23 Plan progress
Appendix 3 ~ 2022/23 Finalised audit reports including definitions
Appendix 4 ~ 2022/23 Follow Up Programme Overview
Appendix 5 ~ 2022/23 Follow Up Reports

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APPENDIX 1

Delivery against Internal Audit Plan for 2022/23
1st April 2022 to 31st December 2022

Audit Area	Revised 2022/23 Plan Days	Actual Days used to 31st December 2022
Core Financial Systems (see note 1)	88	43
Corporate Audits	43	16
Other Systems Audits (see note 2)	134	123
SUB TOTAL	265	182
Audit Management Meetings/		
Corporate Meetings / Reading	35	20
Annual Plans, Reports and Audit Committee Support		
Other chargeable (see note 3)	0	0
SUB TOTAL	35	20
TOTAL	300	202
Rubicon	10	10

Audit days used are rounded to the nearest whole.

Note 1: Core Financial Systems are audited predominantly in quarters 3 and 4 in order to maximise the assurance provided for Annual Governance Statement and Statement of Accounts but not interfere with year-end. A rolling programme continues regarding Debtors, Creditors and Payroll to maximise coverage and sample size. The overall results will be reported during Q4.

Note 2: Several budgets in this section are 'on demand' (e.g. consultancy, investigations) so the requirements can fluctuate throughout the quarters potentially resulting in unallocated days.

Note 3: 'Other chargeable' days equate to times where there has been, for example, significant disruption to the IT provision resulting in lost productivity.

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Appendix 2

2022/23 Internal Audit Plan

Audit Area	Corporate Link (corporate Priority / Strategic Purpose)	Risk Register Reference	Indicative Date of Delivery 2022/23	Current Position	Estimated Resource 2022/23
FINANCIAL					
Debtors (note 1)	Enabling	Lack of robust financial accounting and monitoring arrangement	Q1 to Q4	Draft Report	12*
Main Ledger/Budget Monitoring/Bank Rec (note 1)	Enabling	Lack of robust financial accounting and monitoring arrangement	Q3 to Q4	Draft Report	13*
Creditors (note 1)	Enabling	Lack of robust financial accounting and monitoring arrangement	Q1 to Q4	Rolling Programme/ Testing in progress	12*
Treasury Management (incl. strategic acquisitions)	Enabling	Lack of robust financial accounting and monitoring arrangement	Q2	Testing in progress	6*
Council Tax	Enabling	Lack of robust financial accounting and monitoring arrangement	Q3 to Q4	Testing in progress	8*
Benefits	Enabling	Lack of robust financial accounting and monitoring arrangement	Q3 to Q4	Testing in progress	10*
NNDR	Enabling	Lack of robust financial accounting and monitoring arrangement	Q3 to Q4	Testing in progress	8*

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Audit Area	Corporate Link (corporate Priority / Strategic Purpose)	Risk Register Reference	Indicative Date of Delivery 2022/23	Current Position	Estimated Resource 2022/23
Payroll	Enabling & Contractual Obligation	Lack of robust financial accounting and monitoring arrangement	Q1 to Q3	Rolling Programme/ Testing in Progress	19
Sub TOTAL					88
CORPORATE					
IT Audit (Cyber essentials)	Fundamental to strategic purpose delivery	N/a	Q3 - Q4	Q4 review	15*
Risk Management (Action plan implementation) (note 2)	Fundamental to strategic purpose delivery	S151 request	Q3 - Q4	Q4 review	10*
GIS & Gazetteer – Phase 1	Fundamental to strategic purpose delivery	HoS	Q1	Final Report issued 16/08/2022	10*
Transformational Team Utilisation	Fundamental to strategic purpose delivery	HoS	Q1 - Q2	Testing in progress	8*
Disabled Facility Grants	Enabling	N/a		Liaison with County underway	0
Sub TOTAL					43

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Audit Area	Corporate Link (corporate Priority / Strategic Purpose)	Risk Register Reference	Indicative Date of Delivery 2022/23	Current Position	Estimated Resource 2022/23
SERVICE DELIVERY					
Community & Housing Service					
Homelessness Grants	Help me to live my life independently	HoS	Q1	Final Report Issued 24/11/2022	20
Housing Revenue Account	Help me to live my life independently	HoS	Q4	Rolled to 2023/24	(15)
Lifeline Service	Help me to live my life independently	HoS	Q2	External scrutiny/audit therefore no further action required	(0)
Community Safety Grant	Help me to live my life independently	HoS	Q2	Replaced the Lifeline Service Review	10
Environmental & Housing Property Services					
Workshop Licensing Compliance	Fundamental to strategic purpose delivery	HoS	Q2	Testing in progress	15
Fuel Usage Across the Fleet	Fundamental to strategic purpose delivery	HoS	Q1	Final report issued 28/10/2022	25

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Audit Area	Corporate Link (corporate Priority / Strategic Purpose)	Risk Register Reference	Indicative Date of Delivery 2022/23	Current Position	Estimated Resource 2022/23
Planning, Regeneration & Leisure					
Leisure Strategy	Provide good things for me to see, do and visit	HoS	Q3 - Q4	Rolled to 2023/24.	(6)
Sub TOTAL					70
Other Operational Work					
Advisory, Consultancy & Contingency	Operational support	N/a	Q1 - Q4	Ongoing	10
Fraud & Investigations incl. NFI	Operational support	N/a	Q1 - Q4	Ongoing	15
Completion of prior year's audits	Operational support	N/a	Q1	Completed	12
Report Follow Up (all areas)	Operational support	N/a	Q1 - Q4	Ongoing	15
Statement of Internal Control	Operational support	N/a	Q1 & Q4	Q1 completed	6
Bus Operators Grant	Operational support	N/a	Q1 & Q3	Q1 return completed	6
Sub TOTAL					64

REDDITCH BOROUGH COUNCIL

Date: 26th January 2023

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

Audit Area	Corporate Link (corporate Priority / Strategic Purpose)	Risk Register Reference	Indicative Date of Delivery 2022/23		Current Position	Estimated Resource 2022/23
Audit Management Meetings	Operational support	N/a	Q1 to Q4		Ongoing	35
Corporate Meetings / Reading	Operational support	N/a	Q1 to Q4			
Annual Plans, Reports & Committee Support	Operational support	N/a	Q1 to Q4			
Sub TOTAL						35
TOTAL						300

Rubicon Leisure	Arms-length LA Company	N/a	N/a			10
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Audit, Governance & Standards Committee

26th January 2023

Explanatory Notes:

*As part of the increasing joint and shared service working between Bromsgrove District Council and Redditch Borough Council the audit budgets and areas will feature in the internal audit plans and be consolidated to deliver a single piece of work covering both Councils. Where practically possible the days will be split equally between the plans. Weighting will, however, be applied if it is considered the focus of the work will major on one Council.

The customer journey will be considered overall as part of the service audits.

Note 1: New financial system therefore audit budget increase.

Note 2: Risk management relaunch reviewing ongoing progress against action plan and reporting.

Note 3: There was no budget included in the plan for this additional piece of work.

Appendices A & B are indicated below and are applied to all reports.

Appendix A

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet its objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

Appendix B
Definition of Priority of Recommendations

Priority	Definition
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.
Medium	Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation within 3 to 6 months is important in order to provide satisfactory control of the risk(s) the system is exposed to.
Low	Control weakness that has a low impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation is desirable as it will improve overall control within the system.

2022/23 Audit Report.

Finalised report since the last Committee sitting.

Worcestershire Internal Audit Shared Service



**Internal Audit Report
Fleet & Plant – Fuel Usage & Efficiency 2022-23
28th October 2022**

Distribution:

To: Environmental Services Manager
Environmental Services Manager
Environmental Services Manager
Cc: Head of Environmental and Housing Property Services

Audit, Governance & Standards Committee

26th January 2023

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	APPENDIX B	Error!
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1. Introduction

- 1.1 The audit of Fleet and Plant – Fuel Usage & Efficiency was carried out in accordance with the Worcestershire Internal Audit Shared Service Draft Audit Plan for Redditch Borough Council for 2022/23 approved by the Governance and Standards Committee on 28th July 2022. The audit was a risk-based systems audit of Fleet and Plant – Fuel Usage & Efficiency as operated by Redditch Borough Council.
- 1.2 Fuel is required for the Councils fleet and therefore it is an important underpinning commodity for services provided to the public by the Environmental Services directorate.

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1.3 No risk register entries were identified that related directly to this review.

1.4 This review was undertaken during the months of May to July 2022.

2 Audit Scope and objective

2.1 This review was undertaken to provide assurance that fuel usage for fleet and plant is controlled and is being monitored to ensure that there is optimum efficiency and fuel is accounted for.

2.2 The scope of the audit covered the following:

- Fuel usage data monitoring for both Fleet and Plant
- Monitoring of driver efficiency
- Analysis of the age of fleet/plant and the vehicle maintenance schedules
- Vehicle use including the tracking of vehicles for performance data
- Follow-up of the 2021-22 Housing Fuel Usage review outcomes

2.3 This review covered the procedures in place at the time of the review.

2.4 This review did not cover the type of vehicles that make up the fleet.

2.5 The scope covered a follow-up of the 2021-22 Housing Fuel Usage critical review. This follow-up was carried out and the outcomes reported separately. Further follow-ups will be incorporated into the follow-up process for this review and consequently the fleet as a whole.

3 Audit Opinion and Executive Summary

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- 3.1 From the audit work carried out we have given an opinion of **moderate assurance** over the control environment in this area. The level of assurance has been calculated using a methodology that is applied to all Worcestershire Internal Audit Shared Service audits and has been defined in the “Definition of Audit Opinion Levels of Assurance” table in Appendix A. However, it should be noted that statements of assurance levels are based on information provided at the time of the audit.
- 3.2 We have given an opinion of **moderate assurance** in this area because the system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet its objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.
- 3.3 The review found the following areas of the system were working well:
- The Council has systems already in place that can provide the facility to report in detail on vehicle and driver activity.
 - Vehicles are subject to regular maintenance and records are held accordingly.
 - Drivers are monitored for speeding and supervisors are involved regarding any incidents.
- 3.4 The review found the following areas of the system where controls could be strengthened:

Title of Finding	Priority (see Appendix B)	Section 4 Recommendation number
Fuel Transaction Reporting	Medium	1
Fuel Usage Monitoring and Reporting	Medium	2
Fuel – Records and Audit Trails	Medium	3
Fuel System – Staff Records	Medium	4
Driver Efficiency and Performance	Medium	5
Vehicles and Plant – ‘Master Lists’	Medium	6

4 Detailed Findings and Recommendations

The issues identified during the audit have been set out in the table below along with the related risks, recommendations, management responses and action plan. The issues identified have been prioritised according to their significance / severity. The definitions for high, medium and low priority are set out in the “Definition of Priority of Recommendations” table in Appendix B.

Ref.	Priority	Finding	Risk	Recommendation	Clearance meeting discussion points
New matters arising					
1	M	<p><u>Fuel Transaction Reporting</u></p> <p>Testing on fuel transaction records found that there are errors in the figures reported for distance travelled and miles per gallon.</p> <p>During testing audit found that a locked key fob was used to fuel a vehicle during a period where the system was awaiting an update.</p>	<p>Errors in fuel transaction information undermine any reporting and subsequent action as a result of reported data, potentially resulting in poor decision making leading to financial loss.</p> <p>A lack of routine reporting on fuel transactions will lead to any anomalies in figures not being picked up resulting in a</p>	<p>Introduce regular quality checks of fuel system data to identify and rectify any errors or anomalies in a timely manner.</p>	<p><u>Management Response:</u></p> <p>Supplies & Facilities Team Leader to do a visual check on reports produced for managers and team leaders to identify obvious errors, and these are to be reported to the services managers. See comments for item 2.</p> <p><u>Responsible Manager:</u> K H – Environmental Services Manager</p>

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			delay which could potentially be months after the event.		<u>Implementation Date:</u> January 2023
2	M	<p><u>Fuel Usage Monitoring and Reporting</u></p> <p>Fuel monitoring and reporting is not formalised or consistent across the fleet.</p> <p>The fuel systems in place have the functionality to provide detailed reports on fuel usage, mileage and distance travelled as well as transactional data around fuel such as driver, vehicle, transaction date and time, type of fuel and amount dispensed.</p>	<p>There is a risk that efficiencies regarding fuel, vehicles and drivers may not be identified if all the required data is not considered and utilised.</p>	<p>Review the requirement for regular monitoring of fuel usage and mileage and the use of the fuel reports in conjunction with data from the vehicle tracking systems, so that managers can view fuel usage information for all fleet vehicles and take action as required. Reports can be produced with detailed datasets which will provide a greater and clearer understanding of how fuel is dispensed and used in vehicles and equipment.</p> <p>Define what metrics are required for the Council to effectively measure fuel efficiency, consumption, carbon emissions etc. following which the system reports can be tailored accordingly.</p>	<p><u>Management Response:</u></p> <p>Supplies & Facilities Team Leader to provide fuel transaction data to Service Managers/Team Leaders every three months to enable them to undertake a quality check on distance travelled and fuel used. Each Service manager has access to vehicle tracking data to crosscheck journeys undertaken.</p> <p><u>Responsible Manager:</u> C W – Environmental Services Manager K H – Environmental Services Manager Other Service Managers in line with fleet responsibilities</p> <p><u>Implementation Date:</u> January 2023</p> <p>Once Fuel data/monitoring is established and reported to managers (See above), overall service figures are to be reported to Senior managers at their regular Environmental Services and Housing Management Team</p>

					<p>meetings as part of the performance data. This will include CO2 emissions.</p> <p><u>Responsible Manager:</u> Supplies & Facilities Team Leader to provide Support & Improvements Team Leader with data to include in management report.</p> <p><u>Implementation Date:</u> April 2023</p>
3	M	<p><u>Fuel (Plant) – Records and Audit Trails</u></p> <p>There is a lack of an audit trail around fuel used for plant equipment. Fuel records do not include an asset number or other indicator of where the fuel is being used or what it has been obtained for. Details that are not recorded include what plant equipment is being fuelled and how much is being added.</p>	<p>With the current cost of fuel there is an increased risk of fuel theft as there is opportunity in this area if the Council cannot accurately track where fuel is ultimately ending up.</p>	<p>Where fuel records do not include identification of the plant equipment being fuelled, use an asset number or similar code to demonstrate where fuel is being assigned to and utilised.</p> <p>Implement random fuel record checks to highlight any anomalies with reporting by exception.</p>	<p><u>Management Response:</u></p> <p>It is not possible to have a separate fuel key for each item of small plant. Consider separate fuel key for each service area for fuel. Each Team Leader to record what small plant is being fuelled from separate tanks rather than via a fuel key.</p> <p><u>Responsible Manager:</u> C W – Environmental Services Manager Other Service Managers in line with fleet responsibilities</p> <p><u>Implementation Date:</u> January 2023</p>
4	M	<u>Fuel System – Staff Records</u>			<u>Management Response:</u>

