

# West Devon Audit Committee



West Devon  
Borough  
Council

<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Tuesday, 7th December, 2021</b>
<b>Time:</b>	<b>9.30 am</b>
<b>Venue:</b>	<b>Chamber - Kilworthy Park</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Davies</p> <p style="text-align: center;"><b>Vice Chairman</b> Cllr Ball</p> <p><i>Members:</i> Cllr Bolton Cllr Ridgers Cllr Bridgewater Cllr Yelland Cllr Renders</p>
<b>Interests – Declaration and Restriction on Participation:</b>	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
<b>Committee administrator:</b>	Democratic.Services@swdevon.gov.uk

**1. Apologies for absence**

**2. Declarations of interest**

Members are invited to declare any personal or disclosable pecuniary interests, including the nature and extent of such interests they may have in any items to be considered at this meeting.

If Councillors have any questions relating to predetermination, bias or interests in items on this Agenda then please contact the Monitoring Officer in advance of the meeting.

**3. Items Requiring Urgent Attention**

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

**4. Confirmation of Minutes**

**1 - 4**

Meeting held on 2 November 2021

**5. External Auditor Appointment**

**5 - 16**

**6. Update on Progress on the 2021/22 Internal Audit Plan - report of the Internal Audit Manager**

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**7. Sundry Debt Update- report of the Head of Finance**

**45 - 54**

**8. Treasury Management Mid-year report 2021/22 -report of the Finance Business Partner**

**55 - 70**

**9. Strategic Risk Update- report of the Head of Strategy and Projects**

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**10. Investment Property Update and Monitoring Report - report of the Director of Place and Enterprise**

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**11. Audit Committee Work Programme**

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# Agenda Item 4

At a Meeting of the **AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **2nd** day of **November 2021** at **11am**

**Present:** Cllr M Davies (Chairman)  
Cllr K Ball  
Cllr A Bridgewater  
Cllr M Renders  
Cllr P Ridgers  
Cllr J Yelland

**Officers in attendance:** Section 151 Officer  
Deputy Section 151 Officer  
Democratic Services Officer  
Head of Strategy and Projects  
External Auditor

**Also in attendance:** Cllr C Edmonds (lead Hub Committee Member)

As a mark of respect following the tragic recent deaths of Sir David Amess MP and Mr James Brokenshire MP, those Members and Officers in attendance stood and observed a minutes silence.

**\*AC 8                    CONFIRMATION OF MINUTES**

The Minutes of the Committee Meeting held on 7 September 2021 were confirmed by the Committee as a true and correct record.

**\*AC 9                    GRANT THORNTON REPORT: AUDIT FINDINGS REPORT 2020-21**

A report was considered that set out The Audit Findings by Grant Thornton. The External Auditor explained to the Committee that he would be issuing an unqualified opinion on the financial statements for the 2020-21 period. Grant Thornton were unable to formally conclude the audit due to work on the whole of the government account return. HM Treasury are yet to issue a data collection tool to officers to enable them to complete the work. Once completed the auditors need to review and submit assurances to the National Audit Office. This is a national issue.

Risks identified had not changed. Pension fund liability valuation and valuation of councils land and property and investment property. Covid grants with various schemes and terms meant officers had to assess each individual grant separately. The auditors did significant testing in this area and found the accounting appropriate. The running of the transactional listings from the ledger system is currently very time consuming and needs to be made efficient for both the auditors and officers too and a recommendation has been made.

In discussion, reference was made to:-

- Talks with the software provider to ensure the running of the transactional reports in the ledger is less time consuming as it currently is in regard to officer time.
- Delivery plan for a new performance management reporting system, hopefully will be delivered before the end of the calendar year.
- Debt write off report showing £60,000. The Committee thanked the debt recovery team for their work

It was then **RESOLVED** that the Grant Thornton Audit Findings Report 2020-21 be noted.

**\*AC10**

### **GRANT THORNTON REPORT: AUDITORS ANNUAL REPORT 2020-21**

The report was introduced to the Committee by the External Auditor.

In discussion, reference was made to:-

- Devon District procurement – to purchase locally where possible. Work closely with District colleagues.
- Code of Conduct and Whistleblowing Policies to become an annual review for both staff and Members.
- £435,000 was paid from reserves to support the Fusion Leisure contract. Successfully lobbied to secure funds of £90,000 from the National Lottery Fund to passport to Fusion Leisure. Work was commissioned nationally through the LGA and the support the authority was providing was along similar lines to other authorities.
- Seamoor Lotto income. Communications campaign to push the lotto during the winter. Since it's launch in 2018 the Lotto has raised £75,000 for 103 good causes across both West Devon and South Hams. Being a community lottery there cannot be a profit, for every £1 ticket sold, 50p goes to a good cause, 10p goes to a central pot which goes to help other good causes through Crowdfund, 20p towards prizes and 20p to the Lottery Management company.
- Pension valuation liability has increased significantly from £21.8m to £27.1m at 31 March 2021 but it was noted that this doesn't impact on the Council's bottom line and is a notional figure. The triennial valuation sets the employer contribution. Valuation due to take place again in 2022/23 as at 31 March 2022. A representative from Devon County Pension Fund will be attending at a future Audit Committee meeting.
- The bank rate went to a historic low, with the authority obtaining £37,000 investment income in 2020/21.

The Committee thanked the finance team for their work in such a challenging time.

It was then **RESOLVED** that the Grant Thornton Auditors Annual Report 2020-21 be noted.

**\*AC11**      **AUDITED ANNUAL STATEMENT OF ACCOUNTS REPORT 2020-21**  
Cllr Edmonds, Lead Hub Committee Member introduced the report.

It was then **RESOLVED** that the Audited Annual Statement of Accounts Report 2020-21 be noted.

**AC12**      **ANNUAL TREASURY MANAGEMENT REPORT FOR 2020/21**  
The Committee was presented with the Annual Treasury report.

In discussion, reference was made to:-

- The investment in the South West Mutual Bank. The Lead Hub Member advised he had attended the AGM of the bank and the directors were taking steps to make it a success.

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

1. **APPROVED** the actual 2020/21 prudential and treasury indicators in the report.
2. Noted the Annual Treasury Management report for 2020/21.

**\*AC13**      **AUDIT COMMITTEE WORK PROGRAMME**  
The Work Programme was presented to the Committee.

It was then **RESOLVED** that the Committee noted the Work Programme.

**\*AC14**      **DATE FOR DECEMBER AUDIT COMMITTEE**  
The Audit Committee agree the date of the next Audit Committee to be 7 December at 9.30am

(The Meeting terminated at 12.30 pm)

Dated this

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Chairman

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Report to: **Audit Committee**  
Date: **7<sup>th</sup> December 2021**  
Title: **External Auditor Appointment**  
Portfolio Area: **Finance – Councillor C Edmonds**  
Wards Affected: **ALL**

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

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

Contact: **Email [lisa.buckle@swdevon.gov.uk](mailto:lisa.buckle@swdevon.gov.uk)**

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**Recommendations:**

**That the Audit Committee:**

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

## 1. Executive summary

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

- 1.2 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement the Council undertakes with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.
- 1.3 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation the Audit Committee is asked to make the recommendation outlined to Council.
- 1.4 The alternative is to establish an auditor panel and conduct the Council's own procurement. This is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the national sector led procurement, would be likely to result in a more costly service for the provision of an external auditor service.
- 1.5 The majority (if not all) of Devon Councils are choosing to opt into the national arrangements through PSAA for the reasons in this report.

## **2. Background**

- 2.1 As part of closing the Audit Commission, the Government novated external audit contracts to PSAA on 1 April 2015.
- 2.2 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).
- 2.3 The main advantages of using PSAA (the national procurement framework) are set out in the PSAA prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.
- \* Assure timely auditor appointments
  - \* Manage independence of auditors
  - \* Secure highly competitive prices
  - \* Save on procurement costs
  - \* Save time and effort needed on auditor panels
  - \* Focus on audit quality
  - \* Operate on a not for profit basis and distribute any surplus funds to scheme members.



## **2.4 Resource Implications**

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

## **2.5 Timescale**

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

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

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

## **2.7 Devon Position**

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

## **3. Proposed way forward**

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

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

#### 4. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. There are no specific legal implications arising from this report, save that there is a requirement to appoint an external auditor and to follow the appropriate procurement and contract procedure rules.
Financial	Y	<p>If PSAA is not used, some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed, it is not possible to state what additional resource may be required for external audit fees for 2023/24, although it is anticipated that any increase will be minimised through using the PSAA national framework.</p> <p>The current external audit fees for 2020/21 were £50,535.</p>
Risk	Y	<p>As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.</p> <p>The most significant risk is the administration required to appoint the Council's own external auditor and the potential for this to be a more costly exercise, also resulting in higher annual external audit fees. There is also the risk of there potentially being no bidders or take up from the tender exercise.</p>
Supporting Corporate Strategy		The external audit process supports all of the Thematic Delivery Plans outlined in 'A Plan for West Devon'.
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.

Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/a
Safeguarding	N	N/a
Community Safety, Crime and Disorder	N	N/a
Health, Safety and Wellbeing	N	N/a
Other implications	N	none

**Background Papers:**

None

**Supporting Information**

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

**Approval and clearance of report**

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

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

From the Chairman of the Association  
Cllr James Jamieson



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

23 September 2021

Dear Lisa Buckle,

**Retender of External Audit Contracts**

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

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

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

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

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

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

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

Yours sincerely

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

Cllr James Jamieson  
Chairman

cc: Chief Executive  
Chief Finance Officer

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

### **RETENDER OF EXTERNAL AUDIT CONTRACTS**

#### Information from the LGA for those charged with governance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **PROCUREMENT OF EXTERNAL AUDIT from financial year 2023/24**

#### **FREQUENTLY ASKED QUESTIONS**

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

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

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

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

“Has the current contract helped cause these issues?”

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

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

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

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

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

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

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

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

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

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



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

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

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

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



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Report to: **Audit Committee**

Date: **7 December 2021**

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

Portfolio Area: **Performance & Resources - Cllr C Edmonds**

Wards Affected: **All**

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

Date next steps can be taken: N/A

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

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[Robert.hutchins@swdevon.gov.uk](mailto:Robert.hutchins@swdevon.gov.uk) **01392 383000**

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**RECOMMENDATION:**

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

## **1. Executive summary**

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

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

## **2. Background**

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

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

The Internal Audit plan for 2021/22 was presented to the Audit Committee on 6th April 2021.

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

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

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

## **3. Outcomes/outputs**

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

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

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

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

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

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

#### **4. Options available and consideration of risk**

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

#### **5. Proposed Way Forward**

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

## 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Supporting Corporate Strategy	Y	This Progress Report and the work of Internal; Audit supports all of the Council's corporate strategy themes.
Climate Change – Carbon / Biodiversity Impact	Y	<p>None directly arising from this report. However, the Internal Audit function, managed by Devon Audit Partnership is very mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to obtain evidence to support the audit process, although it is inevitable that on-site verification may be required at times.</p> <p>The team use an audit management system (Mki) which enables managerial review to take place remotely, thus also saving on the need for travel.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.

Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Appendices:**

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

#### **Background Papers:**

Annual Internal Audit Plan 2021/22 as approved by Audit Committee on 6th April 2021.

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

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

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



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

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

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Report Issued in draft	Management comments received	Final Report Issued	Assurance Opinion				Comments
						Substantial	Reasonable	Limited	No	
<b>CUSTOMER SERVICE &amp; DELIVERY</b>										
ICT Audit – Business Continuity & Disaster Recovery	23	x								
ICT Audit – Incident and Problem Management		x	x	x	x		x			Final report issued. Extract provided at Appendix B.
ICT Audit – Change Management										
Locality Officers – Management, roles & scheduling	15									
Response and Recovery to COVID-19	15									
Building Maintenance – Works Scheduling – Follow-Up	3									
Cash Collection & Online Payments	5	x	x	x	x		x			Final report issued. Extract provided at Appendix B.
<b>Customer Service &amp; Delivery</b>	<b>61</b>									

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

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

**Appendix A**

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

## Summary of Internal Audit Findings 2021/22 – Final Reports

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

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

Subject	Audit Findings	Management Response
<p>Estates Property &amp; Rents Follow Up Contd.</p>	<p>improvements have begun to take place, or are already planned by the Head of Assets, These recommendations are:</p> <ol style="list-style-type: none"> <li>1. Introduction of a planned maintenance programme for those investment properties owned by the Councils;</li> <li>2. Regular reviews to ensure that the property portfolio continues to meet corporate objectives;</li> <li>3. Making better use of the Concerto software to manage the commercial property portfolio, removing the need for spreadsheets;</li> <li>4. Taking advantage of work- flow systems to provide efficiencies in the management of commercial properties and the collection of income;</li> <li>5. Creation of a suite of reports to provide effective management information relating to the property portfolio; and</li> <li>6. Ensuring that the approved Tavistock Hotel Action Plan is delivered in full, including revision of the Councils' Social Media Policy and publication of schemes of delegations which rest outside of the Councils' Constitutions.</li> </ol>	<p>4. Agreed. The Estates team and the Head of Assets have regular monthly meetings, which include discussion of best practice, approaches to debt recovery etc.</p> <p>It is not felt appropriate to state that working practices will all have been formalised by a particular point in time, as the team constantly strive for continuous improvement.</p> <p>The Senior Specialist – Estates will be asked to investigate whether any efficiencies can be gained by the use of workflow procedures in Netcall Liberty etc., in liaison with other teams where necessary.</p> <p>5. Agreed. Monthly meetings between the Head of Assets and the Estates team have been reinstated, allowing full discussion of related work matters and issues arising. Making better use of Concerto is one of those items which is discussed.</p> <p>If it is felt to be necessary, some training and advice will be obtained from the supplier of Concerto.</p> <p>6. Agreed. A Social Media Strategy has now been drafted, but it is to be linked to two other documents, a Digital Strategy and a Customer Contact Strategy, both of which have arisen from the draft revised South Hams and West Devon Corporate Strategies.</p> <p>With the Corporate Strategies formally adopted, the SHWD Business Manager – Case Management will lead on a piece of work to bring together the three Strategies in one piece of work, with input from the Head of Communications and Media and the Customer Service Improvement Manager</p> <p>Both the Digital Case Manager – Communications and the Specialist – Communications who has recently completed a Diploma in Social Media, will also play key roles in developing the Strategies.</p> <p>We are aware of the need to publish the list of officer</p>



Subject	Audit Findings	Management Response
		<p>delegations and are currently looking at how we can use Modern.Gov for this purpose. As soon as a solution is found, we will publish accordingly but are committed to this being as soon as possible.</p>
<p>ICT Audit – Incident and Problem Management</p>	<p><b>Reasonable Assurance</b></p> <p>Incremental improvements have been made in how the Service Desk operates, particularly around introducing pro-active monitoring of hardware and software health, but it is recognised by the Head of ICT that there is more which can be done to bring about further improvements.</p> <p>We have made a number of recommendations to contribute to the improved efficiency of incident and problem management, some of which are in support of actions already planned by the Head of ICT. However, we acknowledge that, in some respects, officers are restricted by the functionality of the existing software. The most significant recommendations include:</p> <ol style="list-style-type: none"> <li>1. Support for the intention to replace the service desk software with a system which will bring about greater efficiencies;</li> <li>2. Development of a suite of reports within any new software, to allow pro-active identification of processes, software, upgrades, users, etc. which are the root cause of incidents and more efficient management of the Service Desk;</li> <li>3. ITIL training for the Service Desk team, as planned; and</li> <li>4. Further development of the knowledge database within the service desk software, to allow solutions and work-arounds to both incidents and problems to be held in one place.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agreed. The topic has been raised by the Head of IT at a 1-to-1 with the Director of Customer Service and Delivery. The business case requires further development and will be discussed again at the next available 1-to-1.</li> </ol> <p>If approved, there is no capacity within the ICT team to install a replacement system until around mid-2022.</p> <ol style="list-style-type: none"> <li>2. Agreed. The quality of the reporting function that can assist in these areas will be taken into account when considering any replacement service desk software.</li> <li>3. Agreed. The budget for the training has been approved and the Service Desk officers have been enrolled on ITIL courses.</li> <li>4. Agreed. The approach of holding all solutions and work-arounds to problems in one place will be included in any future implementation of service desk software.</li> </ol>

Subject	Audit Findings	Management Response
Cash Collection & Online Payments	<p><b>Substantial Assurance</b></p> <p>Overall, the receipt of payments by all methods appears to be well-controlled and evidenced as follows:</p> <ul style="list-style-type: none"> <li>• Third party software is used to collect debit and credit card receipts, to ensure compliance with mandatory security requirements;</li> <li>• Procedures are in place to collect and securely count and bank the cash collected from car park pay and display machines, with that banked being reconciled to that expected;</li> <li>• The posting of income to Council systems is automated as much as possible, to avoid errors such as the incorrect ledger code or personal account being used;</li> <li>• VAT is dealt with automatically, removing any need for experience on the part of those processing or coding payments;</li> <li>• Each receipt has a unique transaction reference and a full audit trail of its origin and destination.</li> </ul> <p>We have made a relatively minor recommendation in relation to the storage of that cash collected from the car parks pay and display machines outside of the timetabled collections.</p>	<p>Agreed in principle. However, there are four CEOs, any of whom may potentially have to empty a pay and display machine out of hours and deliver the cash box to Kilworthy Park for storage.</p> <p>There is reluctance to give an additional four officers access to the strong room. Instead, the cash boxes are placed in a locked cupboard in a locked office, within the headquarters that are also locked out of hours, providing three layers of security.</p> <p>It is accepted that this arrangement is not ideal but it is felt to be the best available in the circumstances.</p>
Climate Change	<p><b>Reasonable Assurance</b></p> <p>The Councils are making steady progress in achieving their aim of reducing their carbon footprints, as well as enabling local communities to do the same by facilitating, either directly or indirectly, the provision of infrastructure and knowledge to do this. However, we have limited this summary to those areas which we have examined as part of our review that focussed on two actions within the approved Action Plans, namely electric vehicle charging points and Climate Change and Biodiversity Locality Fund grants at South Hams:</p>	<ol style="list-style-type: none"> <li>1. Agreed. For each of the Climate Change and Biodiversity funding streams, applicants will be required to confirm that the information they have provided is correct to the best of their knowledge and that they understand both the general terms and conditions of receiving the grant, as well as those specific to the particular fund.</li> <li>2. Agreed. Discussions are already under way with Exeter</li> </ol>

Subject	Audit Findings	Management Response
<p>Climate Change Contd.</p>	<p>The review also followed up the agreed recommendations from the 2020/21 Climate Change audit report and we are able to report that the majority of agreed actions within that report have either been delivered or are in progress;</p> <p>Our findings include:</p> <ol style="list-style-type: none"> <li>1. The Climate Change and Biodiversity Locality Fund grants appear to be well controlled, although we have made a recommendation around applicant declarations, as part of the funding application disclaimer;</li> <li>2. As intended by officers, a formal strategy for the provision of EV charging, both for the public and for use by the Councils themselves, needs to be developed and linked to a programme of delivery;</li> <li>3. The plan for moving the Councils' environmental management vehicles over to EVs should be formalised and a specification of charging requirements provided to the Assets Practice, allowing appropriate provision to be made on a timely basis; and</li> <li>4. As planned, the Carbon Literacy Training should be completed by the Senior and Extended Leadership Teams, providing managers with the tools to consider the impact on climate change when planning service delivery. The same training can then be rolled out to other officers to raise awareness.</li> </ol>	<p>University to see if they can assist in developing a realistic strategy for the installation of EV charging facilities and the provision and use of renewable energy.</p> <p>Some reference to future plans for EV charging was made in a report to Hub on 21 September 2021.</p> <p>Whilst a timeframe for developing a formal strategy cannot be defined until work with the University is progressed further, it is recognised that the matter is urgent in terms of delivering the Councils' climate change agenda.</p> <ol style="list-style-type: none"> <li>3. Agreed. A fleet forward plan is to be drawn up by the Case Management Team Leader – Commercial Services.</li> </ol> <p>It is envisaged that between six and ten existing vehicles can be replaced with EVs within six months. Unfortunately, there is a long lead-in time at present due to the global microchip shortage.</p> <ol style="list-style-type: none"> <li>4. Agreed. All of SLT have completed the training, as well as the vast majority of ELT. In addition, those officers who are key to the delivery of those actions within the Corporate Strategies, which are linked to Climate Change and Biodiversity, as well as the Action Plans themselves, also attended the training.</li> </ol> <p>It is the intention to cascade the training to all remaining staff, as well as to members. However, over the next three months (to 31 January 2022) the cost implications of this, as well as how and when the training can be delivered, have to be determined.</p>

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

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

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

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

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



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

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

## Definition of Assignment and Overall Assurance Opinions

### Audit Assignment Assurance Opinion Levels – as from May 2020

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

Overall / Annual Assurance Opinion Levels – As from May 2020

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

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

Subject	Comments
<b>System of Internal Control (SIC), and Annual Governance Statement (AGS)</b>	<p>Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control.</p> <p>In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit were available to provide support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2020/21 financial year.</p> <p>The S151 Officer presented the 2020/21 AGS to the Audit Committee on 7 September &amp; 2 November 2021.</p>
<b>Exemptions to Financial Procedure Rules</b>	<p>One application for Contract / Financial Procedure Rules to be waived has been received in the year to date, this was accepted.</p>
<b>Fraud / Irregularity</b>	<p>There have been no irregularities to report.</p>
<b>Covid 19 - MHCLG Lost Sales, Fees &amp; Charges Compensation Scheme</b>	<p>Internal Audit were asked to undertake review and challenge of the returns prepared by officers when claiming under the Govt scheme, the first in May 2021 and more recently, in October 2021. In both cases, Internal Audit were able to confirm the accuracy of the claims and provide substantial assurance on the two submissions.</p>

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Report to: **Audit Committee**  
Date: **7 December 2021**  
Title: **Sundry Debt**  
Portfolio Area: **Performance & Resources – Cllr C Edmonds**

Wards Affected: **All**

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

Date next steps can be taken: N/A

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

Contact: **01803 861559** [clare.scotton@swdevon.gov.uk](mailto:clare.scotton@swdevon.gov.uk)  
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## **Recommendation:**

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

### **1. Executive summary**

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

### **2. Background**

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

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

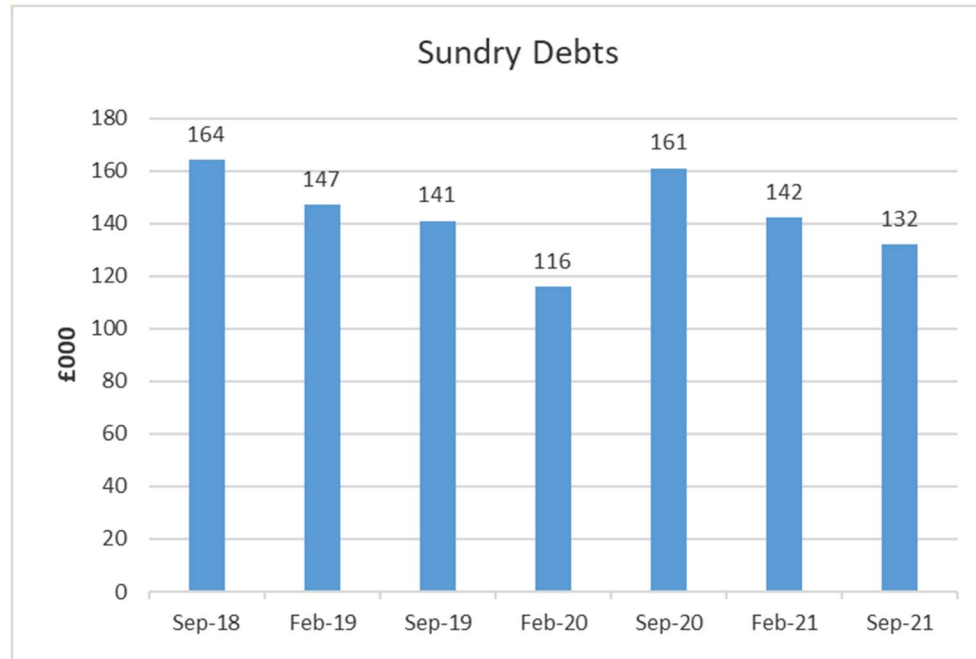
### **3. Outcomes/outputs**

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

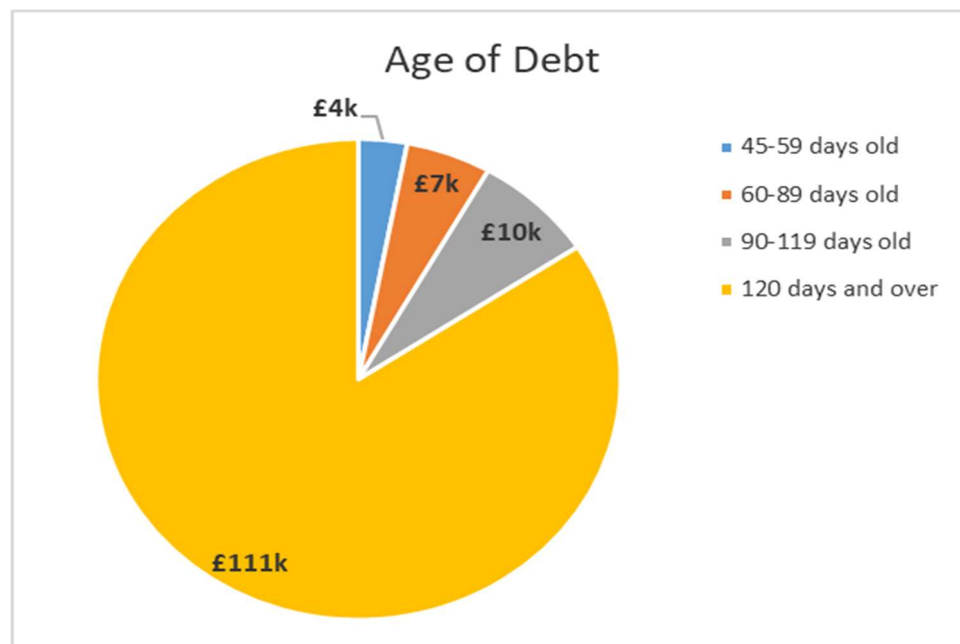


### Sundry Debts

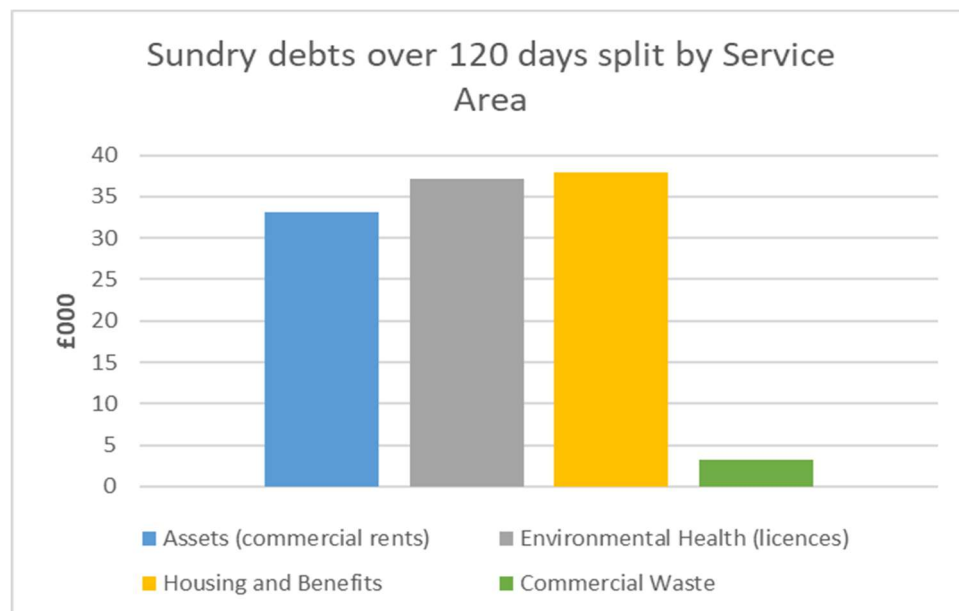
3.4 The balance of arrears for Sundry Debts over recent years is summarised below. Sundry Debts consist of Estates Management, Licencing and Housing. This excludes car parking fines which are included on a different system.