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		<p>Walkthrough testing of the fuel systems found that there are staff who have left the Council who remain active on the system with keys still allocated to them.</p>	<p>There is a risk of potential fraud and theft if staff records remain on the system after they have left.</p> <p>If leavers are not being flagged on the system, then keys may not be returned - leading to potential cost implications for the Council and time taken to trace and deactivate them.</p>	<p>Assess the need for including the return and recording of any allocated keys in the leavers process.</p> <p>Conduct a thorough review of all systems to ensure that any staff who are no longer employed by the Council are removed and any allocated fuel and vehicle keys are deactivated or reassigned.</p>	<p>All Service managers to notify the Supplies & Facilities Team Leader and the Fleet & Logistics Technician of any staff who leave the Authority so that their access can be removed to both fuel and keys. All keys and fobs to be collected and returned when a member of staff leaves.</p> <p><u>Responsible Manager:</u> C W – Environmental Services Manager Other Service Managers in line with fleet responsibilities</p> <p><u>Implementation Date:</u> January 2023</p>
5	M	<p><u>Driver Efficiency and Performance</u></p> <p>At present, driver efficiency and performance are not being actively monitored and managed - with the exception of speeding incidents. The systems in place would allow for this to be achieved, however the metrics involved would need to be defined, tested and approved by management and possibly Unions first.</p>	<p>There is a risk of poor driver behaviour and performance which could potentially not be picked up if the Council does not monitor and manage it regularly.</p> <p>This in turn could lead to severe consequences for the</p>	<p>Define what the Council needs to monitor to promote the efficiency of drivers and the metrics that they could be measured against.</p> <p>Investigate what information can be provided by the existing systems and how it might be presented.</p>	<p><u>Management Response:</u></p> <p>See the response to item 2.</p> <p>Service Managers can access the tracking data under the tracker operational procedure currently in place. This will identify routes followed and speeds driven.</p> <p><u>Responsible Manager:</u></p>

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		Drivers are aware of what is expected of them, and inductions are revisited every 2 years, with licence checks being carried out every six months.	Council if there is an incident on the road.		C W – Environmental Services Manager Other Service Managers in line with fleet responsibilities <u>Implementation Date:</u> January 2023
6	M	<p><u>Vehicles and Plant – ‘Master Lists’</u></p> <p>There is a 'master' list held for fleet and plant. The list is not consistent with other records in the format and information provided. Additionally, the records on the master fleet list does not match the fuel system with vehicles being recorded against different departments.</p> <p>Where plant equipment is not 'road-registered' it is given an asset code which is displayed in the fleet listings. However, the asset code is not used as an identifier in the fuel systems.</p>	Where the master list does not match the fuel system records there is a risk of bad management decision making due to confusion over where a vehicle is allocated, and a potential further risk that fuel could be charged to the wrong departments.	Review the format of how Fleet details are recorded and update the lists to make them consistent while containing all the necessary information relating to a vehicle.	<p><u>Management Response:</u></p> <p>Workshop and Fleet Team Leader to undertake a review of all the fleet lists for both authorities to ensure that the data is correct and consistent.</p> <p>Service managers should notify the workshop if vehicles are moved to other service areas to enable costs to be accurately allocated.</p> <p><u>Responsible Manager:</u> K H – Environmental Services Manager C W – Environmental Services Manager Other Service Managers in line with fleet responsibilities</p> <p><u>Implementation Date:</u> March 2023</p>

5. Independence and Ethics:

- WIASS confirms that in relation to this review there were no significant facts or matters that impacted on our independence as Internal Auditors that we are required to report.
- WIASS conforms with the Institute of Internal Auditors Public Sector Internal Audit Standards as amended and confirms that we are independent and able to express an objective opinion in relation to this review.
- WIASS confirm that policies and procedures have been implemented to meet the IIA Ethical Standards.
- Prior to and at the time of the audit no non-audit or audit related services have been undertaken for the Council within this area of review.

Head of Internal Audit Shared Services

Worcestershire Internal Audit Shared Service



Final Internal Audit Report

The Administration of North Worcestershire Community Safety Partnership Grant Money 2022/23

23rd November 2022

Distribution:

To: Community Safety Manager
Head of Community and Housing Services

Audit, Governance & Standards Committee

26th January 2023

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1. Introduction

- 1.1 The audit of the administration of the North Worcestershire Community Safety Partnership Grant Money was carried out in accordance with the Worcestershire Internal Audit Shared Service Audit Plan for Redditch Borough Council for 2022/23 as approved at the Governance and Standards Committee on 28th July 2022. The audit was a risk-based systems audit of the administration of the North Worcestershire Community Safety Partnership Grant Money as held and distributed by Redditch Borough Council.
- 1.2 This review links to the Council's Strategic Purpose of 'Communities which are safe, well-maintained and Green' and the Community Priority of 'Community Safety and Anti-Social Behaviour.'
- 1.3 The following risk on the 4Risk system was relevant to this review:
 - COM6 – Community Safety – Reductions in funding from PCC
- 1.4 This review was undertaken during October 2022.

Audit, Governance & Standards Committee

26th January 2023

2 Audit Scope and objective

- 2.1 This review was undertaken to provide assurance that North Worcestershire Community Safety Partnership grant monies are being held and processed by Redditch Borough Council in an open and transparent manner and are distributed in accordance with the purposes for which they are intended.
- 2.2 The scope covered the following:
- Audit trails relating to grant monies.
 - Controls over how the Council distributes grant money as required and within the appropriate timeframe.
 - Oversight and monitoring of money awarded.
 - Reporting
- 2.3 This reviewed covered the controls in place at the time of the audit.
- 2.4 This review did not cover the following:
- The amounts awarded in relation to the grants.
 - Actions and decisions taken by external partners.

3 Audit Opinion and Executive Summary

- 3.1 From the audit work carried out we have given an opinion of **full assurance** over the control environment in this area. The level of assurance has been calculated using a methodology that is applied to all Worcestershire Internal Audit Shared Service audits and has been defined in the "Definition of Audit Opinion Levels of Assurance" table in Appendix A. However, it should be noted that statements of assurance levels are based on information provided at the time of the audit.

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- 3.2 We have given an opinion of **full assurance** in this area because all the key controls tested are in place and operating effectively and that no weaknesses have been identified in the design or operation of the system. Audit found that the controls in place are well embedded having been in place for several years and no significant issues were raised during testing.
- 3.3 The review found the following areas of the system were working well:
- Audit trails are maintained for the movement of grant money throughout the system
 - Controls are well embedded within the Council and the Community Safety team for the administration of grant money
 - There is regular, ongoing monitoring of projects and outputs throughout the financial year
 - Reporting is regular and takes place on several levels both within the Council and to the OPCC

4 Detailed Findings and Recommendations

The issues identified during the audit have been set out in the table below along with the related risks, recommendations, management responses and action plan. The issues identified have been prioritised according to their significance / severity.

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
New matters arising					
There were no risks or control issues that require reporting					

Audit, Governance & Standards Committee

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5. Independence and Ethics:

- WIASS confirms that in relation to this review there were no significant facts or matters that impacted on our independence as Internal Auditors that we are required to report.
- WIASS conforms with the Institute of Internal Auditors Public Sector Internal Audit Standards as amended and confirms that we are independent and able to express an objective opinion in relation to this review.
- WIASS confirm that policies and procedures have been implemented to meet the IIA Ethical Standards.
- Prior to and at the time of the audit no non-audit or audit related services have been undertaken for the Council within this area of review.

Head of Internal Audit Shared Services

Worcestershire Internal Audit Shared Service



Final Internal Audit Report

Homelessness Grants 2022/23

24th November 2022

Distribution:

To: Head of Community and Housing Services
Strategic Housing Officer

Audit, Governance & Standards Committee

26th January 2023

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APPENDIX B.....	Error! Bookmark not defined.

1. Introduction

- 1.1. The audit of the Homelessness Grants process was carried out in accordance with the Worcestershire Internal Audit Shared Service Audit Plan for Redditch Borough Council for 2022/23 as approved by the Governance and Standards Committee on 28th July 2022. The audit was a risk based systems audit of the homelessness grants Process as operated by Redditch Borough Council.
- 1.2 This review relates to the strategic purposes of:
 - Community Priority: Housing Growth, supporting people to help prevent homelessness
 - Community Priority: Skills, Support residence to manage finance and ensuring people get the benefits they need.
- 1.3 There are no risks on the corporate risk register relating to the areas under review. The service risk relevant to this review is:

HOU7 – Fail to manage impact of increasing homelessness cases and recruitment challenges

There is a risk that more households who are threatened with homelessness, or who are in housing need, will have limited alternative options. There is also the risk that they may have to make a homeless approach, and this could consequently lead to the following negative outcomes:

- Increased B&B costs
- Increased rough sleeping in the district
- Impacts on the individual in terms of physical and mental health,
- Educational achievement, ability to work and similar through increased homelessness.

1.4 This review was undertaken during the months of August 2022 and September 2022

2. Audit Scope and objective

2.1. This review has been undertaken to provide assurance that funding received from central government is awarded only to those partners that comply with the government guidelines, are processed in an open and transparent and efficient manner and achieves the best outcomes that it can.

Where the grant received by the Council has not been spent, delegated authority to adjust and distribute elsewhere have been reviewed and agreed, in line with the original purpose.

2.2. The scope covered:

- Homelessness Prevention Grant, process including the awareness of the grant, recording of expenditure, process, and controls to ensure grant is spent in line with the terms of the grant.
- (RSI) Rough Sleepers Initiative, process including recording of expenditure, process, and controls to ensure grant is spent in line with the terms of the grant.

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2.3. This reviewed covered procedures in place at the time of the review.

2.4. This review did not cover the following:

- Any other housing grants
- Low Carbon Business Grants
- Business Grants

3. Audit Opinion and Executive Summary

3.1. From the audit work carried out we have given an opinion of **moderate** over the control environment in this area. The level of assurance has been calculated using a methodology that is applied to all Worcestershire Internal Audit Shared Service audits and has been defined in the “Definition of Audit Opinion Levels of Assurance” table in Appendix A. However, it should be noted that statements of assurance levels are based on information provided at the time of the audit.

3.2. We have given an opinion of **moderate** in this area because the system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet its objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.

3.3. The review found the following areas of the system were working well:

- Timelines for grant applications
- Overall application process is adhered to
- Successful award grant notifications.
- Good Plans/projects identified
- The continuous reviewing of what needs you need - help with progression

3.4. The review found the following areas of the system where controls could be strengthened:

	Priority (see Appendix B)	Section 4 Recommendation number
Monitoring & Achievements of Plans/Projects	High	1
Publicity	Medium	2
Retaining relevant documentation	Medium	3

4. Detailed Findings and Recommendations

The issues identified during the audit have been set out in the table below along with the related risks, recommendations, management responses and action plan. The issues identified have been prioritised according to their significance / severity. The definitions for high, medium and low priority are set out in the “Definition of Priority of Recommendations” table in Appendix B.

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
New matters arising					
1	H	Monitoring & Achievements of Plans/Projects The purpose of the Homelessness Prevention Grant fund is to give local authorities control and flexibility in managing homelessness pressures and supporting those who are at risk of homelessness. The Government expects	Risk of theft, no transparency which could result in challenge from the public resulting in reputational damage.	To ensure that the Government funding is being used to achieve the purpose of that funding Quarterly monitoring to take place obtaining factual evidence that projects are spending monies where	We have considered what might be helpful in providing verification of grant expenditure including bank statements and receipts and am starting to have discussions with partners regarding this. We hope to have this in place by the end of this

Audit, Governance & Standards Committee

26th January 2023

		<p>local authorities to use it to deliver the following priorities:</p> <ol style="list-style-type: none"> 1. To fully enforce the Homelessness Reduction Act and contribute to ending rough sleeping by increasing activity to prevent single homelessness 2. Reduce family temporary accommodation numbers through maximising family homelessness prevention 3. Eliminate the use of unsuitable bed and breakfast accommodation for families for longer than the statutory six-week limit. The current issues highlighted are that more and more B&Bs are being used, defeating one of the purposes highlighted above. <p>The current issues highlighted are that more and more B&Bs are being used, defeating one of the purposes highlighted above.</p> <p>Once a grant has been awarded there is little monitoring of how these grants are being spent. The monitoring consists of discussions on cases rather than overall outcomes and achieving of objectives.</p>		<p>stated, including but not limited to statements of return, spreadsheets, receipts as relevant to the amount of grant awarded.</p> <p>This needs to especially apply to those grants that have been awarded outside of the Council's boundaries with the intention of helping the residents of the Council.</p> <p>Overall, there needs to be transparency over how the awarding of grants is achieving the Council's strategic plan/policy and ultimately the purpose of the funding.</p>	<p>financial year for this financial year.</p> <p>Responsible Manager:</p> <p>Strategic Housing Officer</p> <p>Implementation date:</p> <p>31st March 2023</p>
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Audit, Governance & Standards Committee

26th January 2023

2	M	<p>Publicity</p> <p>Grant recipients are required to acknowledge the support of the Council in all promotional material related to the funded project:</p> <ul style="list-style-type: none"> i) All printed information must include an acknowledgement of the support of the Council. The official the Council logo can be supplied electronically on request. Alternative versions of the Council's logo must not be used under any circumstance. ii) All press releases issued by the grant recipient relating to the funded project must include an acknowledgement of the support of the Council. iii) Any evidence that the Council's support has been acknowledged should be provided with monitoring information. <p>Information on grant awards will be published on the Council website and in the local press. Follow-up publicity on grant awards may be undertaken throughout the year. Grant recipients are required to consent to their funded project being profiled in any publicity to promote the Council's voluntary sector grants process.</p>	<p>The grants are not reaching and being applied for by the target audiences therefore not helping the Council to achieve its objectives resulting in financial loss from a waste of public funds.</p>	<p>There needs to be a decision made as to whether this should be a requirement or not.</p> <p>If it is too be a requirement, then the Council need to make sure that this is being implemented as part of the monitoring process.</p> <p>It is important that this is monitored as any issues with the organisation could impact on the Council's reputation.</p>	<p>We will be requesting contact from the partner prior to publicity to ensure that we are happy with the proposal. We will then require evidence of promotional material whether in paper or electronic format.</p> <p>Responsible Manager:</p> <p>Strategic Housing Officer</p> <p>Implementation date:</p> <p>30th April 2023</p>
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Audit, Governance & Standards Committee

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		There is little evidence that this is being undertaken.			
3	M	Retaining Relevant Documentation There are a few applications and other documentations that have been lost due to email archiving,	Loss of audit trail challenge on any grants given leading to potential financial loss and reputational damage.	Information to be saved within the relevant folders in a timely manner and not stored within outlook or own personal folders.	All applications and correspondence is now saved onto the K drive including email contact. Responsible Manager: Strategic Housing Officer Implementation date: 30 th November 2022

5. Independence and Ethics:

- WIASS confirms that in relation to this review there were no significant facts or matters that impacted on our independence as Internal Auditors that we are required to report.
- WIASS conforms with the Institute of Internal Auditors Public Sector Internal Audit Standards as amended and confirms that we are independent and able to express an objective opinion in relation to this review.
- WIASS confirm that policies and procedures have been implemented to meet the IIA Ethical Standards.
- Prior to and at the time of the audit no non-audit or audit related services have been undertaken for the Council within this area of review.

Head of Internal Audit Shared Services

Overview of Follow Up Programme

	Year of Review	Review Area	Assurance	Follow Up Position	Indicative Date of Follow Up		Conclusion
RBC	20/21	Orb	Moderate	Completed			
RBC	20/21	Use of Agency and Consultancy	Critical review	Completed			Positive direction of travel. Now needs to embed with one small area to address which requires a system update.
RBC	21/22	Strategic Acquisitions	Significant	Completed			
RBC	21/22	Procurement	Limited	1st	Sep-22	Q2	Update report provided
RBC	21/22	General Data Protection Regulation	Moderate	1st	Nov-22	Q3	Position to be confirmed
RBC	21/22	Grants	Significant	1st	Nov-22	Q3	Position to be confirmed
RBC	21/22	Treasury Management	Significant	1st	Dec-22	Q3	To be followed up as part of the 22/23 Audit Quarter 3
RBC	21/22	Accounts Receivable	Limited	1st	Dec-22	Q3	To be followed up as part of the 22/23 Audit Quarter 3
RBC	21/22	Asbestos	Significant	1st	Feb-23	Q4	Follow up programmed for Feb

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	Year of Review	Review Area	Assurance	Follow Up Position	Indicative Date of Follow Up		Conclusion
RBC	21/22	Gas Inspections	Significant	1st	Feb-23	Q4	Follow up programmed for Feb
RBC	21/22	Council Tax	Significant	1st	Nov-22	Q3	To be followed up as part of the 22/23 Audit Quarter 3
RBC	21/22	National Non-Domestic Rates	Significant	1st	Nov-22	Q3	To be followed up as part of the 22/23 Audit Quarter 3
RBC	21/22	Risk Management	No	1st	Nov-22	Q3	Full 22/23 Audit to be undertaken
RBC	21/22	Benefits	Significant	1st	Nov-22	Q3	To be followed up as part of the 22/23 Audit Quarter 3
RBC	21/22	Projects	Moderate	Completed			Positive direction of travel. Although there are a couple of partially implemented recommendations this needs time to embed.
RBC	21/22	Budget Monitoring	Critical review	1st	Oct-22	Q3	To be followed up as part of the 22/23 Main Ledger Audit Quarter 3
RBC	21/22	Fuel Usage	Critical review	Completed			The findings from this were rolled into the 22/23 audit and reported on.

Note: 2022/23 Review areas will be added to the table when they become due for a follow up visit.

Follow Up Reports

Worcestershire Internal Audit Shared Service



Bromsgrove
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The Orb 2021/22

2nd Follow-up Report - 26th October 2022

Distribution:

To: Head of Transformation
ICT Transformation manager
ICT Operations Manager

Audit, Governance & Standards Committee

26th January 2023

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Section A - Justification of Audit Follow-up Approach

The date of the final audit Report was 27/08/2020. The first follow up took place on the 07/10/2021 and has been followed up for a second time because:

- 2 medium priority recommendations remained outstanding:

Please note that recommendations implemented prior to the first follow up have not been included in this report.

To provide an updated position the following audit approach has been applied:

- The 2 ‘medium’ priority recommendations outstanding from the first follow up have been updated with the current position.
- Where required recommendations against weaknesses in key controls have been tested substantively/ evidenced.

Audit, Governance & Standards Committee

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Section B - Conclusion - Current Position statement

The original audit report gave **Moderate Assurance** over the control environment. The first follow-up found that one 'medium' priority recommendation was not implemented, and one 'medium priority' was partially implemented.

The 2nd follow-up found that both remaining 'Medium' priority recommendations have been implemented.:

As all the outstanding recommendations have been implemented the risk to the authority has been reduced and, as a result, no further follow ups are required to take place.

This follow up was undertaken during the month of October 2022.

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Section C – Current Position

Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up Position 30th September 2021</u>	<u>2nd Follow up Position 7th October 2022</u>
1 Medium	<p>Ownership</p> <p>An assessment to be undertaken on whether a corporate steer is required to drive the orb forwards with a strategic action plan, to shape how the orb is to be used over the next several years.</p> <p>This needs to include exactly what the organisation wants a corporate shared area to achieve and how best to achieve this, especially with the introduction of a new windows platform and Microsoft packages. It should also allocate ownership for the delivery of any proposals.</p>	<p>Responsible Manager:</p> <p>Head of Transformation, OD & Digital Services</p> <p>Senior Marketing & Communications Officer</p> <p>Implementation Date: April 2021</p> <p>An intranet strategy and action plan will be developed to outline the future direction of the ORB.</p>	<p>Not Implemented</p> <p>Although changes have started to be made to the orb (see recommendation 2), this action is still to be commenced and has been delayed due to other work commitments.</p> <p>It is hoped that this will be undertaken in December 2021.</p>	<p>Implemented</p> <p>There has been a change in direction since the last review, as a new project plan has been developed around the orb and user access, this is currently on-going for the next 18 months and is due to be completed by 2024.</p> <p>The Head of Transformation, OD & Digital Services is the sponsor of the project and the service is currently in the process of conducting recruitment to put onto the project board. Recruitment of what to put onto the project board. This will be achieved by Quarter 1 of the 2023-24 financial year.</p> <p>The project is in place to look into the way the orb is being used, the content stored, the interface design, user accessibility and friendliness.</p> <p>Due to the change in the direction of travel, there is still a strategy being developed but this will be implemented</p>

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Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up Position 30th September 2021</u>	<u>2nd Follow up Position 7th October 2022</u>
				by 2024 when the project is near completion,
2 Medium	<p>User friendly</p> <p>Survey the staff in order to get a full understanding of their requirements in relation to a shared area for reference material and Governance Policies.</p> <p>The results should be built into the review above.</p>	<p>Responsible Manager:</p> <p>IT Manager</p> <p>Implementation Date: Feb 2021</p> <p>Create a user group of internet and intranet staff to look at out of date content and how it will be resolved by their departments. Members of this group to agree an action plan with their respective Head of Service if content is out of date. The content on the Intranet is the responsibility of each service area.</p> <p>The Web Team will look at the site design and make the search more user friendly. Training will also be provided through the user group. N Perrett and N</p>	<p>Partially Implemented</p> <p>There is a positive direction of travel as some changes have started to take place on the orb following the audit review – a new and updated homepage has been implemented and work has been conducted to remove items that should not be on the orb.</p> <p>The search engine has had a background overhaul to enable it to be nimbler on searching for specific documents and as a result of the work, the results coming back are more relevant. ICT have stated that the user will not notice a change to the appearance of the search engine but will experience the improvement when searching items.</p> <p>However, since the pandemic resources have been used on the</p>	<p>Implemented</p> <p>Following the previous point, since the 1st follow up there has been a change in direction as the service has set up a new project plan to look at the Orb user friendliness and user access.</p> <p>The service is currently appointing a digital person to oversee and monitor the project progress.</p> <p>It is anticipated that the project will take 18 months to fully complete. (2024).</p>

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Ref./ Priority	<u>Recommendation</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up Position 30th September 2021</u>	<u>2nd Follow up Position 7th October 2022</u>
		<p>Chapman will be the lead officers for this work.</p> <p>The Web Team will create a survey to address issues raised in this audit. N Perrett and J Carradine will be the lead officers for this work.</p>	<p>public website to improve certain items and this has caused delays in some areas of lower risk.</p> <p>ICT have had to delay the implementation on the remaining items that require implementation to March 2022.</p>	

Worcestershire Internal Audit Shared Service



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Use of Agency Staff and Consultants 2020-21 – Critical review

1st Follow-up Report - 18th August 2022

Distribution:

To: Procurement Officer
Head of Business Transformation, Organisational Development and Digital Strategy
Human Resources & Development Manager
Section 151 Officer

Cc: Chief Executive

Audit, Governance & Standards Committee

26th January 2023

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Section A - Justification of Audit Follow-up Approach

The date of the final audit Report was 04/03/2021 and is being followed up because:

- 3 challenges were made: and
- At least six months has passed.

The following audit approach has therefore been applied:

1. The challenges have been updated with the current position.

Audit, Governance & Standards Committee

26th January 2023

Section B - Conclusion - Current Position statement

As this was a critical review, there was no level of assurance given and although no recommendations were formally made management did provide an action plan with implementation dates to address the challenges raised.

This follow up has confirmed of the three challenges made, all three challenges relating to 'Use of Matrix', 'Legislation compliance' and 'Budgetary and actual spends on agency and consultancy workers' have been partially implemented due to both Bromsgrove District Council and Redditch Borough Council deciding on a change of direction since the initial review.

Finance is preparing within the Enterprise Resource Planning (ERP) system a new module which will allow HR/Procurement to identify new contractors including new agencies and consultants which will require sign off before services can use them therefore providing for an additional control.

It can be reported that although not all aspects have been implemented, there has been a positive direction in travel for each of the authorities and a lot of work has been undertaken to improve the monitoring of agency staff and consultants in addition to helping services to improve how they monitor their spending, therefore no further follow ups will be required.

This follow up was undertaken during the month of August 2022.

Audit, Governance & Standards Committee

26th January 2023

Section C – Current Position

Ref./ Priority	<u>Challenge</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up Position 18th August 2022</u>
1	<p>Use of Matrix</p> <p>1.) During the review it was found that not all processes are being adhered to, so can both Redditch Borough Council and Bromsgrove District Council provide assurance that there is a robust control in place to monitor the in-take of agency staff through Matrix, as well as the in-take of agency staff from agencies outside of Matrix including the use of exemption forms?</p> <p>2.) Is enough being done to assess if Matrix is fit for purpose and fits the needs of the Council to find and bring in agency staff who are skilled and qualified in the job role advertised?</p>	<p>HR & OD Manager Comments</p> <p>The decision to continue with Matrix was taken at a Corporate level with a commitment from services to reduce their reliance on agency staff. The contract was extended on a plus 1 to allow the flexibility to review once the use and spend of agency staff is reflective of the requirement moving forward thus enabling a review of the actual requirements and not on a like for like basis.</p> <p>HR are clear with Managers that only Matrix can be used for agency staff</p> <p>There is a clear agreement with Matrix that if the contract is not providing the level or specialist staff required that they will source the required companies to extend the agencies available to us on Matrix. Issues need to be reported to HR to ensure this can be picked up with our account managers.</p> <p>Procurement Responses</p>	<p>Partially Implemented</p> <p>Since the review was undertaken there have been no changes to the way Matrix is being utilised in each authority and should be the only entity utilised when bringing in agency workers.</p> <p>HR and Procurement are currently unaware if services are still using other entities to Matrix and only find this out after the event has taken place.</p> <p>The direction of travel has changed slightly as the authorities are looking to utilise the new ERP system as it allows services and finance to analyse the data better for monitoring the spend. Finance and Procurement are currently working to introducing a new module where new contractors will go through Procurement prior to payments being put through, which means there will be a reasonable control in place to prevent services from going outside of the remit. This will be implemented in April 2023.</p>

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Ref./ Priority	<u>Challenge</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up</u> <u>Position 18th August 2022</u>
	<p>3.) Is there value for money within this contract especially considering the additional resources used by the Services to undertake their own groundwork in the identifying, and engaging of agency staff themselves? If not, is there evidence that the council is proactively challenging matrix on its provision under the contract.</p> <p>4.) Have the Council considered the benefit of providing feedback surveys to staff on the use of Matrix to help the authority form a better working relationship with Matrix for future agency work hire and also to aid the authority with future contract specifications for the use of agency workers?</p> <p>5.) Has the authority looked at other avenues to support service areas with bringing in specialists especially when the Matrix contract ends?</p>	<p>The Matrix contract needs to be managed to ensure they are fulfilling the requirements. Officers need to speak to Matrix if they are not getting the correct candidates through so they have the opportunity to resolve this, HR as contract managers should be involved also.</p> <p>There are other compliant contracts with other neutral vendors similar to Matrix available.</p> <p>Some agencies will not sign up to Matrix as they do not want to lose the large margins achieved by signing up direct with the council. Matrix protects the council from this.</p> <p>Matrix provides candidates but it is ultimately for service areas to assess skills and qualifications before offering a placement.</p> <p>No whole organisation oversight of staff who have worked on temporary contracts outside of Matrix and may therefore trigger fees if re-employed.</p>	<p>There are disciplinary procedures in place if management opt to use a different avenue to Matrix.</p>

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Ref./ Priority	<u>Challenge</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up Position 18th August 2022</u>
	<p>6.) As service areas need to bring in specialists from outside of Matrix, are both authorities able to</p> <p>7.) provide assurance that there is the correct level of support in place to support services to go to other agencies if it provides value to the authority in enabling it to reach its goals?</p> <p>8.) As discussions with several service areas has raised concerns around Matrix not having specialists on their books, is the authority able to provide assurance that Matrix can find and provide specialists to aid the services deliver their service strategy?</p>		

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Ref./ Priority	<u>Challenge</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up Position 18th August 2022</u>
2	<p>Compliance with Legislation</p> <p>1.) Following discussions with service areas there were instances learnt where services over the last 5 years have not been adhering to the procurement process. Therefore, can the authority provide assurance that there is a sound control in place to investigate weaknesses in the system?</p> <p>2.) Are both authorities able to provide assurance that if service areas are not following the correct procedure rules for using agency staff and consultants that there are sanctions set up and in place to mitigate the risks to the authority?</p> <p>3.) Is the Council undertaking enough monitoring of the length of service of agency workers to ensure that they do not breach</p>	<p>HR & OD Comments</p> <p>HR are clear that we will not support Managers accessing agencies outside of Matrix</p> <p>HR have no knowledge if Managers go to other agencies, this block needs to be in place and service and HOS level to ensure order / invoices are not approved.</p> <p>Procurement Comments</p> <p>Any staff used outside of Matrix is a breach of the contract procedure rules and a breach of the Matrix contract.</p> <p>No process for legal review of agency terms and conditions outside of Matrix</p> <p>All relevant staff should have attended Procurement Training in the past year and should be aware of the Procurement Rules. Future procurement training should directly address the issue of temporary staff.</p>	<p>Partially Implemented</p> <p>The follow up found that there has been no change since the initial review was undertaken.</p> <p>Currently HR and Procurement have no knowledge if managers go to other agencies unless they come forward and let them know.</p> <p>There has been a training session conducted in the past couple of years on Procurement to make services aware of the procurement rules and training since this time has been on an Ad-hoc basis when services wish to understand the processes more.</p> <p>Currently updates are taking place on the ERP system which should be implemented by the end of March 2023, which will allow procurement and finance to see purchase orders and gather a good understanding of whether agencies outside of Matrix are being utilised.</p>

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Ref./ Priority	<u>Challenge</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up Position 18th August 2022</u>
	<p>Council and government (HMRC) rules.</p> <p>Challenges around Section 24 notice</p> <p>4.) Since the section 24 notice was given, there was an employment freeze unless it is business critical, is the authority able to give assurance that it is confident that all services would have a full understanding of what business critical entails especially in the current times with COVID-19.</p>		
3	<p>Budgetary and actual spends on agency and consultancy workers</p> <p>1.) If there is no consistency in the recording of actual expenditure on agency workers and consultants how is the Council ensuring that it is being fully transparent with its expenditure for these cost areas? Would it not be better to have a cost code for these areas even if there is no budget allocation so that there could be full monitoring and transparency</p>	<p>Finance Comments: -</p> <p>The finance team will encourage with budget holders on monthly and quarterly budget monitoring that the dedicated account code for agency workers is monitored and reviewed along with the relevant budget manager. It is also expected when the new ERP finance system is implemented budget holders will be able to see live expenditure and therefore able to monitor more efficiently any mis coded and/or expected agency expenditure immediately rather than relying on current spreadsheets sent monthly.</p>	<p>Implemented</p> <p>Since the review has been undertaken there has been a change in direction as historically budget and actual spends were being monitored by the accountants within finance.</p> <p>Staffing issues within the financial services are being resolved, but agency staff are still being utilised where recruitment to technical posts is proving difficult.</p> <p>A new finance module is being prepared to go live in April 2023 which will allow Procurement to</p>

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Ref./ Priority	<u>Challenge</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up</u> <u>Position 18th August 2022</u>
	<p>especially with the current S24 and the need to reduce the costs of the council now and in the coming years. As there have been limitations within the current financial system is this something that is being considered and implemented for the new financial system?</p> <p>2.) How is the Council able to fully monitor its reliance on the provision of agency workers and the use of consultants in order to review this expenditure with the aim to reduce future costs.</p> <p>3.) Can the authority provide assurance that if they are using an incorrect cost code that there is a clear audit trail in place in case of challenge?</p> <p>4.) As consultants and agency staff are paid a higher rate to work in comparison to full time staff, is the authority able to provide assurance under the Section 24 notice, that agency</p>	<p>Procurement comments: -</p> <p>There is a cost code for agency staff, but query whether it is used consistently or appropriately?</p>	<p>monitor procurement projects including agencies and consultants being utilised.</p> <p>In June 2022 a monitoring package was introduced, which will enable both the budget holder and the finance department to monitor both the budget and actual spends more clearly, using the data from April 2022 onwards.</p>

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Ref./ Priority	<u>Challenge</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up Position 18th August 2022</u>
	<p>staff and consultants are only brought in as an absolute last resort when other avenues have been explored?</p> <p>5.) With certain service areas requiring specialists to be able to do the job role this has caused some issues with employing permanent employees into the role. Is the council confident that it has explored all avenues e.g. market supplements, benefits packages etc while still complying with the councils current pay model and terms and conditions of employment, in order to address this and ensure that the Council is using the most cost effective method of providing a service to the Public.</p> <p>6.) During the review it was found that the controls for bringing in agency staff should be that the head of service signs it off and then it goes to CMT for</p>		

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Ref./ Priority	<u>Challenge</u>	<u>Management Response and Action Plan</u>	<u>1st Follow up Position 18th August 2022</u>
	approval. However, as it was learnt during the review that some services have gone to agencies outside of Matrix, can the authority provide the assurance that CMT are aware of services going to other agencies outside of Matrix?		