3.5 This balance of £188k can be further broken down by age category to give a clearer picture of the nature of Sundry Debt arrears, as follows.



- 3.6 The current balance for Sundry Debts of £132k includes five high value debtors (in excess of £10k). One invoice relates to rental income from a tenant in one of the Council's let units, who was suffering financial difficulties prior to Covid and their financial position is still suffering. A payment plan has been set up and the debt will reduce over the coming months. Three of the other invoices have been sent final notice letters and one other has been passed to the recovery team.
- 3.7 Sundry debts over 120 days total £111k and can be further analysed by service area below. It can be seen that just over £38k relates to Housing and Benefits which are notoriously difficult debts to recover. This makes up 34% of the total debt in this age category. Just over £37k relates to Environmental Health invoices. The majority of these are licences and therefore low value, high volume. Licensing invoices were not being chased during the pandemic and customers who had already paid are were offered refunds under the Council's Additional Restrictions Grant (ARG) Business Grant scheme. This scheme has now finished and all outstanding licensing invoices are being actively pursued.
- 3.8 Just over £33k relates to commercial rents and slow recovery is expected in the current financial climate. The Assets team are working closely with tenants to work out a payment plan to recover these debts.

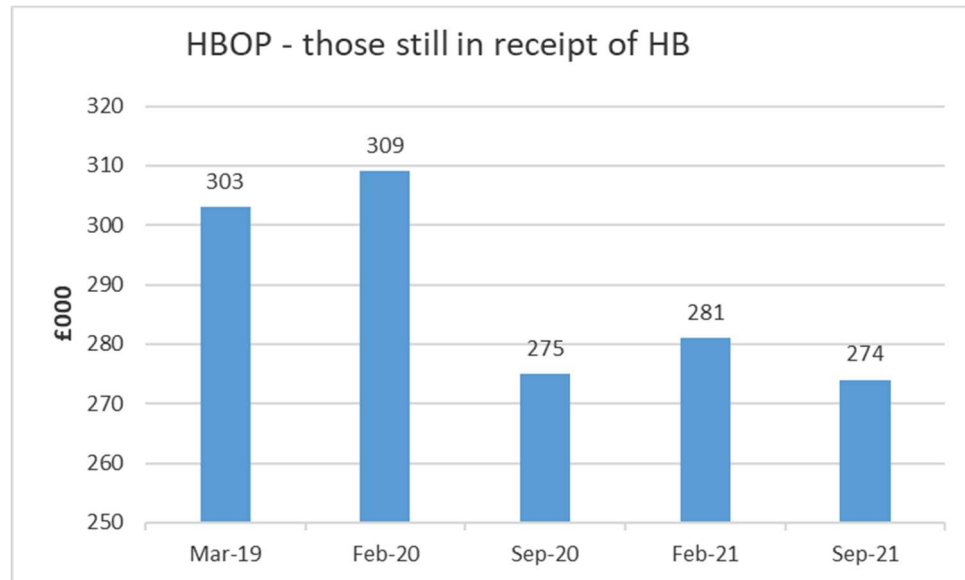


### **Sundry debt written off**

- 3.9 Sundry debts totalling £6.60k have been written off in the first six months of 2021/22 due to their age and likelihood of being recovered.

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

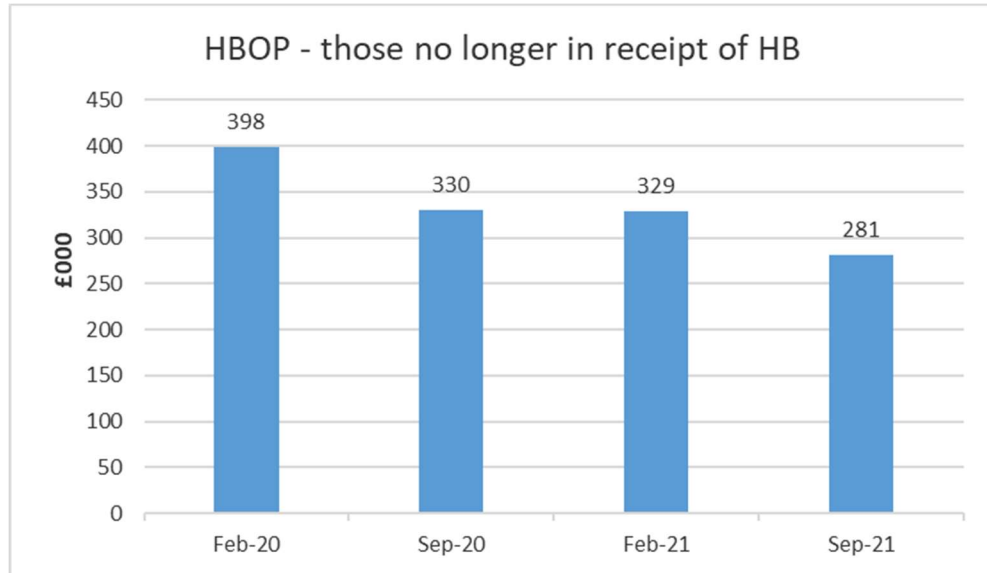
3.10 The balance of arrears for Housing Benefit Overpayment Recoveries from those still in receipt of Housing Benefit is £274k as at 30<sup>th</sup> September 2021, a slight decrease on the balance of £281k as at 28<sup>th</sup> February 2021. The balance over time can be seen on the chart below.



3.11 Recovery action was paused following the initial lockdown in March 2020 but this process is now back up and running. The Case Management team make every effort to identify overpayments promptly and so begin the recovery process whilst amounts are still relatively low. By recovering these debts whilst people are still in receipt of Housing Benefit, the ease of recovery is greater, as is the likelihood of full recovery.

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

3.12 The balance of arrears for Housing Benefit Overpayment Recoveries from those no longer in receipt of Housing Benefit is £281k as at 30<sup>th</sup> September 2021, a decrease on the balance of £329k as at 28<sup>th</sup> February 2021. The balance over time can be seen on the chart below.



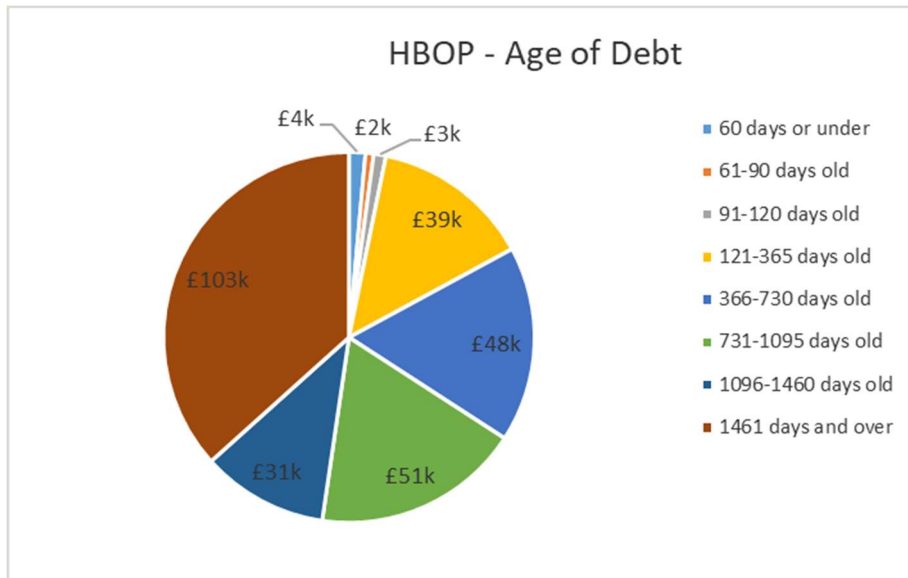
3.13 The amount outstanding is continuously monitored and well managed for both categories of Housing Benefit Overpayment Recoveries. A downwards trend is expected as members of the public move increasingly from the Housing Benefit system over to the Universal Credit system.