Worcestershire Internal Audit Shared Service



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**Strategic Acquisitions (Purchasing for regeneration land and property) Audit 2021/22
1st Follow-up Report - 26th October 2022**

Distribution:

To: Head of Finance and Customer Service
Section 151 Officer

Audit, Governance & Standards Committee

26th January 2023

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Section A - Justification of Audit Follow-up Approach

The date of the final audit Report was 13/10/2021 and is being followed up because:

- 1 medium priority recommendation was made: and
- At least six months have passed.

The following audit approach has therefore been applied:

- The 1 'Medium' priority recommendation has been updated with the current position.
- Where required recommendations against weaknesses in key controls have been tested substantively/ evidenced.

Audit, Governance & Standards Committee

26th January 2023

Section B - Conclusion - Current Position statement

The original audit report gave **Significant Assurance** over the control environment. This is the 1st follow-up.

Due to the changes in 2026 in relation to the EPC ratings the Councils are undertaking a full review of their Asset portfolio.

A quarter 1 2022/23 monitoring report has already been presented to Bromsgrove District Councils Cabinet Committee in October 2022 and Redditch Borough Council Executive Committee in September 2022 setting out the Asset Disposal Strategy.

The wider Asset Strategy was presented to the Redditch Borough Council Executive Committee on 25th October 2022 and the Bromsgrove District Cabinet on 26th October 2022 by the Head of Legal, Democratic and Property Services and supported by the Interim S151 Officer.

The Asset Strategy sets out the present portfolios (operational, investment and surplus) and the process to evaluate these properties in relation to:

- 1) Being fit for service purpose (including investment)
- 2) Investment required to keep them to standard
- 3) Income generating potential

It is anticipated this process will take approximately a year but at the end of it the Councils will understand their full property portfolio (including investment properties), their value, income generating potential, if they are still fit for purpose and what investment would be required to fulfil new legislative standards.

The Councils are moving in a positive direction and the recommendation within the 2021/22 Strategic Acquisitions Audit has been superseded by a wider project which will provide a solid foundation for future decision making around the asset portfolio of the Councils.

Audit, Governance & Standards Committee

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While currently the Council acknowledges that risks at this time remain and are being monitored a greater risk would remain if the review were not undertaken.

This follow up was undertaken during the month of October 2022.

Section C – Current Position

Ref./ Priority	Recommendation	Management Response and Action Plan	1 st Follow up Position 11 th October 2022
1 Medium	<p>Scoring and transparency of the criteria within the report</p> <p>The report and criteria need to reflect one another to ensure consistency and no assumptions. Either changing the criteria within the strategy or using the criteria within the report is required. There needs to be a reason documented within the report if the investment does not meet the Excellent, Very Good, Good and why the Council is still proceeding with the Investment. If it does fit, why it exceeds expectation. The Strategy needs to be clear as to what documents need to be submitted with the report to gain approval for the investment. If documents are optional a clear statement of exception must be included in the report.</p>	<p>Response: Agree with the findings.</p> <p>Action: Review and amend the Acquisition and Investment Strategy for Redditch Borough Council and Bromsgrove District Council adjusting the criteria so that it falls under headings so that the report will reflect the criteria. Will consider what documents need to be submitted or optional and update the Strategies.</p> <p>Responsible Manager: Head of Financial and Customer Services</p> <p>Implementation date: 31st March 2022</p>	<p>Superseded</p> <p>A much bigger project is being undertaken to provide a better understanding of the Asset portfolio currently held and provide a foundation for further decision making which will ultimately result in a new Acquisition and Investment Strategy.</p>

Worcestershire Internal Audit Shared Service



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Projects 2021/22

1st Follow-up Report – 4th October 2022

Distribution:

To: Business Improvement Manager

Cc: Head of Business Transformation, Organisational Development and Digital Strategy

Audit, Governance & Standards Committee

26th January 2023

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Section A - Justification of Audit Follow-up Approach

The date of the final audit Report was 9th September 2021 and is being followed up because:

- At least six months have passed since the original audit was carried out.

The following audit approach has therefore been applied:

- The Management considerations and action points have been updated with the current position.

Section B - Conclusion - Current Position statement

The original audit report gave **Moderate Assurance** over the control environment. This is the 1st follow-up.

The project Management Framework has been reviewed and updated. Training has been offered and delivered to 4th and 5th tier managers so that they are aware of the methodology and clear on responsibility, accountability, and reporting lines.

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Projects have now been categorised into 3 categories 'Continuous Improvement' 'Service Innovation' and 'Corporate Projects' and defines the approval, management, monitoring and documentation process for each category.

The Senior Management Team have identified projects that require corporate oversight / monitoring. The Business Improvement Team will be responsible for gathering updates from the services on the progress for those projects identified by SMT requiring oversight, to present within a report to CMT quarterly. This includes a RAG rating so that any concerns are easily visible. The corporate oversight falls under the responsibility of CMT.

Internal Audit advise that SMT should be made aware of any concerns on projects not identified as requiring oversight at an early stage, so that a decision can be made as to whether to add it onto the corporate oversight/monitoring report. It would be advisable to still monitor the overall number of projects in each category to ensure there is sufficient specialist resources and budgets to manage and deliver all projects for the various services. The Council has responded to advise: These elements are considered but not referenced in the framework. This will be included in the framework to ensure oversight of the resources needed to deliver all the corporate initiatives.

Generally, the follow up has identified that the Council is moving forward in the right direction. There are a couple of actions that are not fully implemented around the consideration of a suitable system to record projects and ensuring there is sufficient resources trained in Prince 2. There is an ongoing piece of work to establish which system would be best placed to record projects. In relation to project training, the corporate training plan provides opportunities for employees to be trained in Prince 2. A reminder will be sent to all Heads of Service to encourage take up of this training.

As this is a new process, Internal Audit recommend the process and effectiveness of the corporate oversight is reviewed after a reasonable period as well as the completion of any action plans to ensure that concerns/risks have been addressed within a timely manner. The Council has planned for an internal review in Q4 2022/23.

This follow up was undertaken during the month of July 2022

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Section C – Current Position

Ref.	Areas where controls could be strengthened	Recommendation/challenge	Management Considerations & Action Points	1 st Follow up Position 7 th July 2022
1	<p>Corporate understanding of the term ‘Project’</p> <p>To understand corporately how a project is to be defined council wide.</p> <p>This may be a loose statement based on criteria such as type, size, value, complexity.</p>	<p>A simple flowchart/decision tree could be used to help officers identify what projects must follow the Project Management Framework and what projects such as service improvements fall outside the definition. This could also include where to go for advice if this is not easily determined.</p> <p>This could also help to determine which initiatives need to be included on the projects register and which may be overseen by Management within the individual Service area carrying out the initiative.</p>	<p>The Project Management Framework will be amended to include a flowchart/decision tree to determine which projects require the use of the framework. Project criteria will be determined for inclusion in the framework.</p> <p>The flowchart/decision tree will also detail what categories, definitions, and exceptions will be monitored by the Corporate Management Team and which are service specific.</p> <p>Responsible Officer: Business Improvement Manager</p> <p>By: December 2021</p>	<p>Implemented</p> <p>The Project Management Framework has been updated and includes a project management flow chart and categories for projects:</p> <ul style="list-style-type: none"> • category 1. continuous improvement • category 2 service innovation • category 3 corporate projects. <p>The section covering monitoring explains the involvement by the Corporate Management Team who will assess quarterly, the status of Category 3 projects and Category 2 where applicable.</p>

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2	<p>Allocation of responsibility for Management oversight, monitoring and intervention to strengthen governance with an additional layer of control.</p> <p>There is currently no defined and understood corporate responsibilities in place for project management oversight and the ability to intervene if project timelines, risk or spend are identified as not meeting documented targets/budgets.</p>	<p>Define and agree clear lines of accountability for corporate oversight within the authority in relation to oversight, monitoring and intervention</p> <p>Once there is allocated corporate responsibility for oversight and reporting with defined timescales. Decide types and level of intervention that could be required and develop processes to apply these in a uniformed and transparent way.</p> <p>Consider, identify and document the realistic number of projects that can be corporately monitored and define how the success of corporate oversight can be tracked, e.g., achievement of project following corporate intervention.</p>	<p>The Project Management Framework will be amended to include clear allocation of responsibility, accountability, and reporting lines.</p> <p>The Business Improvement Manager working with CMT will identify projects to be corporately monitored, this will include how success will be tracked and the use of reporting templates to achieve this.</p> <p>Responsible Officer: Business Improvement Manager</p> <p>By: November 2021</p>	<p>Implemented</p> <p>The Project Management Framework has been updated to show clear allocation of responsibility, accountability and reporting lines. The Framework includes details on which projects are to be corporately monitored (by CMT), how success will be tracked. The Business Improvement Team use the reporting templates to present the information gathered from the services to update CMT on the projects selected for monitoring.</p>
3	<p>Recording, monitoring and reporting of Projects</p>			<p>Not Implemented (Temporary Option has been explored)</p>

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	<p>There is no system for the tracking of projects.</p> <p>Implementation of a fit for purpose system used corporately would enable the Council to track projects and their progress and can produce corporate reports that identify success and failures within individual projects, meaningful metrics on overall project achievement (percentage completed, time to deliver, trigger points, risks, flags etc.)</p>	<p>Investigate to see if any of the systems currently operated by the council would be capable of operating a live system to be able to report at any time the progress of the project against the programme milestones, risks, budget. Using RAG ratings for ease of reporting and to use as a trigger / early warning system for reporting of any concerns or emerging risks.</p>	<p>Existing corporate systems will be explored to understand if they are suitable to be used to track project progress. For example, the 4Risk system.</p> <p>If existing systems are unsuitable consideration will be given to procuring an external system. This action will be dependent on the financial position at the time.</p> <p>Responsible Officer: Business Improvement Manager</p> <p>By: March 2022</p>	<p>The use of the 4Risk system is still to be explored for suitability. A temporary process has been in use since Jan 22 utilising Teams channel.</p> <p>This will be reviewed along with the overall monitoring process in Q4 22/23 if not rectified prior (i.e., when finance fully resourced and 4Risk explored for its suitability).</p>
4	<p>Project Risks</p> <p>Testing identified:</p> <ul style="list-style-type: none"> The issue register does not show the date of the update. All actions remain open Risk Register. All risks recorded on this register are still shown as active from 2018 to date There is no evidence as to learning from entries on the lessons learn register. 	<p>Corporate monitoring of the processes and subsequent risks is performed to identify if elements remain unresolved and intervention is required to close, mitigate risk or move forward with the project. For example, ensuring individual items on issues logs are acted upon. In addition, a review of project documents may identify risks not identified by the service area.</p>	<p>The inclusion of technical specialists at Project Board meetings or at CMT meetings along with the Project Manager will be implemented.</p> <p>Responsible Officer: Head of Transformation, OD & Digital Services</p> <p>By: December 2021</p>	<p>Implemented</p> <p>Included within Project Management Framework Project Board, Corporate Management Team (CMT) require assurance around outcomes and overall project coordination, CMT therefore will assess quarterly, the status of Category 3 projects, Category 2 where applicable (for example: complexity/political or budget implications), receive updates from projects led by third</p>

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	<p>The issue logs, lessons learnt log and risk logs are being completed and have highlighted areas of concern with regards to the Housing Project such as.</p> <ul style="list-style-type: none"> • Procurement • Lack of policies held by the service, • Delivery of the project and timescales during the pandemic • Resources stretched/left • Service review during the project which impacted on staff availability and staff moving from fixed term contracts to permanent roles within the authority. • Project Lead Reporting on behalf of all areas. • Senior Users and the Project Board accountable for reviewing risks throughout the project. <p>Issues recorded on these logs are being discussed with Senior Users who are part of the project's functions. Solutions are offered. However, the main issue is around resourcing.</p>	<p>Where there is a technical issue, this may be more appropriate for key stakeholders to report individually to the board so there is no misunderstanding of the issue.</p> <p>Currently as detailed in appendix A Project Functions within the PID. it appears the project Manager is responsible for reporting risks and issues, but should there also be accountability for reviewing risk by the Senior User and Project Board throughout the project?</p>	<p>The review of the Project Management Framework will outline the Senior User and Project Board responsibilities in relation to risks and issues and the actions needed to mitigate them.</p> <p>Responsible Officer: Business Improvement Manager By: December 2021</p>	<p>party organisations Project Managers will be required to report on project scope, time, budget, approvals, direction of travel, phases and escalations.</p> <p>The reporting template includes a RAG rating to identify the level of risk. A red indicator could be one or more of the following:</p> <ul style="list-style-type: none"> • A significant forecast over spends against budget • Delays against critical milestones • Problems with quality that lead to significantly increased work and cost • Significant lack of resources which cannot be resolved by the project manager. • Dissatisfaction or resistance from stakeholders that mean acceptance may be delayed all the benefits not achieved <p>When considering a project with red indicators, senior management are advised to review the project with the project manager to identify the root causes and identify an action plan required to prevent further</p>
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				<p>deterioration and minimise the damage caused to the overall organisation.</p> <p>An amber indicator can be an indicator of one or more of the following:</p> <ul style="list-style-type: none">• A significant forecast overspends against the budget of say more than 5%.• Delays against critical milestones more than say two weeks.• Problems with quality therefore actions may be required.• Lack of resources which can be resolved by the project manager.• Dissatisfaction or resistance from stakeholders addressed by the project manager <p>In response to an amber indicator, senior management are advised they may want to maintain a watching brief over those projects not necessarily intervening but keeping an eye on the potential for the project to move into the red.</p>
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5	<p>Service Improvement Projects (projects excluded from the Prince 2 methodology)</p> <p>Testing identified:</p> <p>Projects listed on the draft corporate project register were found to have not followed the methodology as they were deemed as service improvements by the project leads.</p>	<p>Decided as to what type of projects should have corporate oversight and monitoring and there is a clear process to follow for any projects that fall outside the project's framework. Explore Microsoft projects application to see if this could be used for projects that fall outside the prince 2 framework.</p> <p>Currently all projects are being managed in house. It would be advisable to consider what oversight the authority would have on projects led by 3rd parties and how the risk would be managed.</p>	<p>Options for the approach to projects identified as being outside of the project framework will be included in the review of this document. Suitable option will be agreed with the CMT. It is anticipated that reporting to CMT will be by exception via the service manager or project lead.</p> <p>Options to ensure feedback is received about the progress of externally managed partner projects will be included in the Project Management Framework after further discussion with the CMT.</p> <p>Responsible Officer: Business Improvement Manager</p> <p>By: December 2021</p>	<p>Implemented</p> <p>Details of projects outside the monitoring scope are included within Project Management Framework on page 2 (Cat 1 Continuous Improvement)</p> <p>These are "Service improvement" projects. Usually within a service, change activity that should run alongside business-as-usual activities. Where managers are acting on what needs to happen, doing the right thing and making necessary changes.</p> <p>Within the monitoring Section of the Project Management Framework. It states that CMT require assurance around outcomes and overall project coordination, this will include updates from projects led by third party organisations.</p>
6	<p>Training</p> <p>Testing identified:</p>		<p>Heads of Service will arrange for some of their teams to</p>	<p>Partially Implemented</p>

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	<p>Officers working on projects outside of the methodology felt comfortable leading the projects due to their technical knowledge and expertise of working within that service. These officers were not aware of the methodology.</p> <p>There are currently 14 staff across RBC and BDC that are recorded as have Prince2 Foundation on the central training record and 6 staff that have completed the Introduction to Project Management training</p>	<p>There is corporate oversight to ensure that there is sufficient staff that have the skills needed to lead on complex projects. Consider skills needed for projects outside of the framework to ensure Officers are competent to deliver the project/service improvement in line with corporate policy. In service areas where there are no staff trained on Prince 2 ensure there is policy and procedures in place and technical officers have capacity to take time away from their day job to work on the project when considering resources needed for the project.</p> <p>Use the information within the lesson learnt and feedback from the project lead to look for ways to improve the process and ensure officers working on projects are kept up to date with any learning and changes to the process.</p>	<p>undertake project management training in order to improve and increase the project management skills within the organisation.</p> <p>Responsible officer: CMT and Business Improvement Manager By: March 2022</p> <p>Following the amendments to the Project Management Framework, the Business Improvement Team will provide and facilitate training sessions to service managers. This will include the importance and use of all elements of the framework including: issue logs, lessons learnt, and risk logs and the actions required for success.</p> <p>Responsible Officer: Business Improvement Manager By: February 2022</p>	<p>Heads of Service are to consider which team members required Prince 2 training within their areas and confirmed with Learning & Development it will be incorporated into the corporate training programme. Until training takes place, those trained and willing to support others are listed in team's channel.</p> <p>Implemented</p> <p>Actions taken place:</p> <p>A Project Management Framework Teams channel has been set up which provides :</p> <ul style="list-style-type: none"> • Discussion opportunities • Presentation slides & Project Management Folder within Teams.msg Project Management Framework <p>The Project Management Framework is available to refer to on the orb</p> <p>All 4th & 5th tier managers and service specific staff were invited to attend "awareness & training"</p>
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				<p>sessions. 7 sessions were carried out within March 22 where around 90 attended.</p> <p>Communications in Team brief & Oracle</p>
7	<p>Methodology, Record Keeping and Resourcing</p> <p>Testing identified;</p> <ul style="list-style-type: none"> A Business Case 'Improvement to HRA through Rent Management System' which was approved dated July 2020 on the document but still shown as draft. To prevent any confusion, documents which are approved should be complete and changed to Final. Approval for the business case was not held within the audit trail by the project lead. To safeguard the project lead it would be advisable to hold a copy of approval (where they are not recorded within minutes) for the various stages of the project in a retrievable form such as an email. This is to prevent any misunderstand or future challenges over decisions made. 	<p>Resilience is needed within project team should officers resign or transfer to other positions within the council, or not be available for work due to other commitments/illness. This is especially important for complex projects where individual knowledge is gained on project elements that may not be easily or quickly transferred.</p> <p>A process to evidence approval of the Business Case and Project Board Project Initiation Document (PID and decision making.</p>	<p>The option to nominate a deputy project manager will be included in the review of the Project Management Framework. Particularly for high value, complex projects. This will be dependent on budget and resource constraints.</p> <p>Responsible Officer: Business Improvement Manager</p> <p>By: December 2022</p> <p>The need to evidence Business case and PID approval will be actioned with amendments to the Project Management</p>	<p>Implemented</p> <ol style="list-style-type: none"> Within the Project Management Framework - Project Scope Document template. There is mention under the team role for a nominee Deputy project Manager for high complexity project and budget availability. Within updated framework Section 6 The approval Process – Business Case and training slides it states how approval should be obtained. <p>Not Implemented (covered off in ref 3 above)</p> <ol style="list-style-type: none"> Please see Ref 3 - Recording, monitoring and reporting of Projects (The use of the 4Risk

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	<ul style="list-style-type: none"> Within the Project Board Project Initiation Document (PID) there were names against suppliers missing. For resilience documents should be fully completed or an audit trail if information provided at a later stage so that information can be retrieved within a timely manner should the project lead not be available. Within the framework there is a Data Protection Impact Assessment (DPIA) process to evidence compliance with the requirements of the General Data Protection Regulations 2018. The testing established that Data Protection assessment document was still in draft. The framework suggests this needs to be completed if you are starting a project especially when they will be new systems. 	<p>Maintaining an accurate audit trail held centrally and available to the corporate team will help to understand the decisions that have been made up to that point and the progress to date. Consideration could be given to a deputy project manager for complex and long projects to improve resilience and avoid a potential single point of failure.</p> <p>The audit trail must contain evidence of approvals/decision making in the event of a challenge and to safeguard the officer.</p>	<p>Framework, as well as covered in the training sessions.</p> <p>Responsible Officer: Business Improvement Manager By: December 2021</p> <p>See point 3 regarding the use of a technical system to store project data.</p> <p>Responsible Officer: Business Improvement Manager By: March 2022</p>	<p>system is still to be explored for suitability. A temporary process has been in use since Jan 22 utilising Teams channel).</p>
8	<p>Transparency</p> <p>Reference within the methodology for committee reporting on projects was not identified.</p>	<p>Clear process in place to define what project information is reported to members routinely and additionally an escalation process for when project information needs to be reported to members due to its nature to ensure transparency.</p>	<p>This process will be defined in the review of the Project Management Framework in consultation with the CMT.</p> <p>Responsible Officer: Business Improvement Manager By: December 2022</p>	<p>Implemented process</p> <p>It has been agreed with the CEO that regular corporate performance reporting to Members will take place on a quarterly basis. Any project progress reporting will be included in these reports on a 'by exception' basis. (Section 9</p>

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				Monitoring Project Management Framework)
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**Capital Strategy 2023/24 incorporating the Treasury
Management Strategy**

Relevant Portfolio Holder	Cllr. Karen Ashley, Finance and Enabling Portfolio Holder
Portfolio Holder Consulted	Yes
Relevant Head of Service	Michelle Howell
Report Author	Job Title: Head of Finance & Customer Services email:michelle.howell@bromsgroveandredditch.gov.uk Contact Tel:
Wards Affected	N/A
Ward Councillor(s) consulted	N/A
Relevant Strategic Purpose(s)	All
Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. SUMMARY

This report for 2023/24 presents the Capital Strategy, Treasury Management Strategy, Minimum Revenue Provision Statement, and the Investment Strategy for 2023/24 to be considered for recommendation to Council.

2. RECOMMENDATIONS

Audit, Governance and Standards Committee are asked to RECOMMEND TO COUNCIL that

- i) the Capital Strategy (Appendix A) as an appropriate overarching strategy for the Council be approved**
- ii) the Treasury Management Strategy for 2023/24 (Appendix B) and the associated MRP policy (Appendix C) be approved**
- iii) the Investment Strategy (Appendix D) be approved**

3. KEY ISSUES

Financial Implications

- 3.1 The report for 2023/24 is required following changes in the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department of Levelling UP Communities and Housing (DLUCH) guidance. It combines an overview of how capital expenditure,**

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capital financing, treasury and other investment activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. The strategies set limits and indicators that embody the risk management approach that the Council believes to be prudent. The strategies are set against the mid-term financial strategy, the context of the UK economy and projected interest rates.

The Council are required to set a balanced operating budget. The role of the treasury function is to manage cash flow within the authority so that the demands of expenditure can be met. The policies included in this report set out the criteria in which the Council can manage its Treasury management function.

The CIPFA Code of Practice for Treasury Management in Public services (the CIPFA TM Code) and the Prudential Code require local authorities to set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each financial year. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance. In addition the Council has to receive a report on treasury management and this is reported on a quarterly basis which is included within the Quarterly Monitoring Report.

3.2 CIPFA has defined Treasury Management as:

“the management of the organisation’s investments, 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.”

3.3 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments)
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years)
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

3.4 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.

3.5 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, the Council adopts the Treasury Management Framework and Policy recommended by CIPFA.

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- 3.6 Given the Council is yet to formally close its 2021/22 accounts, with the 2020/21 accounts presently being audited, therefore figures are best estimates at the present time. The Strategies will be updated, if required, once the Accounts have been closed and approved.

Legal Implications

- 3.7 This is a statutory report under the Local Government Act 2003.

Service/Operational Implications

- 3.8 None as a direct result of this report, service requirements which form the Capital Programme are the base data for this report.

Customer / Equalities and Diversity Implications

- 3.9 None as a direct result of this report.

4. RISK MANAGEMENT

Failure to manage the Treasury Management function effectively to ensure the delivery of maximum return within a secure environment.

Controls in place to mitigate these risks are as follows:

- Regular monitoring of the status of the organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications.

5. APPENDENCES

Appendix A – Capital Strategy 2023/24

Appendix B – Treasury Management Strategy 2023/24

Appendix C – Minimum Revenue Provision Statement 2023/24

Appendix D – Investment Strategy 2023/24

AUTHOR OF REPORT

Name: Pete Carpenter – Interim Director of Finance (Deputy S151)
E Mail: Peter.Carpenter@bromsgroveandredditchbc.gov.uk
Tel: 07739182594

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APPENDIX A**CAPITAL STRATEGY REPORT 2023/24 REDDITCH****Introduction**

- 3.1 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.
- 3.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

- 3.3 Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.
- 3.4 In 2023/24, the Authority is planning capital expenditure of £10.6m for General Fund projects, £37.8m for HRA work, and £23m for regeneration work, most of which is related to Towns Fund grant. This is summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
General Fund services	3.5	6.8	3.0	5.7	1.9
Council housing (HRA)	7.3	14.2	12.6	12.6	12.6
Regeneration Schemes (incl Towns Fund)	0.0	2.2	9.6	10.5	2.9
TOTAL	10.8	23.2	25.3	28.8	17.5

The Council is still to finalise work required for the adoption of IFRS16 linking to the accounting for leases which must be implemented by the 2024/5 financial year.

- 3.5 The main General Fund capital projects include Towns Fund regeneration schemes (innovation Centre, Town Square, and Public Realm) totalling £16m to be spend by 2026, and UK Shared Prosperity Funding to be spent by 2025.

Following a change in the Prudential Code, the Authority no longer incurs capital expenditure on investments]

- 3.6 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.
- 3.7 **Governance:** Service managers bid annually to include projects in the Authority's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Executive appraises all bids based on a comparison of strategic priorities against financing costs and makes recommendations to council. These recommendations are scrutinised by the Budget Scrutiny Working Group. The final capital programme is then presented to Executive and then Council in February each year.
- For full details of the Authority's capital programme, including the project appraisals undertaken, see: 2023/24 MTFP Phase 2 – Executive 7th February 2023.
- 3.8 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
External sources	2.4	4.7	7.6	10.9	2.9
Capital Receipts	0.0	1.8	4.7	3.5	1.7
Revenue Resources	8.4	16.7	12.9	14.4	10.9
Debt	0.0	0.0	0.0	0.0	1.9
TOTAL	10.8	23.2	25.3	28.8	17.5

The Council is still to finalise work required for the adoption of IFRS16 linking to the accounting for leases which must be implemented by the 2024/5 financial year.

- 3.9 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Minimum Revenue Provision	1.0	0.9	1.0	0.9	1.2
Capital Receipts	0.0	0.0	0.0	0.0	0.0

- The Authority's minimum revenue provision statement is available as part of these papers.

3.10 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £1m during 2023/24. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
General Fund	15.1	11.0	1.7	-1.2	6.3
HRA	122.2	122.2	122.2	122.2	122.2
Regeneration	0.0	2.2	9.6	10.5	2.9
TOTAL CFR	137.3	135.4	133.5	131.5	131.4

The Council is still to finalise work required for the adoption of IFRS16 linking to the accounting for leases which must be implemented by the 2024/5 financial year.

3.11 **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place: Individual properties and associated land will be further evaluated to determine:

- The operational necessity and benefit.
- Projected costs of ensuring all elements of the buildings continue to meet legislative requirements and performance standards.
- Planned and cyclical maintenance costs for elements nearing the end of their 'life' expectancy, ensuring service provision is maintained without unnecessary interruption. Costs associated with meeting future EPC rating minimum requirements.
- Rent levels (and net costs for each building) and revised leases.
- Alternative or rationalised portfolio or joint enterprises for service delivery

By evaluation of all factors cited above, informed decisions can be made to determine which assets are:

- No longer cost effective to run, where outlay exceeds earning potential
- No longer viable for effective service delivery
- Surplus to requirements

Asset considerations will be presented to Executive on a half yearly basis, for approval for disposal, unless there is an urgent requirement for a decision.

The Authority's asset management strategy can be read here: Executive 25th October 2022.

- 3.12 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Authority is currently also permitted to spend capital receipts "flexibly" on service transformation projects until 2023/24 although none are planned. Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £9.9m of capital receipts(%.1m linked to right to buy receipts) in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Asset Sales	0.000	1.800	4.700	3.500	1.700
Loans etc Repaid	0	0	0	0	0

- Further details of planned asset disposals are on set out in the 3.11 above:

Treasury Management

- 3.13 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 3.14 Due to decisions taken in the past, the Authority currently has £104m borrowing at an average interest rate of 3.42 % and £35m treasury investments at an average rate of 0.08%.
- 3.15 **Borrowing strategy:** The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.
- 3.16 The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

- 3.17 Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Debt HRA	103.9	103.9	103.9	103.9	103.9
Debt General Fund (incl. PFI & leases)	0.0	0.0	0.0	0.0	0.0
Capital Financing Requirement	137.3	135.4	133.5	131.5	131.4

- 3.18 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

- 3.19 Liability benchmark:** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £0.2m at each year-end. This benchmark is currently negative given the Council internal resources and will only turn positive in 2025/26.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 forecast	31.3.2025 forecast	31.3.2026 forecast
Outstanding borrowing - General Fund	0.0	0.0	0.0	0.0	0.0
Liability benchmark	-3.4	-2.5	-1.8	-2.9	-2.2

- 3.20 The table shows that the Authority expects to remain borrowed above its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.

- 3.21 Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
Authorised limit - borrowing	170	175	180	185	190
Authorised limit - PFI and leases	1.5	1.5	1.5	1.5	1.5
Authorised limit - total external debt	171.5	176.5	181.5	186.5	186.5
Operational boundary - borrowing	160	165	170	175	180
Operational boundary - PFI and leases	1.5	1.5	1.5	1.5	1.5
Operational boundary - total external debt	161.5	166.5	171.5	176.5	176.5

3.22 Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.23 The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Table 9: Treasury management investments in £millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Near-term investments	34	35	30	20	20
Longer-term investments	0	0	0	0	0
TOTAL	34	35	30	20	20

- Further details on treasury investments are in Treasury Management Strategy part of this appendix.