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

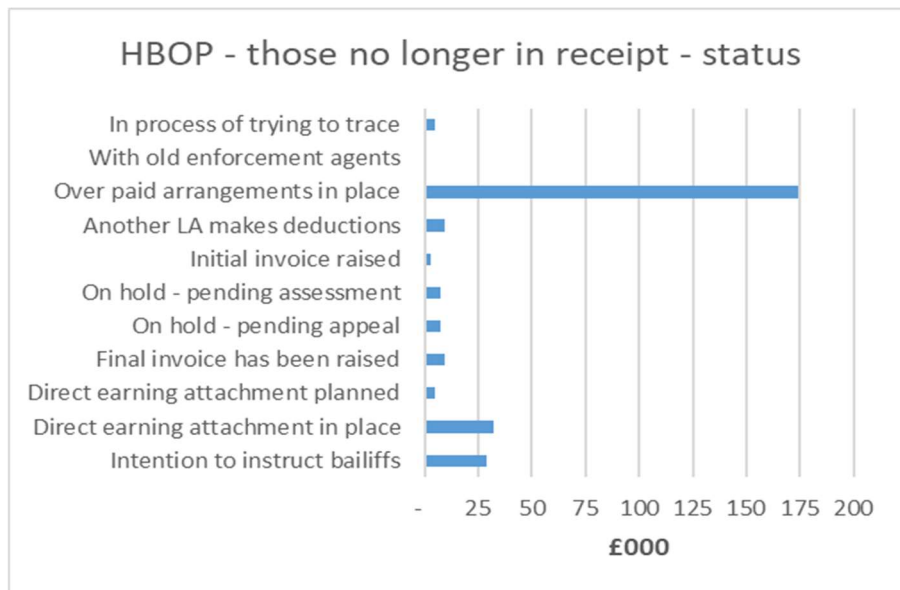
### **Housing Benefit write offs**

3.15 Since 1<sup>st</sup> April 2021, just over £8,800 of this debt has been written off.

3.16 The balance of £281k can be further broken down by age category to give a clearer picture of the nature of these arrears, as follows.



3.17 Of this balance, £174k relates to debt where over paid arrangements are in place. A full picture showing the status of this debt can be seen below.



#### 4. Options available and consideration of risk

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

#### 5. Proposed way forward

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

#### 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The guidelines for Statutory Interest Charging and adding recovery costs falls under the European Directive 2011/7/EU on Combating Late Payment in Commercial Transactions. Enforcing successful legal action for recovery of debt is dependent upon a robust system of ensuring correct business names are recorded within our systems.
Financial implications to include reference to value for money	Y	Improved income collection, resulting in less impact of uncollectable debt on the Income and Expenditure Account, due to fewer write offs.
Risk	Y	There remains a risk of income not being collected. The Debt Recovery Plan alongside the Debt Recovery Policy seeks to minimise this. Risk to reputation is managed carefully by prompt recovery of amounts due wherever possible. This risk is also mitigated by taking a balanced view and ensuring that resources are not expended on debts which are not cost effective to pursue and these are written off in accordance with the Council's Write Off Policy
Supporting Corporate Strategy		The debt recovery process supports all of the Thematic Delivery Plans outlined in 'A Plan for West Devon'.
Climate Change - Carbon / Biodiversity Impact		None directly arising from this report.

Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
<b>Comprehensive Impact Assessment Implications</b>		
Equality and Diversity	N	All enforcement action that is taken prior to this point is undertaken in accordance with legislation and accepted procedures to ensure no discrimination takes place.
Safeguarding	N	N/A
Community Safety, Crime and Disorder	N	N/A
Health, Safety and Wellbeing	N	N/A
Other implications	N	None

**Supporting Information**

**Appendices:**

None

**Background Papers:**

None

**Approval and clearance of report**

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

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Report to: **Audit Committee**

Date: **7 December 2021**

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

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

Wards Affected: **All**

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

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

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

Contact: **01803 861559** [clare.scotton@swdevon.gov.uk](mailto:clare.scotton@swdevon.gov.uk)

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## **Recommendations:**

It is recommended that the Audit Committee resolves:-

- i. To endorse the contents of the report.

## **1. Executive summary**

1.1 To date, the Council has under-performed the industry benchmark by 0.05%. The Council has achieved a rate of return of 0.00% against the Sterling Overnight Interbank Average rate (SONIA) of 0.05%. The Council's budget for investment interest in 2021/22 is £105,321. The current forecast is £24,370 leaving a shortfall against budget of £80,951. A cost pressure for 2022/23 of £80,000 has been built into the Budget Setting process, so that the 22/23 investment interest budget is reduced to £25,321.

## **2. Background**

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

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

2.3 Treasury management is defined as:

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

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

- An annual treasury strategy in advance of the year (Council 30/03/2021 – CM44)
- A mid-year (minimum) treasury update report (This report)
- An annual review following the end of the year describing the activity compared to the strategy

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

### **3. Economics and Interest Rates**

#### **Economics Update**

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

3.2 There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would

stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.

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

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

### Interest Rate Forecast

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

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

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

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

### **The balance of risks to the UK economy**

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

## **4. Treasury Management Strategy Statement**

4.1 The Treasury Management Strategy Statement (TMSS) for 2021/22, was approved by the Council on 30/03/21 – CM44. It sets out the Council's investment priorities as being:

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

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

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

## **5. Investment Portfolio 2021/22**

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

5.2 The Council held £28.7m of investments as at 30 September 2021 (£18.971m at 31 March 2021) and the investment portfolio yield for the first six months of the year is 0.00% against a benchmark (SONIA rate) of 0.05%.

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

### **Money Market Funds**

<b>Amount £</b>	<b>Investment</b>	<b>Average Interest rate</b>
3,000,000	Aberdeen Standard Investments	0.01%
3,000,000	BlackRock ICS-Inst GBP	0.01%
1,050,000	Deutsche Managed GBP	0.00%
3,000,000	LGIM Sterling Liquidity Fund	0.00%
<b>10,050,000</b>	<b>Total Money Market Funds</b>	

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

### **Fixed Term Deposits – Current**

<b>Counterparty</b>	<b>Fixed to</b>	<b>£</b>	<b>Interest Rate</b>
Lloyds TSB Bank Plc	32 day notice	3,000,000	0.03%
Debt Management Office	19/10/2021	1,000,000	0.0001%
Debt Management Office	19/10/2021	800,000	0.0001%
Debt Management Office	19/10/2021	2,200,000	0.0001%
Debt Management Office	23/11/2021	3,000,000	0.0001%
Debt Management Office	23/11/2021	500,000	0.0001%
Debt Management Office	20/12/2021	2,500,000	0.0001%
Debt Management Office	04/01/2022	1,400,000	0.0001%
Debt Management Office	08/02/2022	3,800,000	0.0001%
<b>Total Fixed Term Deposits</b>		<b>18,200,000</b>	

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

This is, in part, due to the timing differences between the Council collecting council tax income and paying this over to major precepting authorities such as Devon County Council, the Police and the Fire Authority. The Council's current counterparty limit is £3 million (£4 million for Lloyds plc).

## **Property Funds**

<b>Amount</b>	<b>Investment</b>	<b>Dividend Yield</b>
£470,524	CCLA – Property Fund	4.04%

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

5.5 The Council’s budgeted investment return for 2021/22 is £105,321, and the current forecast is £24,370. This leaves a forecast shortfall of £80,951 against budget.

## **Investment Counterparty Criteria**

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

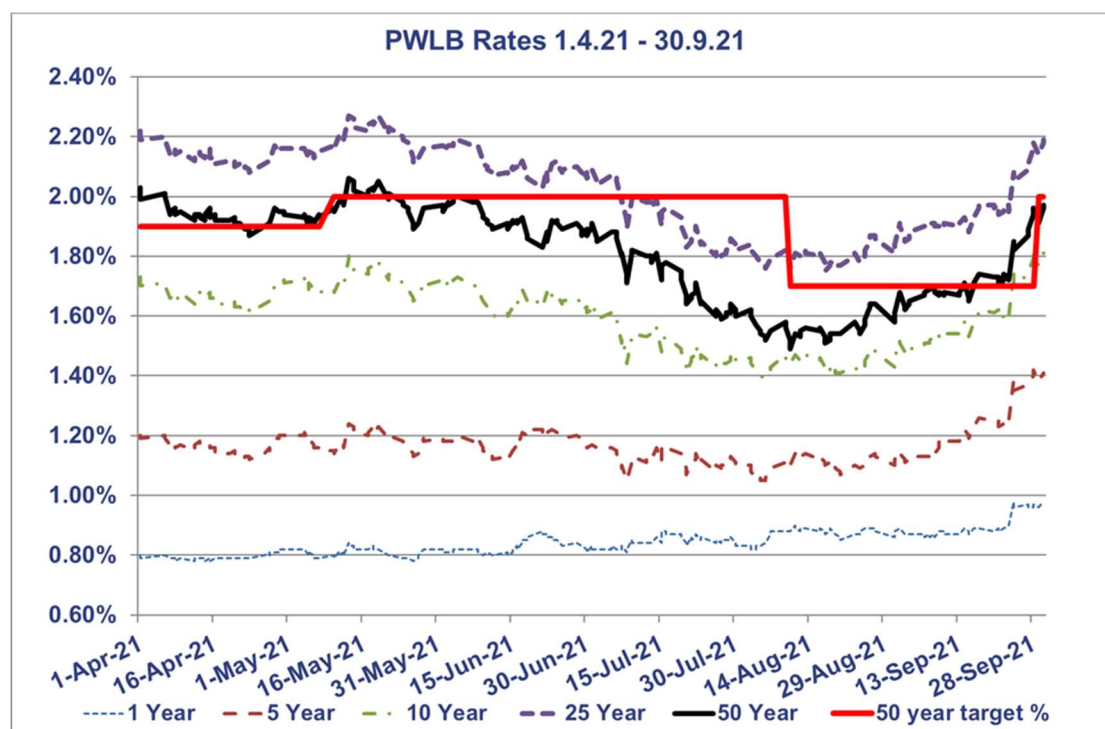
## **Borrowing Position**

5.7 The Council’s capital financing requirement (CFR) for 2021/22 is £24.738 million. The CFR denotes the Council’s underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. A summary of the Council’s debt position at 30 September 2021 compared with 31 March 2021 is shown in the table below:

<b>Lender</b>	<b>Maturity</b>	<b>Interest Rate %</b>	<b>Principal held at 31 March 2021 £’000</b>	<b>Principal held at 30 Sept 2021 £’000</b>
PWLB - Maturity	45 Years	4.55	2,100	2,100
PWLB - Annuity	9 Years	1.92	1,817	1,673
PWLB – Annuity	22 Years	1.95	1,388	1,360
PWLB – Annuity	50 Years	2.65	12,374	12,308
PWLB - Annuity	50 Years	2.60	3,509	3,490
PWLB – 23 maturity loans	49 Years	2.54*	3,592	3,592
PWLB – Annuity	50 Years	2.31	1,761	1,751
PWLB – Annuity	30 Years	1.73	2,403	2,370
<b>Total</b>			<b>28,944</b>	<b>28,644</b>

\*Average interest rate

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



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

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

## **Debt Rescheduling**

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

## **6. Outcomes/outputs**

6.1 The Council's budget for investment interest of £105,321 for 2021/22 is not expected to be met. A forecast of £24,370 will leave a shortfall of £80,951 against budget.

6.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The average SONIA rate at the end of September was 0.05% which is 0.05% higher than the Council's average return of 0.00% as at 30 September 2021.

## **7. Options available and consideration of risk**

7.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

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

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

## **8. Proposed Way Forward**

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



## 9. Compliance with Treasury Limits and Prudential Indicators

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

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

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

## 11. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are the Local Government Act 1972 Section 151 and the Local Government Act 2003.
Financial implications to include reference to value for money	Y	To date, the Council has under-performed against the industry benchmark by 0.05%. The Council has achieved a rate of return of 0.00%, against the Sterling Overnight Interbank Average rate (SONIA) of 0.05%. The Council's investment income target of £105,321 for 2021/22 is not expected to be met with a shortfall of £80,951.  A cost pressure for 2022/23 of £80,000 has been built into the Budget Setting process, so that the 22/23 investment interest budget is reduced to £25,321.

Risk		<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.</p> <p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Hub Committee through the quarterly budget monitoring reports.</p>
Supporting Corporate Strategy		The treasury management function supports all themes within 'The Plan for West Devon'.
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Climate Change – Carbon/Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

**Supporting Information**  
**Appendices:**

Appendix A – Lending list as at 01 November 2021  
Appendix B – Prudential and Treasury Indicators 2021/2022

**Background Papers:**

None

### **Approval and clearance of report**

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

# APPENDIX A

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

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

## APPENDIX B

### **PRUDENTIAL AND TREASURY INDICATORS 2021/22**

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

#### **Capital Expenditure**

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

	<b>2020/21 Actual £000</b>	<b>2021/22 Budget £000</b>	<b>2021/22 Estimate £000</b>
General Fund services	1,008	1,075	2,240
Community Housing	-	-	-
Capital investments*	-	-	-
<b>TOTAL</b>	<b>1,008</b>	<b>1,075</b>	<b>2,240</b>

\*Capital investments relate to areas such as capital expenditure on investment properties.

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

	<b>2020/21 Actual £000</b>	<b>2021/22 Budget £000</b>	<b>2021/22 Estimate £000</b>
External sources	648	910	1,384
Own resources	360	165	856
Debt	-	-	-
<b>TOTAL</b>	<b>1,008</b>	<b>1,075</b>	<b>2,240</b>

*NB. Please note that the budget for 2021/22 represents the approved capital programme for that year. However, the estimated capital spend includes not only expenditure on projects within that capital programme, but also expenditure on schemes carried forward from previous capital programmes.*

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

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

	<b>2020/21 Actual £000</b>	<b>2021/22 Budget £000</b>	<b>2021/22 Estimate £000</b>
General Fund services	4,615	4,227	4,227
Community Housing	-	-	-
Capital investments	20,746	20,511	20,511
<b>TOTAL CFR</b>	<b>25,361</b>	<b>24,738</b>	<b>24,738</b>

### **The Council's Gross Debt and the Capital Financing Requirement**

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £3.60m in 2021/22. This is only a short term position as this will finance future capital expenditure (mainly housing projects) which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

	<b>2020/21 Actual £000</b>	<b>2021/22 Budget £000</b>	<b>2021/22 Estimate £000</b>
Debt	28,944	28,342	28,342
Capital Financing Requirement	25,361	24,738	24,738

## AFFORDABILITY PRUDENTIAL INDICATORS

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

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

### Ratio of financing costs to net revenue stream

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

	<b>2020/21 Actual</b>	<b>2021/22 Budget</b>	<b>2021/22 Estimate</b>
Financing costs (£m)	1,332,162	1,263,502	1,263,502
Proportion of net revenue stream	17.3%	17.3%	17.3%

## TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

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

<b>Operational Boundary</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£</b>	<b>£</b>
Borrowing	47,500,000	47,500,000
Other long term liabilities	-	-
Total	47,500,000	47,500,000

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

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

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

<b>Authorised limit</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£</b>	<b>£</b>
Borrowing	50,000,000	50,000,000
Other long term liabilities	-	-
Total	50,000,000	50,000,000

West Devon Borough Council's current level of borrowing as at 30 September 2021 was £28.64 million.

As part of the Medium Term Financial Strategy, Members approved an overall Borrowing Limit of £50 million.



Report to: **Audit Committee**

Date: **7 December 2021**

Title: **Strategic Risk Update**

Portfolio Area: **Councillor Neil Jory  
Leader (Strategic Direction)**

Wards Affected: **All**

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

Date next steps can be taken:

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

Contact: [Neil.Hawke@swdevon.gov.uk](mailto:Neil.Hawke@swdevon.gov.uk)

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## **Recommendations:**

That Audit Committee:

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

### **1. Executive summary**

- 1.1 In accordance with the Risk and Opportunity Management Strategy adopted by Council on 4<sup>th</sup> December 2018, this report forms the required bi-annual update to Audit Committee Members.
- 1.2 The Strategy sets out the roles and responsibilities for various Council Committees and officer groups. The Audit Committee is to "Provide independent assurance to the Council on the effectiveness of the Council's risk and opportunity management, internal control and overall assurance framework"
- 1.3 This report aims to provide the Committee with the information required in order to provide that assurance to the Council.

### **2. Background**

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

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

**3. Outcomes/outputs**

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

**4. Options available and consideration of risk**

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

**5. Proposed Way Forward**

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

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

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

**Supporting Information**

**Appendices:**

Appendix A – Strategic Risk Register November 2021

**Background Papers:**

**Approval and clearance of report**

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West Devon  
Borough Council

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# Strategic Risk Register Update

7<sup>th</sup> December 2021

Audit Committee



*A Plan for  
West Devon*

# Introduction

## What Do we mean by Risk?

Risk is unavoidable in any organisation. It is ever present and a certain amount of risk-taking is inevitable if we are to achieve our objectives of A Plan for West Devon.

## What Is Risk Management?

Successful Risk Management is an essential part of delivering good governance across the Council and reduces the uncertainty or achieving our ambitions (as set out in A Plan for West Devon).

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

## How does Risk Management fit in to our business planning?

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

*It is the 5<sup>th</sup> step in our Performance Management Framework*



### **Step 5: Risk Management**

Identify risks that may prevent us delivering our vision and how we will mitigate them

# Our Risk Management Objectives

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

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

## Benefits of Effective Risk Management



### Improved Strategic Management

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



### Improved Operational Management

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



### Improved Financial Management

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



### Improved Customer Service

Service disruption to customer minimized

# Our Risk Management Process

Page 78  
Identification of risks, deciding what action to take to minimise the risk and assessing how successfully we did it is an activity that we are all doing constantly in our personal lives. The same approach is applied by the Councils in assessing risks to our priorities and services.

To do this we follow a 5 step approach





# Our Risk Management Scoring

**Likelihood**

How possible is it that the risk will occur?

Page 79

**Impact**

If the risk does occur, what is the impact?