3.24 Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- The treasury management prudential indicators are in the treasury management strategy which are part of these appendices.

- 3.25 Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Council. Half Yearly reports on treasury management activity are presented to Executive. The Audit, Governance and Standards Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

- 3.26** The Authority can make investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, the Authority's subsidiaries that provide services. Total investments for service purposes are currently valued at £0m
- 3.27 Risk management:** In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.. A limit of £2.5m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services .
- 3.28 Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. The relevant service director is responsible for ensuring that adequate due diligence is carried out before investment is made.
- Further details on service investments are in the Treasury Management Strategy.

Commercial Activities

- 3.29** With central government financial support for local public services declining, and the Change in PWLB regulations, the Council does not invest in commercial property purely or mainly for financial gain. It has Towns Funding of over £15m to deliver schemes over the next three years and an Office Complex in Oak Tree Park within the Borough (due to shortage) but these are both regeneration in nature.
- 3.30 Risk management:** The Council will not make investments in commercial property purely or mainly for financial gain in the future. It might for re-generational purposes and if that is the case once regeneration have been delivered the Authority will assesses the risk of loss before entering into commercial agreements by using specialist advice to understand the market

and the potential future demands of the market and the customers in it. It will also use benchmarking data from the market to determine future potential risks which need to be planned for. External advice will be sought from credible sources eg acknowledged experts in their fields, and officers ensure that they fully understand any information given to them before decision or advice is taken

In 2019 the Council did invest in property at Oak Tree Park Offices. The biggest issue facing Redditch's office market is the obsolescence of existing stock. By investing in existing premises, the Council has control over the condition and quality of its assets and therefore contributes to a supply of offices that are fit for purpose and attractive to the end occupiers. Therefore although a return is made this investment is for regenerative purposes

- 3.31 Governance:** Decisions on commercial investments are made by Head of Finance and Customer Services in line with the criteria and limits approved by Council in the Investment strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. The Head of Finance and Customer Services is responsible for ensuring that adequate due diligence is carried out before investment is made.

Table 10: Prudential indicator: Net income from commercial and service investments to net revenue stream

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Total net income	0	0	0	0	0
Proportion of net Revenue Stream	0%	0%	0%	0%	0%

Liabilities

- 3.33** In addition to debt of £104m detailed above, the Authority is committed to making future payments to cover its pension fund deficit (valued at £5.2m), It has also set aside £0.5m to cover risks of Insurance Claims.
- 3.24 Governance:** Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the Interim Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by Audit, Governance and Standards Committee. New liabilities exceeding £0.5m are reported to full council for approval/notification as appropriate.

Revenue Budget Implications

- 3.35** In addition to debt of £104m detailed above, the Authority is committed to making future payments to cover its pension fund deficit (which is in a deficit position of £5.179m as per the 2022 Triennial revaluation and the backlog will

be cleared in 2037). It has also set aside £3.2m for Business Rates Appeals via a reserve.

Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	1.1	1.1	1.0	0.9	1.2
Proportion of net revenue stream	10.48%	10.48%	9.56%	9.09%	11.47%

The Council is still to finalise work required for the adoption of IFRS16 linking to the accounting for leases which must be implemented by the 2024/5 financial year.

- 3.36 Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Finance] is satisfied that that the proposed capital programme is prudent, affordable and sustainable because of the current Medium Term Financial Plan (MTFP) forecasts which show that the Council is financially sustainable over that period.

Knowledge and Skills

- 3.37 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Executive Director of Finance and Head of Service are qualified accountant with significant experience. The Authority pays for junior staff to study towards relevant professional qualifications including CIPFA and AAT.
- 3.38 Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers, and Bruton Knowles as property consultants. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.
- Further details on staff training can be found in the HR Employee Development section of the website.

APPENDIX B**TREASURY MANAGEMENT STRATEGY REPORT 2023/24****Introduction**

- 3.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.
- 3.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.
- 3.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

External Context**Economic background:**

- 3.4 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.
- 3.5 The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.
- 3.6 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

- 3.7 The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.
- 3.8 CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.
- 3.9 The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.
- 3.10 Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.
- 3.11 Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

Credit outlook:

- 3.12 Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

- 3.13 CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.
- 3.14 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.
- 3.15 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.
- 3.16 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2022):

- 3.17 The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.
- 3.18 While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.
- 3.19 Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.
- 3.20 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.
- 3.21 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 2.00%, and that new long-term loans will be borrowed at an average rate of 4.57% which is the PWLB rate for 40 year debt on the 16th January 2022.

Local Context

- 3.22 On 31st December 2022, the Authority held £103.9m of borrowing and £29m of treasury investments. This is set out in further detail in this report. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.22	31.3.23	31.3.24	31.3.25	31.3.26
	Actual	Estimate	Forecast	Forecast	Forecast
	£m	£m	£m	£m	£m
General Fund CFR	15.1	13.2	11.3	9.3	9.2
Investments CFR	0.0	0.0	0.0	0.0	0.0
Total CFR	15.1	13.2	11.3	9.3	9.2
Less: External borrowing **	0.0	0.0	0.0	0.0	0.0
Internal (over) borrowing	15.1	13.2	11.3	9.3	9.2
Less: Usable reserves	-12.5	-9.7	-7.1	-6.2	-5.5
Less: Working capital	-6.2	-6.2	-6.2	-6.2	-6.2
Treasury investments (or New borrowing)	3.6	2.7	2.0	3.1	2.4

* leases that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

- 3.23 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will not need to borrow in the short term to finance its capital programme until 2025/26.

- 3.24 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2023/24
- 3.25 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £0.2m at each year-end to maintain sufficient liquidity but minimise credit risk.
- 3.26 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while

keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.21	31.3.22	31.3.23	31.3.24	31.3.25
	Actual	Estimate	Forecast	Forecast	Forecast
	£m	£m	£m	£m	£m
CFR	15.1	13.2	11.3	9.3	9.2
Less: Usable reserves	-12.5	-9.7	-7.1	-6.2	-5.5
Less: Working capital	-6.2	-6.2	-6.2	-6.2	-6.2
Plus: Minimum investments	0.2	0.2	0.2	0.2	0.2
Liability Benchmark	-3.4	-2.5	-1.8	-2.9	-2.2

- 3.27 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by internal resources.

Borrowing Strategy

- 3.28 The Authority currently holds £104 million of loans, no change on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2023/24. The Authority may also borrow additional sums to pre-fund future years' approved requirements, providing this does not exceed the authorised limit for borrowing.
- 3.29 **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 3.30 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 3.31 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term] borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

- 3.32 The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.
- 3.33 Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 3.34 In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

3.35 Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Worcestershire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

3.36 Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

3.27 Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to [\[full Council\]](#).

- 3.29 Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).
- 3.30 Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

- 3.31** The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £20 and £40 million, and similar levels are expected to be maintained in the forthcoming year.
- 3.21 Objectives:** The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. Redditch Borough Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
- 3.33 Strategy:** As demonstrated by the liability benchmark above, the Authority expects to be a funding borrowing from internal resources and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.
- 3.34** The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital

programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

- 3.35 ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
- 3.36 Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 3.37 Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3 m 5 years	£3m 20 years	£3m 50 years	£3m 20 years	£1m 20 years
AA+	£3m 5 years	£3m 10 years	£3m 25 years	£3m 10 years	£1m 10 years
AA	£3m 4 years	£3m 5 years	£3m 15 years	£3m 5 years	£1m 10 years
AA-	£3m 3 years	£3m 4 years	£3m 10 years	£3m 4 years	£1m 10 years
A+	£3m 2 years	£3m 3 years	£3m 5 years	£3m 3 years	£1m 5 years
A	£3m 13 months	£3m 2 years	£3m 5 years	£3m 2 years	£1m 5 years
A-	£3m 6 months	£3m 13 months	£3m 5 years	£3m 13 months	£1m 5 years
None	£1.5m 6 months	n/a	£3m 25 years	£1m 5 years	£500k 5 years

Pooled funds and real estate investment trusts	£2.5m per fund or trust
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- 3.38 * Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- 3.39** For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £500,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.
- 3.40 Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
- 3.41 Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
- 3.42 Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 3.43 Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in

Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

- 3.44 Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- 3.45 Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.
- 3.46 Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
- 3.47 Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.
- 3.48 Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2.0m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.
- 3.49 Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and

- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 3.50** Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 3.51 Other information on the security of investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 3.52** When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
- 3.53 Investment limits:** The Authority’s revenue reserves available to cover investment losses are forecast to be £9.7 million on 31st March 2023 and £7.1 million on 31st March 2024. In order that no more than 45% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5.0 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
- 3.54** Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £2m in operational bank accounts count against the relevant investment limits.
- 3.55** Limits are also placed on fund managers, investments in brokers’ nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country
Registered providers and registered social landlords	£2.5m in total
Unsecured investments with building societies	£2.5m in total
Loans to unrated corporates	£1m in total
Money market funds	£20m in total
Real estate investment trusts	£2.5m in total

3.55 Liquidity management: The Authority uses detail spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

3.56 The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

3.57 The Authority measures and manages its exposures to treasury management risks using the following indicators.

3.58 Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
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- 3.59 Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£2.5m

- 3.61 Interest rate exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£500,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£500,000

- 3.62** The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

- 3.63 Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	50%	0%

The Council has not taken out debt financing for a number of years, therefore all debt is presently over 10 years old. This revised ratio gives flexibility for new debt that will possibly be required. Time periods start on the first day of each financial year.

- 3.64** Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

- 3.65 Long-term treasury management investments:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£1.5m	£1m	£0.5m	£0m

- 3.66 Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

- 3.67 The CIPFA Code requires the Authority to include the following in its treasury management strategy.
- 3.68 Financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 3.69 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 3.70 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
- 3.71 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 3.72 Housing Revenue Account:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

3.73 External Funds: The Council does invest funds for its fully owned subsidiary Rubicon.

3.74 Markets in Financial Instruments Directive: The Authority has retained retail client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance believes this to be the most appropriate status.

Financial Implications

3.75 The budget for investment income in 2023/24 is £0.670 million, based on an average investment portfolio of £30 million at an interest rate of 2.0%. The budget for debt interest paid in 2023/24 is £0.448m million, based on an average general fund debt portfolio of £12 million at an average interest rate of 3.42%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different

3.76 Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

3.77 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, having consulted the Executive Member for Finance and Enabling, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however

		long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – November 2022**Underlying assumptions:**

- UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remain highly uncertain.
- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.
- The new Chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.
- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short-to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.
- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.
- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.
- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.

- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment & Debt Portfolio Position

	31.12.22 Actual portfolio £m	31.3.22 Average rate %
External borrowing:		
Public Works Loan Board	98.9	3.35
Local authorities		
LOBO loans from banks		
Other loans	5.0	4.71
Total external borrowing	103.9	3.42
Other long-term liabilities:		
Private Finance Initiative		
Leases		
Transferred Debt		
Total other long-term liabilities	0	0
Total gross external debt	103.9	3.42
Treasury investments:		
The UK Government	19.7	
Local authorities		
Other government entities		
Secured investments		
Banks (unsecured)		
Building societies (unsecured)		
Registered providers (unsecured)		
Money market funds	9.1	
Strategic pooled funds		
Real estate investment trusts		
Other investments		
Total treasury investments	28.8	1.56
Net debt	75.1	

APPENDIX C**Annual Minimum Revenue Provision Statement 2023/24****Introduction**

- 3.1 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.
- 3.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 3.3 The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 4%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
 - For assets acquired by leases MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
 - When former operating leases are brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
 - For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

- There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year
- Where the council makes a capital contribution or loan to another entity or where responsibility for a council asset with borrowing attached is transferred to a third party, then no MRP will be set aside if:
 - the payments are appropriately covered by assets
 - there are detailed plans demonstrating that all the expenditure will be recovered in an appropriately short time frame

To ensure that this remains a prudent approach the Council will review the expenditure and income regularly to determine if the income or asset values have decreased to the point that MRP needs to be provided for. Should evidence emerge which suggests the expenditure will no longer be recovered MRP will be provided for.

- Where the council uses internal borrowing and receipts of rental income are greater than the MRP calculated then as there are sufficient revenues to repay the capital cost no MRP will be set aside.
- 3.4 Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later.
- 3.5 Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2023, the budget for MRP has been set as follows:

:

	31.03.2023 Estimated CFR £m	2023/24 Estimated MRP £
Capital expenditure before 01.04.2008		
Supported capital expenditure after 31.03.2008		
Unsupported capital expenditure after 31.03.2008	19.8	910.000
Leases and Private Finance Initiative		
Transferred debt		
Loans to other bodies repaid in instalments		Nil
Voluntary overpayment (or use of prior year overpayments)	n/a	
Total General Fund		910,000
Assets in the Housing Revenue Account	23.3	
HRA subsidy reform payment	98.9	
Total Housing Revenue Account	122.2	0
Total	143.0	910,000

APPENDIX D

INVESTMENT STRATEGY REPORT 2023/24Introduction

- 3.1 The Authority invests its money for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
 - to support local public services by lending to or buying shares in other organisations (**service investments**), and
 - to earn investment income (known as **commercial investments** where this is the main purpose).
- 3.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

- 3.3 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £20m and £40m during the 2023/24 financial year.
- 3.4 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.
- 3.5 **Further details:** Full details of the Authority's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy, which is part of these appendices.

Service Investments: Loans

- 3.6 **Contribution:** The Council will lend money to its subsidiaries, local businesses, local charities, housing associations, to support local public services and stimulate local economic growth.

- 3.7 Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2022 actual			2023/24
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries			0	1.0
Suppliers			0	0
Parish councils			0	0
Local businesses			0	0.5
Local charities			0	0.5
Housing associations			0	1.0
Local residents			0	0
Employees			0	0
TOTAL			0	3.0

- 3.8** Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.
- 3.9 Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by using specialist advice to understand the market and the potential future demands of the market and the customers in it. It will also use benchmarking data from the market to determine future potential risks which need to be planned for. External advice is only sought from credible sources eg acknowledged experts in their fields, and officers ensure that they fully understand any information given to them before decision or advice is taken.

Commercial Investments: Property

- 3.10 Contribution:** The Council has Towns Fund Funding of over £15m to regenerate the Town Centre and deliver an Innovation Centre. Although these schemes will generate an income stream at the end of the process their main purpose, as per the Grant requirements, is for regeneration. As set out in the Capital Strategy it invested in offices at Oak Tree Part in 2019 for regenerative purposes (See Asset Strategy). Fully let these premises will generate £76k per annum. The Council does not invest in property for commercial gain.

Table 3: Property held for investment purposes in £ millions

Property	Actual	31.3.2022 actual		31.3.2023 expected	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
N/a	0	0	0	0	0
TOTAL	0	0	0	0	0

- 3.16 Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.
- 3.17** *Where value in accounts is at or above purchase cost:* A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2022/23 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.
- 3.18** *Where value in accounts is below purchase cost:* The fair value of the Authority's investment property portfolio is no longer sufficient to provide security against loss, and the Authority is therefore taking mitigating actions to protect the capital invested.
- 3.19 Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by involving specialist advisors with expertise in the type of property being purchased, looking at historic data and speaking to other councils undertaking similar activities.
- 3.20 Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period

to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority ensures that properties purchased are in an active market where there is demonstrable demand to ensure that the authority does not purchase assets which it will not be able to sell on at a later date.

Loan Commitments and Financial Guarantees

- 3.22 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

Proportionality

- 3.24 The Authority does not plan to become dependent on profit generating investment activity to achieve a balanced revenue budget.