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

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

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

# Our Risk Management Treatment

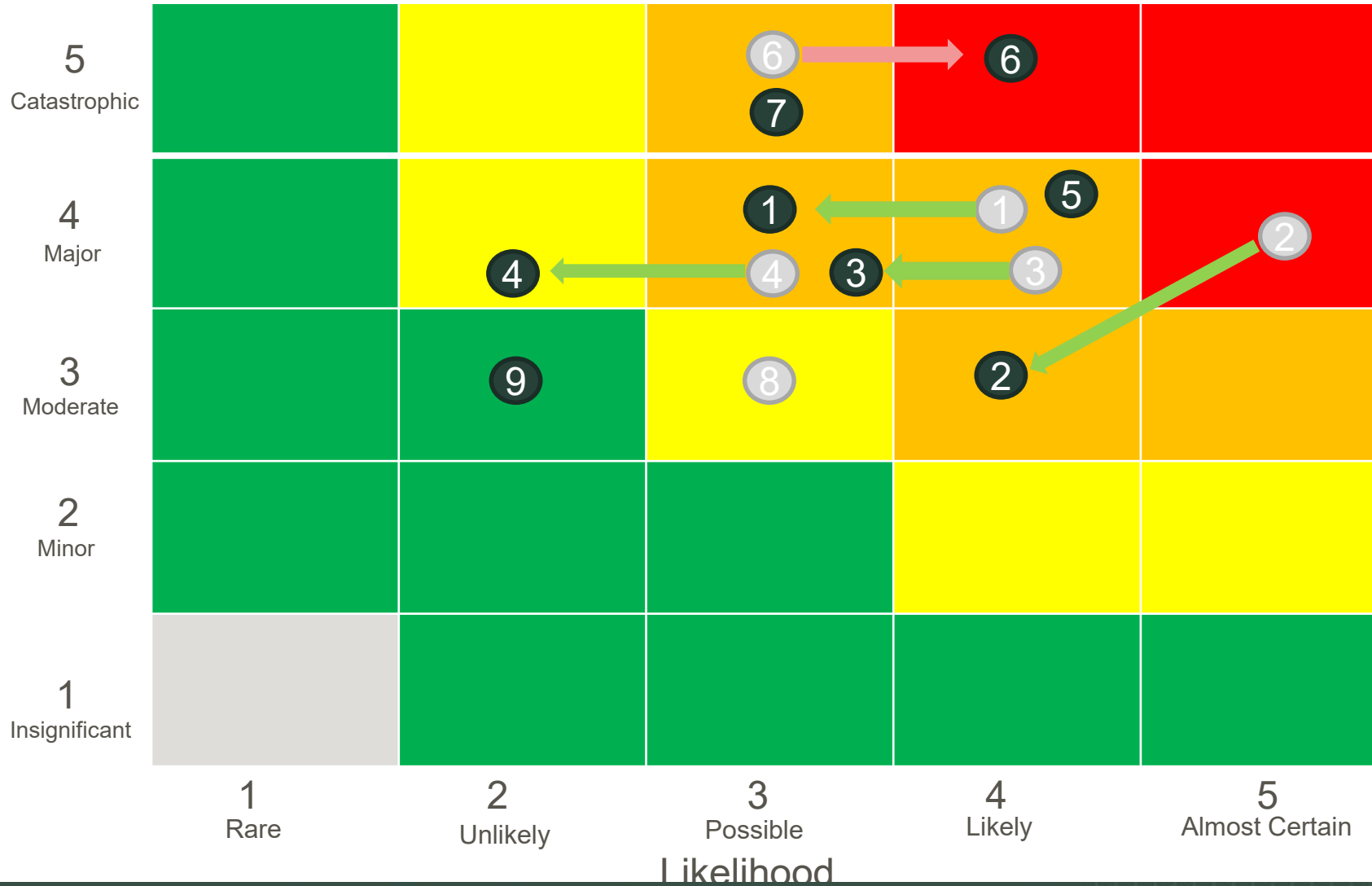
Page 80

5 Catastrophic  4 Major  3 Moderate  2 Minor  1 Insignificant					Must be managed down urgently	Must be managed down urgently These risks will be the subject to regular monitoring and action by Lead Members and the Senior Leadership Team. Significant Management action is required  Influence down in medium term These will be regularly monitored by the relevant Director and Head of Service with plans developed to reduce the risk in the medium term.  Monitor and Manage These will be monitored by Heads of Service and plans developed to reduce the risk and prevent escalation  Accept These will be monitored however on the whole the risk level is deemed acceptable with normal managing of the activity
				Seek to influence short to medium term reduction		
			Monitor & Manage to influence a reduction			
		Accept – continue to monitor				
	Close as a Strategic Risk					
	1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain	
	Likelihood					



# Summary of Strategic Risks November 2021

Page 81  
Impact



⊗ Previous Period Score  
⊙ Current Period Score

- Risk Title**
1. Adherence to Medium Term Financial Strategy
  2. Covid-19 Impact on Services
  3. Inadequate Staffing Resource
  4. Organisational Commitment for Change
  5. Health and Wellbeing Service Provision
  6. Business Continuity
  7. Emergency Response
  8. Waste 3 Weekly Trial (*Now closed*)
  9. Maximising use of government economic support grants



# Risk Title: Adherence to Medium Term Financial Strategy



## Overall Scoring

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

**Risk Score (Current)**

12

Likelihood 3 x Impact 4

**What is causing the risk?** Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. a reduction in sales, fees and charges income or business rate appeals. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn, the effects of the pandemic and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. The latest forecast for the Devon Business Rates Pooling gain is around £6.8 million for 2021-22, with the WDBC share of the pooling gain being around £119,000.



Page 82	Likelihood of risk occurring		3 (Possible)	<p><b>What are we doing to reduce the risk?</b></p> <p>Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council is not intending to rely heavily on sources of income which may not be sustainable.</p> <p>SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT engaged in the development of the MTFS.</p> <p>An Amended Budget for 2020-21 was approved by Council in September 2020, in response to the Covid19 pandemic. The latest Medium Term Financial Strategy was approved by the Hub Committee on 21st September 2021.</p>
	Impact	Financial	4 (Major)	
		Service Quality	4 (Major)	
		Reputation	4 (Major)	
		Legal / Regulatory	4 (Major)	
		Health and Safety	2 (Minor)	
		Morale / Staffing	2 (Minor)	

**Current Update (November 2021)**

The Council has closed its Accounts for 2020/21 and the Audited Accounts were published on 2nd November 2021 . The Council reported a small surplus for the 20/21 year of £75,000 (1%) against the Council's total net budget of just over £7million.

The Council has to be entirely independent to fund all of its services, as the Borough Council no longer receives any main Government Grant (Revenue Support Grant). The Council has had a reduction in core Government funding of £3million per year since 2010.

The Council prepared its Medium Term Financial Strategy for the period covering 2022/23 to 2024/25 and this was presented to the Hub Committee at its September 2021 meeting. The Council will continue to respond to national funding consultations and lobby alongside other Devon Councils and national organisations such as the District Councils' Network for a multi-year financial settlement, to aid long term strategic financial planning. The Fair Funding Review and the re-setting of the Business Rates baseline will be deferred until at least 2023/24. The Council is also awaiting further Government announcements on the New Homes Bonus funding. The Budget Gap over the next two years is predicted to be in excess of £0.5million and work is already underway to address this. Much will also depend on the next Government financial settlement for the three year period from 2022/23 and confirmation on funding items like Negative Revenue Support Grant, which has been assumed in the modelling to start impacting in 2023/24 onwards.

**Risk Direction**



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

**What is causing the risk?**  
 This risk has arisen as a result of the global pandemic that has been difficult to predict.  
 There remain a number of uncertainties about how the pandemic will continue to progress and therefore the level of response required by the Council and in turn the impact on our services. A new variant of covid-19 (Omicron) is seeing the government re-implement mandatory mask wearing in some sectors with a review scheduled in 3 weeks.

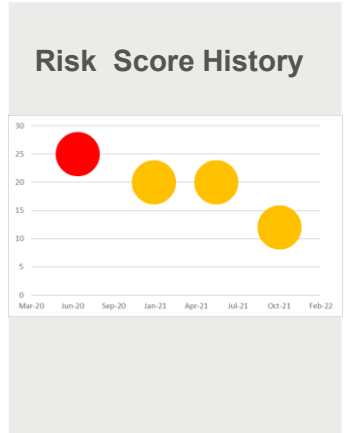
<b>Page 83</b>	<b>What is the level of the risk?</b>		Likelihood of risk occurring	4 ( <i>Likely</i> )	<p><b><u>What are we doing to reduce the risk?</u></b></p> <ol style="list-style-type: none"> <li>1. Monitor national and local situation and guidance</li> <li>2. Continue to encourage staff to work from home where possible to reduce any potential spread of Covid and in turn reduce likelihood of staff requiring time off from work</li> <li>3. Work with partners to implement measures to respond to the pandemic</li> </ol>
	Impact	Financial	3 ( <i>Moderate</i> )		
		Service Quality	3 ( <i>Moderate</i> )		
		Reputation	3 ( <i>Moderate</i> )		
		Legal / Regulatory	3 ( <i>Moderate</i> )		
		Health and Safety	3 ( <i>Moderate</i> )		
		Morale / Staffing	3 ( <i>Moderate</i> )		

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

**Risk Score (Current)**

**12**

Likelihood 4 x Impact 3



**Risk Direction**

**Risk Title:**

**Inadequate Staffing Resource**



**Overall Scoring**

What is the Risk? The risk is that the Council fails to have sufficient staffing arrangement resulting in a loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.

**Risk Score (Current)**

**12**

Likelihood 4 x Impact 3

What is causing the risk? Ensuring that we resource to deliver against competing priorities has been challenging without an agreed strategic direction.