Borrowing in Advance of Need

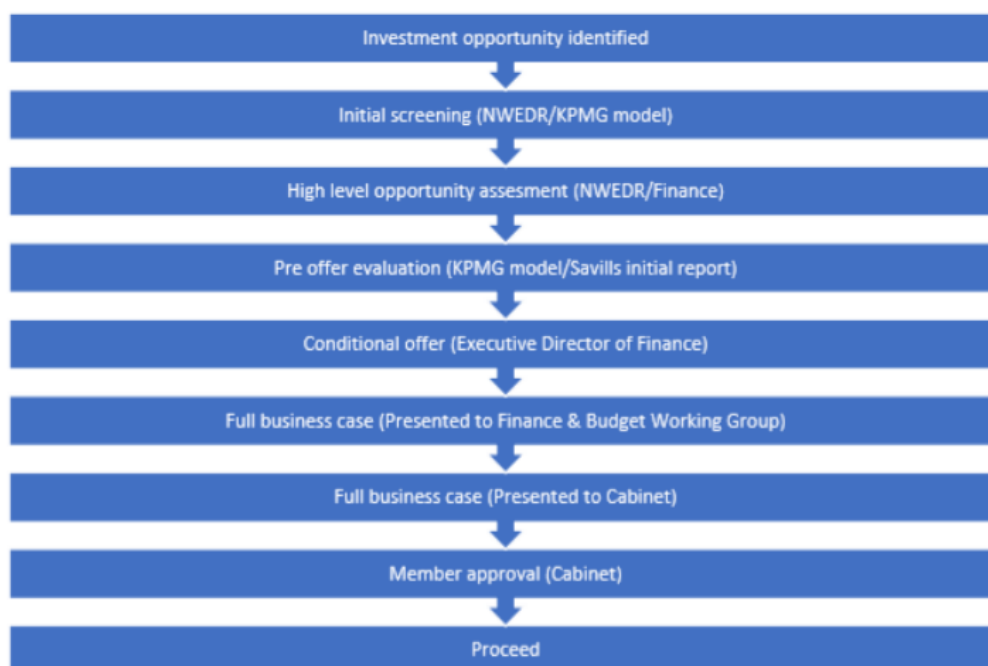
- 3.25 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority would only not follow this guidance if interest rate forecasts and treasury advisor guidance set out that it was more cost effective, **in terms of significantly reduced debt interest charges**, for the Council to borrow for the **Approved 3 year capital programme** at a point of time rather than when that expenditure is taking place over that 3 year period. It is unlikely that this will happen however the option should not be closed off. Funds would be invested The Authority's policies in investing the money borrowed, including management of the risks, would be as per normal short term Treasury Investments.

Capacity, Skills and Culture

- 3.26 Elected members and statutory officers:** Member training will take place annually as part of the induction process. External advisors will provide reports to support investment decisions with officers ensuring that they fully understand them and can relate them to the strategic objectives and risk profile of the authority.
- 3.27 Commercial deals:** Significant work has been undertaken using external advisors and relevant training courses have been attended to ensure that officers are fully aware of the code and statutory requirements of a local authority which is investing.

KPMG have developed a modelling tool for the authority to use when assessing potential purchases as a precursor to engaging with external consultants to ensure that potential purchases are likely to make sense from the perspective of the authority before incurring advisor costs. However, following an internal review of policy, it has been decided that the council may wish to make purchases which do not make a financial return or may indeed make a loss in the short term. On these occasions a business case will be developed which specifies the non-financial benefits of the investment. These are likely to be regenerative schemes for the greater good of the area with an intended long term impact. The regenerative and redevelopment benefits which will flow from the investment will be taken into account in the development of the business case, so if the net investment yield falls below 0.75% it can still proceed if these benefits are deemed to outweigh the lower than target yield.

- 3.28 Corporate governance:** when investment decisions are to be made, they are to be led by the Council's Executive Director of Finance in consultation with the Corporate Management Team. They will assess the potential investment opportunity, consulting North Worcestershire Economic Development and Regeneration (NWEDR) and using the KPMG finance appraisal model, and should they decide it presents a strong opportunity for the authority and complies with the relevant criteria a conditional offer can be made. A business case will then be developed and presented ensuring that once greater detail is included, it makes a satisfactory income yield and/or economic redevelopment and regeneration impact. When the business case is completed, if it is still compliant with the council criteria, it will be presented to Executive for approval before purchase is completed.



Once a purchase has been made, the Director of Finance will provide quarterly updates, in line with finance and performance monitoring reports, on the status of the investment.

Investment Indicators

3.29 The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

3.30 Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	35	30	20
Service investments: Loans			
Service investments: Shares			
Commercial investments: Property	0	0	0
TOTAL INVESTMENTS	35	30	20
Commitments to lend			
Guarantees issued on loans			
TOTAL EXPOSURE	35	30	20

3.31 How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	0	0	0

3.32 Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	0.08%	1.56%	2.0%
Service investments: Loans			
Service investments: Shares			
Commercial investments: Property			
ALL INVESTMENTS	0.08%	1.56%	2.0%

Table 8: Other investment indicators

Indicator	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
<i>e.g.</i> Debt to net service expenditure ratio	0%	0%	0%

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Financial Savings Monitoring Report

Relevant Portfolio Holder	Councillor Ashley – Portfolio Holder for Finance and Governance
Portfolio Holder Consulted	Yes
Relevant Head of Service	Michelle Howell
Report Author	Job Title: Head of Finance & Customer Services Contact email: michelle.howell@bromsgroveandredditch.gov.uk Contact Tel:
Wards Affected	All
Ward Councillor(s) consulted	No
Relevant Strategic Purpose(s)	All
Key Decision / Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. RECOMMENDATIONS

The Audit, Governance and Standards Committee RECOMMEND that:

- 1) Progress on 2022/23 Departmental Savings be noted.**
- 2) Progress on Efficiency Savings be reported back to this Committee following allocations as part of Quarter 2 2022/23 monitoring be noted**
- 3) Present Council overspend position for 2022-23 and actions to mitigate this be noted.**

2. BACKGROUND

- 2.1 As part of the 2022/23 budget, which was agreed at Council in February 2022, there were several savings options approved to deliver the balanced budget for the year. These amounted to £304k of Departmental Savings. In addition, a further £595k of existing efficiency savings were carried forward from the 2021/22 financial year. These savings require allocation to departmental budgets. Both sets of savings are shown in Appendix A.
- 2.2 The Quarter 2 Finance and Performance Monitoring report was on the Executive Agenda for the 6th December 2022.
- 2.3 The financial section of the report sets out progress against budget. The £10.52m original revenue budget included in the table below is the budget that was approved by Council in March 2022. The projected

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outturn figure at Q2 is a £369k overspend, which is a significant increase on the £21k underspend position Reported in Q1.

	2022/23 Full Year Budget	2022/23 Cross- cutting saving allocation	2022/23 Revised Budget	2022/23 Q2 Actuals	2022/23 Adjusted Forecast Outturn	2022/23 Adjusted Forecast Outturn Variance (Under) / Over spend
Regulatory Client	391,190		391,190	150,115	333,594	(57,597)
Business Transformation & Organisational Development	1,794,085	(76,055)	1,718,030	883,683	1,784,825	66,795
Chief Executive	(1,934,525)		(1,934,525)	566,564	(1,939,311)	(4,786)
Community & Housing GF Services	8,076	(154,853)	1,423,223	649,080	1,685,768	262,544
Environmental Services	2,779,319		2,779,319	422,217	2,963,582	184,264
Financial & Customer Services	1,905,007	(244,943)	1,660,064	9,067,146	1,683,401	23,337
Legal, Democratic & Property Services	2,238,105	(184,457)	2,053,648	849,054	2,099,985	46,338
Planning, Regeneration & Leisure Services	1,293,154	(83,106)	1,210,048	524,456	1,206,992	(3,055)
Cross cutting savings and efficiency targets	(595,012)	743,414	148,402	0	0	(148,402)
RBC Rubicon Client	1,070,604		1,070,604	460,750	1,070,604	0
Grand Total	10,520,000	0	10,520,000	13,573,066	10,889,439	369,439

2.4 This over-spend position includes the allocation of non-allocated savings and efficiency targets from previous years which totalled £595k at the start of this financial year. In addition to this, additional underspends identified at Q1 totalling £148k were collated centrally as this also looked to partially mitigate a £195k overspend position in Environmental Services. As highlighted in the October report, these savings and efficiencies have been allocated predominantly against employee budgets as per the table above. The table below sets out the adjusted Q1 position compared against the Q2 position, which is a £385k deterioration in position.

2.5 The main reason for this variance (Q1 to Q2) are two areas.

Within Community and Housing General Fund Services there are two services in particular that have a significant variance against budget:

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- Housing Options (£211k overspend) – This is predominantly as a result of increasing expenditure linked to increases in demand for housing support and temporary accommodation costs. It is important to note that, the present cost of living crisis may result in increases in demand for council services, which at the point of writing cannot be fully quantified in this forecast.
- Community Transport (£65k underspend) – This is mainly as a result of a forecast reduction in income for the service.

Within Business Transformation & Organisational Development, the forecast overspend is predominantly due to purchases within the ICT service. Following the installation of a new HR software package, recruitment is underway to recruit to vacant posts within the service

	Q1 Position	Allocation of Efficiency Target	Revised Q1 Position	Q2 Position	Var Q1 to Q2
	£000	£000	£000	£000	£000
Regulatory Client	(58)	0	(58)	(58)	0
Business Transformation & Org Development	(83)	76	(7)	67	74
Chief Executive	(1)	0	(1)	(5)	(4)
Community & Housing GF Services	(155)	155	0	263	263
Environmental Services	196	0	196	184	(12)
Financial & Customer Services	(245)	245	0	23	23
Legal, Democratic and Customer Services	(184)	184	0	46	46
Planning, Regeneration & Leisure Services	(86)	83	(3)	(3)	0
RBC Rubicon Client	0	0	0	0	0
Cross Cutting Savings and Efficiency Target	595	(743)	(148)	(148)	0
	(21)	0	(21)	369	390

- 2.6 Departmental Savings (as per the 2022/23 MTFP) are shown to be on track for delivery as per the data contained in Appendix A.
- 2.7 The monitoring report summarises the detailed position in each services area. These are shown in Appendix B.

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- 2.8 However, **the £369k overspend position is just as at Q2**. We also need to adjust for the following factors
- The £1,925 per pay point pay award was paid in December to staff. This has an overall effect of increasing cost in year by another **£773k**. This funding imbalance has been mitigated in the ongoing budgets. This is the forecast impact for the year as per December payroll data.
 - The **£282k** of reserves which were already supporting the budget as per the 2022/23 Medium Term Financial Plan (MTFP).

This means that in 2022/23 the Council has an in year **overspend position of £1.424m** which will reduce General Fund Reserves from their opening position of £2.069m to £0.645m.

- 2.9 The Council are looking at ways to mitigate this in year overspend position and using initiatives such as those set out in the MTFP Report which will be discussed at Executive on the 7th February 2023.

3. FINANCIAL IMPLICATIONS

- 3.1 The two sets of savings have significant financial implications.
- 3.2 The Departmental Savings totalling £304k is on track for delivery
- 3.3 £743k of savings have been allocated, which is more than the £595k Cross Cutting savings target by £148k. This over recovery has been applied in order to partially mitigate overspending in Environmental Services in Quarter 1.
- 3.4 This is however only part of the picture. There are also £773k of additional employee costs following the national pay award this year and £282k of reserves already supporting the budget. These also require monitoring and mitigation as they have a significant impact on our General Fund reserve levels.

4. LEGAL IMPLICATIONS

- 4.1 There are no direct legal implications arising as a result of this report.

5. STRATEGIC PURPOSES - IMPLICATIONS**Relevant Strategic Purpose**

- 5.1 The Strategic purposes are included in the Council's Corporate Plan and guides the Council's approach to budget making ensuring we

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focus on the issues and what are most important for the borough and our communities. Our Financial monitoring and strategies are integrated within all our Strategic Purposes.

Climate Change Implications

- 5.2 The green thread runs through the Council Plan. 2022/23 savings options which had implications on climate change would have been addressed at that time.

6. OTHER IMPLICATIONS**Equalities and Diversity Implications**

- 6.1 There are no direct equalities implications arising as a result of this report. Any implications will have been dealt with as part of the 2022/23 Budget process.

Operational Implications

- 6.2 Operational implications will have been dealt with as part of the 2023/24 Budget process.

7. RISK MANAGEMENT

- 7.1 Non delivery of savings options, depending on their financial magnitude can have either a small or significant affect on the Council's finances. As such mitigations need to be in place to deal with changes to what was agreed by Council in February 2022.

8. APPENDICES and BACKGROUND PAPERS

Appendix A – Redditch Savings Monitoring 2022/23
Appendix B – Q2 Revenue Monitoring Narrative

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Appendix A – Redditch Savings Monitoring 2022/23

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Department	Strategic Purpose	Description of saving	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000	RAG Status	Comments
Business Transformation	Enabling of the Authority	Addition of one Business Improvement Advisor funded by HRA	-40	-40	-40	-40	Green	24/25 and 25/26 to be funded from savings made from Advisors & service outcomes
Corporate Administration / Central Post Opening	Enabling of the Authority	Non recruitment to vacancy post	-30	-30	-31	-31	Green	Actioned via main salaries
Corporate Administration / Central Post Opening	Enabling of the Authority	Non recruitment to vacancy post	-3	-3	-3	-3	Green	Actioned via main salaries
Corporate Administration / Central Post Opening	Enabling of the Authority	Non recruitment to vacancy post	-6	-6	-6	-6	Green	Actioned via main salaries
Corporate Administration / Central Post Opening	Enabling of the Authority	Non recruitment to vacancy post	19	19	20	20	Green	Loss of Shared Service Income From Bromsgrove
Grants	Enabling the Authority	Salary saving on Grants Officer post by reducing hours in RBC.	-4	-4	-4	-4	Green	
Environmental Services	Communities which are Safe, Well Maintained and Green	Savings on Agency salary	-15	-15	-15	-15	Amber	This related to Hedgcutting
Bereavement Services	Communities which are Safe, Well Maintained and Green	Additional Income from cremations	-18	0	0	0	Amber	
Environmental Services	Communities which are Safe, Well Maintained and Green	Savings from vacant post	-27	-27	-27	-27	Green	removal of one of environmental services TL role - grade 9
Environmental Services	Communities which are Safe, Well Maintained and Green	Bulky waste income	-10	-10	-10	-10	Green	delivered via developing a combined team with bin deliveries that covers both RBC and BDC - staff numbers do not change but would deliver efficiencies and more commercial opportunities and as a fully shared services there would be more income potential
Democratic Services	Enabling the Authority	Services restructure	-5	-5	-5	-5	Green	Actioned via main salaries on BDC so this is included in SS recharge adjustment
Democratic Services	Enabling the Authority	Services restructure - shared services recharge	3	3	3	3	Green	Actioned via main salaries on BDC so this is included in SS recharge adjustment
Lifeline	Living independent, active & healthy lives	Future income generation options	-20	-20	-20	-20	Amber	
Customer Services	Enabling the Authority	Alternative cash payments	0	-40	-40	-40	Amber	Actioned on DBS - 27.01.22
Financial services	Enabling of the Authority	Life insurance scheme saving	-35	-35	-35	-35	Amber	There is only a budget of £30k - Actioned on DBS 26.01.22
Corporate Administration / Central Post Opening	Enabling of the Authority	Reduction in consumables eg paper and reduction of MFDs in print contract	-14	-14	-14	-14	Amber	with WFFH the usage of paper has been much less. Reduce the number of MFDs at the sites
Business Development - Business	Run and grow successful business	Service redelivery	-100	-100	-100	-100	Green	Actioned on DBS - 26.01.22 on cc 2403 Chief Exec.
TOTAL			-304	-326	-326	-327		

Appendix B – Q2 Revenue Monitoring Narrative

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Business Transformation & Organisational Development – £67k overspend

Within Business Transformation & Organisational Development, the forecast overspend is predominantly due to purchases within the ICT service. This is after the absorption of £76k cross cutting efficiency savings targets based upon forecast underspends within Human Resources at quarter 1 due to vacancies within the service. Following the installation of a new HR software package, recruitment is underway to recruit to vacant posts within the service.

Chief Executive - £5k underspend

There is a small underspend forecast within the Chief Executive area.

Community and Housing General Fund Services - £263k overspend

Within Community and Housing General Fund Services there are two services in particular that have a significant variance against budget:

- Housing Options (£211k overspend) – This is predominantly as a result of increasing expenditure linked to increases in demand for housing support and temporary accommodation costs. It is important to note that, the present cost of living crisis may result in increases in demand for council services, which at the point of writing cannot be fully quantified in this forecast.
- Community Transport (£65k underspend) – This is mainly as a result of a forecast reduction in income for the service.

This overall overspend forecast is after the absorption of cross cutting efficiency savings targets totalling £155k based upon forecast underspends within Housing Options and Community Safety/CCTV at quarter 1 due to vacancies within the service.

Environmental Services - £184k overspend

Within Environmental Services there are two service areas with significant forecast overspends against budget:

- Engineering & Design (£113k overspend) – the forecast overspend is mainly as a result of expenditure on non adopted highways due to health and safety works.
- Tree Management (£71k overspend) – The forecast overspend in this service is as a result of insurance claims.

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This forecast overspend will be kept under review throughout 2022/23. In the event that efficiencies across other budgets are not identified during the latter part of the year, a proposal will be brought forward to seek approval to fund this pressure through earmarked reserves.

Finance & Customer Services - £23k overspend

Within Finance & Customer Services there is a forecast overspend totalling £23k, this is after the absorption of £245k cross cutting efficiency savings targets based upon forecast underspends at quarter 1. This will continue to be reviewed in light of pressures within the service, with further updates provided during 2022/23.

Legal, Democratic and Property Services - £46k overspend

Within Legal, Democratic and Property Services there are two service areas with significant forecast outturn variances against budget. Business Development (£18k underspend) is currently forecasting an underspend as a result of vacancies within the team. The underspend is offset by the forecast cost of Elections totalling £63k. The service overall has absorbed £184k cross cutting efficiency savings targets based upon forecast underspends at quarter 1.

Planning, Regeneration and Leisure Services - £3k underspend

There is a small forecast underspend totalling £3k within this service after the absorption of £83k cross cutting efficiency savings targets based upon forecast underspends at quarter 1.

Cross cutting savings and efficiency targets - £148k underspend

Organisational efficiency targets totalling £595k have been allocated to service areas based upon forecast underspends as at quarter 1; predominantly linked to vacancies. This will be kept under review as we progress through the financial year.

Regulatory Client - £58k underspend

A £58k underspend on the Licencing Client is forecast due to increased General Licencing and Taxi licensing income.

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REDDITCH BOROUGH COUNCIL**Audit, Governance and Standards Committee 26 January 2023****Quarterly Risk Update**

Relevant Portfolio Holder	Councillor – Karen Ashley Portfolio Holder for Finance and Enabling
Portfolio Holder Consulted	-
Relevant Head of Service	Michelle Howell – Head of Finance and Customer Services
Report Author Peter Carpenter	Job Title: Head of Finance and Customer Services Contact email: michelle.howell@bromsgroveandredditch.gov.uk
Wards Affected	All Wards
Ward Councillor(s) consulted	No
Relevant Strategic Purpose(s)	An effective and sustainable Council
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

This report sets out Council activity to identify, monitor and mitigate risk.

1. RECOMMENDATIONS

Audit, Governance and Standards Committee are asked to:

- Review the present list of Corporate and Departmental Risks for completeness and request any additional risks to be considered.

2. KEY ISSUES**Background**

- 2.1 In 2018/19, an audit of Risk Management provided an assurance level of limited assurance due to weaknesses in the design and inconsistent application of controls. As a result of the audit, a review was commissioned and undertaken by Zurich Municipal to consider the Council's risk management arrangements and to advise of any recommendations. In response to the Zurich review a Risk Management Strategy was produced for both Bromsgrove District Council and Redditch Borough Council.
- 2.2 A follow-up review was carried out by Internal Audit in March 2021 (Final Report June 2021) with the purpose of identifying what progress had been made against the Risk Management Strategies. At that time there was a lack of evidence that the actions within the Risk Management Strategies had been fully completed and embedded within the Councils and therefore no assurance could be given.
- 2.3 CMT that acknowledged that the embedding of effective risk management needed to be driven and led by senior management and cascaded down throughout the Council. It recommended that:

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- An initial Officer Risk Board to take place on in the first week of April 2022. This happened on the 8th April. Three further rounds of the Officer Board have now taken place on the 22nd June, the 21st September, and the 21st December to embed processes.
- Each department nominate a representative to a Risk Board. These representatives meet on a quarterly basis and report back to management teams.
- Each department to complete an updated Risk Register by Wednesday 6th April. This Report is the third update of the Risk Register following that initial re-baselining on the 6th April.
- That the Audit Committee, which met in the week commencing the 11th April, be verbally updated on Progress. The Audit Committee reviewed Risk Registers in July and October and this Report is the third round of updates being reported to embed that process. These reports have also been presented to Executive.
- CMT be updated at their meeting on 13th April on progress and ongoing on progress. CMT were presented with an initial draft Corporate Risk Register for approval, and further updates were presented to Executive at the end of June, the end of September, and the end of December to embed the overall process.
- That updated reports are prepared for next cycle of Audit, Governance and Standards Committee. This cycle is in January 2023 and is the third series of updates.
- That the Officer Group update the Risk Register and formally report for CMT on a quarterly basis. These quarterly updates happened on the 29th June, 28th September, and 21st December.

The Definition of a Corporate Risk

- 2.4 The definition of a Corporate Risk remains unchanged. The Officer Risk Board review at their quarterly meetings risks that should be raised to Corporate Risks and those that should be reduced to Departmental Risks. This definition is below:

“For a **Risk** to move from being **Departmental** in nature to being **Corporate** in nature that it ***must have significant impact on Councils finances, be cross departmental in nature and/or result in Serious reputational damage.*** The Officer Risk Board will vet departmental risks using this definition to move then to Corporate Risks at their quarterly meetings.”

- 2.5 At the June Officer Risk Board it was agreed that “Green” Departmental Risks should be taken off this list if they have been to two consecutive meetings and mitigating actions have been fully put into place for them. This report takes account of this requirement being 2 meetings since the original baseline was reported.

REDDITCH BOROUGH COUNCIL**Audit, Governance and Standards Committee 26 January 2023****The 4Risk System**

- 2.6 The Council have reviewed the use of the 4Risk system to manage its risks. It was the view of the Officer Risk Board, and endorsed by CMT, that this was fit for purpose but like any system it needed to be properly completed and updated. The Officer Risk Board reviews this on a quarterly basis.

The baseline Departmental Risks are included in the following table – this was prior to any Risk Board meetings in April which started to actively challenge, mitigate and remove/add where relevant Risks.

Original Baseline April 2022

Service Area	Red	Amber	Green	Total
Customer Access and Financial Support	12	20	13	45
Finance	0	0	4	4
Environmental Services	0	2	11	13
Leisure & Cultural Services	0	3	3	6
Legal, Equalities and Democratic Services	0	0	7	7
ICT	2	4	5	11
Planning Services	0	1	1	2
Housing	1	11	11	23
Community Services	1	1	5	7
HR	0	0	1	1
Total	16	42	61	119

- 2.7 The Officer Meetings at the end of June, **which was not reported to Committee due to timing differences** saw the number of risks reduce as follows to 96 Risks:

Service Area	Red	Amber	Green	Total
Customer Access and Financial Support	0	6	12	18
Finance	0	2	2	4
Environmental Services	0	2	11	13
Leisure & Cultural Services	0	3	3	6
Legal, Equalities, Democratic Services & Property	0	3	9	12
ICT	2	6	2	10
Planning Services	0	2	1	3
Housing	1	10	10	21
Community Services	0	2	6	8
HR	0	0	1	1
Total	3	36	57	96

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The Three departmental red risks were:

- ICT 7 - Failure to identify, maintain and test adequate disaster recovery arrangements
- ICT 11 - System functionality to manage records.
- HOU 26 - Failure to deliver a service to QCQ requirements at St David's House.

2.8 The Update as at the end of September sees that Departmental total reduce to 83

Service Area	Red	Amber	Green	Total
Customer Access and Financial Support	1	5	13	19
Finance	0	2	2	4
Environmental Services	0	1	11	12
Leisure & Cultural Services	0	1	0	1
Legal, Equalities, Democratic Services & Property	0	1	9	10
ICT	2	4	4	10
Planning Services	0	1	0	1
Housing	1	9	7	17
Community Services	0	2	6	8
HR	0	0	1	1
Total	4	26	53	83

Red Departmental Risks were:

- REV7 - Revenues - Performance Indicator data is not robust.
- ICT7 - IT - Failure to identify, maintain and test adequate disaster recovery arrangements.
- ICT11 - IT – System functionality to manage records.
- Hou26 - Housing – Failure to deliver a service to QCQ requirements at St David's House.

2.9 As at the 21st December, Risks and their categorizations have fallen to the levels in the following table with just 62 risks in total.

2.10 December, being the third cycle following the baselining exercise has seen a complete review of all departmental risks. Twenty risks have been removed and a number of others have been re-categorised. This review process has been done in two stages:

- All items have been reviewed by Risk Champions and respective DMT's in each Service Area. Service representatives continue to challenge individual items, which is on the data in the following Tabs underneath each Risk, to ensure that all controls and assurances are properly monitored.

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- The Risk Board on the 14th December also went through all open risks to assess their validity, to ensure that assessment practices were consistent across service areas. This took account of the view that “Green” Departmental Risks should be taken off this list if they have been to two consecutive meetings and mitigating actions have been fully put into place. This was tested in the case of all remaining Green Risks.

Service Area	Red	Amber	Green	Total
Customer Access and Financial Support	1	5	10	16
Finance	0	2	2	4
Environmental Services	0	5	3	8
Leisure & Cultural Services	0	1	0	1
Legal, Equalities, Democratic Services & Property	0	1	5	6
ICT	0	2	2	4
Planning Services	0	1	0	1
Housing	0	9	6	15
Community Services	0	1	5	6
HR	0	0	1	1
Total	1	27	34	62

Red Risks – 1 in total

REV7 - Revenues - Performance Indicator data is not robust.

The previous two ICT Risks and the Housing Risk have been mitigated.

- 2.11 A new risk will be added in Housing for the various implications of the Damp and Mould issues (which include rectification and also what the Council needs to undertake to ensure that the HRA and Private Landlords comply with the regulations).
- 2.12 Green risks, which have come off this report are and how they are getting mitigated.

Corporate Risks

- 2.13 The Officer Risk Board reviewed the risks in the above table at their meetings on the 8th April, 22nd June, 21st September and the 21st December using the new definition of “Corporate Risks”. The table below sets out the updated Corporate Risk Register that the Risk Board took to CMT and gained their approval.

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Risk Ref	Risk Title	Action	Narrative
COR9	Non-Compliance with Health & Safety Legislation	Remain	Is an issue across all Departmental Risk Registers
COR10	Decisions made to address financial pressures and implement new projects that are not informed by robust data and evidence	Remain	High Risk Projects are brought to CMT on a quarterly basis and CMT also need to monitor those Projects.
COR14	Non-Adherence with Statutory Inspection Policy	Remain	Is an issue across all Departmental Risk Registers
COR15	Impact to changes in Partner Funding Arrangements	Remain	This was in relation to both Leisure Providers and WRS. Risk should remain but closely tied to New01
COR16	Management of Contracts (should not be Conveyances reading the backing documents)	Remain	CMT on 30/3 had a report on levels of non-compliance on contracts. This risk needs to be updated to reflect that Audit Report.
COR17	Resolution of the approved Budget Position in both Councils	Remain	Both Councils have approved budget plans which reduce reserve levels to dangerous levels over the MTFS period. Budgets need to be balanced and reflect national changes and the funding envelope and associated pressures Councils now find themselves in
COR18	Protection from Cyber Attack	Remain	Councils are under increasing danger of Cyber attack which affects service delivery and associated recovery plans. It has taken Hackney over 18 months to recover from such an incident. It is imperative that the Council has defences in place to minimise the risk of such an attack.
COR19	Adequate Workforce Planning	Remain	That the Council have an available workforce to discharge its duties to the public.
COR20	Financial Position Rectification	Remain	The Council is presently over a year behind in financial returns and this potentially affects service delivery and reputation. That the Council rectify this position in a timetable agreed with all major stakeholders.

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COR22	Delivery of Levelling up, Towns Fund and UK Shared Prosperity Fund work	Remain	Delivery of Levelling UP, UK Shared Prosperity Fund and Towns Fund Projects are a high risk due to status, level of external funding, resource implications and the requirement to spend all funding before April 2025 and April 2026 respectively
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There is no change to the existing Corporate Risks. However, an overarching Corporate Risk relating to the “cost of living” crisis will need to be added as this impacts numerous services and is specific in nature.

The Risk Management Framework

- 2.14 Risk Management Training. Given the active management of risks by service departments, we have seen numbers of departmental risks reduced by almost 50% although Corporate Risks have increased by 20%. At this time, it is felt that a series of Risk Management Training is not required as processes seem to be being embedded in the organisations.

3. Legal Implications

- 3.1 No Legal implications have been identified.

4. Financial Implications

- 4.1 The Council spend significant sums insuring itself and must also hold Reserves to mitigate the costs of risks should they happen. A comprehensive Risk Management approach ensures risk and its consequences, including financial ones, are minimised.

5. Strategic Purpose Implications**Relevant Strategic Purpose**

- 5.1 A comprehensive Risk Management approach ensures **Risk and its Consequences** is minimised for the Council.

6. Climate Change Implications

- 6.1 The green thread runs through the Council plan. This includes risks linked to activities and actions that link to our climate.

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- 7.1 If risks are not mitigated it can lead to events that have Customer/Equalities and Diversity implications for the Council.

Operational Implications

- 7.2 Risks are inherent in almost all the Councils operational activities and therefore significant risks need to be identified, monitored and mitigated.

8. RISK MANAGEMENT

- 8.1 This report is about Risk Management.

9. APPENDENCES

None

AUTHOR OF REPORT

Name: Pete Carpenter– Interim Director of Finance
E Mail: Peter.Carpenter@bromsgroveandredditchbc.gov.uk

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

Work Programme 2022-23

26 January 2023

- Monitoring Officer's Report
- Feckenham Parish Council Representative's report - Standards Regime
- Update on 2020/21 Statement of Accounts
- Internal Audit Progress Report
- Financial Savings Monitoring Report
- Asset and Treasury Management Strategies
- Quarterly Risk Update Q3
- Risk Champion Update
- Audit, Standards and Governance Committee Work Programme

23 March 2023

- Monitoring Officer's Report
- Feckenham Parish Council Representative's report - Standards Regime
- Update on Statement of Accounts 2020/21
- Update on Statement of Accounts 2021/22
- Grant Thornton External Audit Progress Report and Sector Update
- Internal Audit Progress Report
- Accounting Policies report
- Actuarial valuation of the pensions fund
- Quarterly Risk Update (Q4)
- Risk Champion Update
- Audit, Standards and Governance Committee Work Programme

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