What is the level of the risk? <b>Page 84</b>	Likelihood of risk occurring		3 ( <i>Possible</i> )	<p><b><u>What are we doing to reduce the risk?</u></b>                  Customer Satisfaction Survey has been initiated and staff away days undertaken to update staff and embed solutions to tackle issues raised. Mechanism in place for ELT to appoint within budget where appropriate without recourse to SLT. Apprenticeship scheme developed by HR.</p>
	Impact	Financial	4 ( <i>Major</i> )	
		Service Quality	4 ( <i>Major</i> )	
		Reputation	4 ( <i>Major</i> )	
		Legal / Regulatory	4 ( <i>Major</i> )	
		Health and Safety	2 ( <i>Minor</i> )	
		Morale / Staffing	4 ( <i>Major</i> )	



Current Update (November 2021)

Good progress has been made in reducing this risk.

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

**Risk Direction**

**Risk Title:**

**Organisational Commitment for Change**



**Overall Scoring**

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

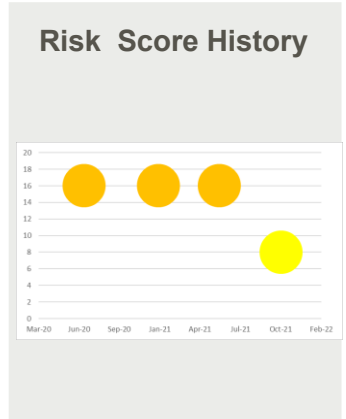
**Risk Score (Current)**

8

Likelihood 2 x Impact 4

What is causing the risk? Considerable external political uncertainty and Governmental inertial; leading to uncertainty over policy direction and financial decisions from central government. Political balance of the Council impacting on policy and decision-making within and between SH & WD. Lack of briefing/understanding of issues or clear direction affects decision making by Members.

Page 85 What is the level of the risk?	Likelihood of risk occurring		2 <i>(Unlikely)</i>	<p><b>What are we doing to reduce the risk?</b></p> <ul style="list-style-type: none"> <li>Keep Members informed and updated on central government policy relating to local government services.</li> <li>Provide Members with training and ongoing development.</li> <li>Ensure Members are fully briefed on options within the policy and budgetary framework in order to inform decisions.</li> <li>Ensure policy changes are brought forward in a timely way for decision making, that due process is followed and that there is appropriate consultation, information and scrutiny. Provide regular L&amp;DL briefings, group meetings and Member briefings and drop-ins.</li> <li>Ensure that staff are provided the opportunity (and encouraged) to identify areas for change and improvement</li> </ul>
	Impact	Financial	4 <i>(Major)</i>	
		Service Quality	3 <i>(Moderate)</i>	
		Reputation	4 <i>(Major)</i>	
		Legal / Regulatory	4 <i>(Major)</i>	
		Health and Safety	1 <i>(Insignificant)</i>	
		Morale / Staffing	4 <i>(Major)</i>	



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

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

**Risk Direction**

↓

**Risk Title:**

**Health and Wellbeing Service Provision**



**Overall Scoring**

What is the risk?  
 Covid-19 has a significant impact on Leisure provision given the nature of activities and hygiene requirements. The risk is that as leisure centres make adjustments to reduce the risk of Covid-19 to both staff and customers, the capacity of the centres is significantly reduced while many overheads and operating costs remain the same.

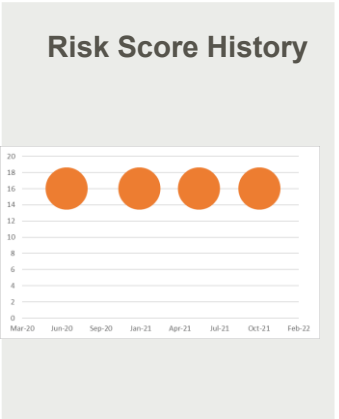
**Risk Score (Current)**

**16**

Likelihood 4 x Impact 4

What is causing the risk?  
 This risk has arisen as a result of the covid-19 pandemic. There are many unknowns including:-  
 - If there is likely to be further restrictions re-imposed on centres  
 - When they do fully re-open, what will the customer appetite be  
 - How long any measures that reduce capacity will have to remain in place (or be reintroduced)

Page 86	What is the level of risk?		Likelihood of risk occurring	4 ( <i>Likely</i> )	<p><b>What are we doing to reduce the risk?</b></p> <ol style="list-style-type: none"> <li>Engage with Leisure Services provider (Fusion) to understand issues and support where possible</li> <li>Continue to monitor local and national position (given that all leisure providers will be In the same position)</li> <li>Promote active participation in sport and leisure through Council communication channels</li> </ol>
	Impact	Financial	4 ( <i>Major</i> )		
		Service Quality	2 ( <i>Minor</i> )		
		Reputation	2 ( <i>Minor</i> )		
		Legal / Regulatory	2 ( <i>Minor</i> )		
		Health and Safety	4 ( <i>Major</i> )		
		Morale / Staffing	2 ( <i>Minor</i> )		



Current Update (November 2021)  
 At their meeting on 2<sup>nd</sup> November 2021, Hub Committee considered a report on the Leisure Services provision as a result of the pandemic.  
 The report set out that following their reopening (from lockdown) on 12<sup>th</sup> April 2021, and with more activities able to take place from 19<sup>th</sup> July as restrictions were eased, centre participation has increased across both Fusion operated leisure centres in the Borough. Meadowlands participation has increased by 67% and Parklands has increased by 63%.  
 The report also set out some actions that Fusion are taking to further increase participation including launching a new tourist membership and extending hours to increase uptake where demand and revenue growth has allowed.  
 The report set out options to Members in respect of the contract management fee for delivery of the leisure services. Further work is planned to consider this and a decision will be taken by Members In the new year.

**Risk Direction**



**Risk Title:**

**Business Continuity**



**Overall Scoring**

What is the risk?  
 The risk is that we do not develop and keep maintained robust processes to ensure business continuity in the event of a significant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems leading to inability to deliver key council services.

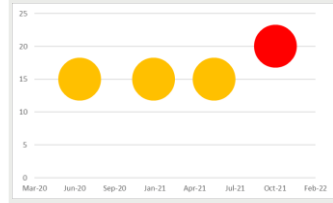
**Risk Score (Current)**



Likelihood 4 x Impact 5

What is causing the risk?  
 Developing and maintaining robust Business Continuity Plans requires significant and sustained focus. During Covid-19 response, the Councils risk profile has changed as we have relied much heavier on working in different ways (for example more staff working from home the majority of time) and with significant pressures being placed on some of our key delivery partners/ contractors. Work is required to update our BCP's to the changing environment that we are operating in. We are also entering a period where extreme weather events increase the risk of a business continuity event triggering.

**Risk Score History**



Page 87	What is the level of risk?		Likelihood of risk occurring	4 ( <i>Likely</i> )	<p><b><u>What are we doing to reduce the risk?</u></b></p> <ul style="list-style-type: none"> <li>Having two HQ locations is main mitigating factor - however an outage of power/ICT at either location would lead to a serious disruption of service.</li> <li>Agile working further reduces reliance on two office buildings.</li> <li>Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident.</li> <li>Business Continuity plans have been updated - priority areas - ICT Networking - Payroll &amp; Creditors Payments; other plans need to be made more robust – further work underway for the new year</li> </ul>
	Impact	Financial	5 ( <i>Catastrophic</i> )		
		Service Quality	5 ( <i>Catastrophic</i> )		
		Reputation	4 ( <i>Major</i> )		
		Legal / Regulatory	2 ( <i>Minor</i> )		
		Health and Safety	3 ( <i>Moderate</i> )		
		Morale / Staffing	3 ( <i>Moderate</i> )		

Current Update (November 2021)  
 While we still find ourselves in the 'response' phase of the pandemic however focus is now changing to refining our broader business continuity plans to cover other scenarios.  
 Our ability to work online is fundamental to our ongoing delivery of services and this is therefore a key focus for our Business Continuity Planning. We are aware of rising incidents of cyber attacks on local authorities and are monitoring their learning closely in order to refine our own response plans. Where cyber attacks on those have been successful (i.e. not prevented by their systems and processes) they have been without core operating systems for many months and with the cost of recovery being in the several millions of pounds. As a result of this learning we have increased the financial impact score to 5.  
 Additionally, our Waste collection service continues to be impacted by the national HGV driver shortages and while out of our control, does represent an increase in the risk of further impacts to delivery of that service (particularly as we get in to the typical flu season and with added Covid risk). We have commissioned external advice to support us in updating our ICT Business Continuity Plans with this work aiming to complete in January 2022. Following this we can update our other service business continuity plans.  
 A group of core officers will be recommending a dedicated work stream to reduce this risk to acceptable levels

**Risk Direction**



# Risk Title: Emergency Response



**What is the risk?**  
 The risk is that the council fails to meet the high public expectation in relation to supporting communities during storm damage/flooding/ other events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and expectations during an event.

**What is causing the risk?**  
 The Council has a key role in supporting the response to emergency incidents within the Borough, These are, by their very nature, difficult to predict when and where they will occur. The type of events that the Council could be called upon to support include storm events, floods, major accidents, incidents requiring temporary or longer term re-accommodation of residents etc.

Page 88	Likelihood of risk occurring		3 (Possible)	<p><b><u>What are we doing to reduce the risk?</u></b></p> <ol style="list-style-type: none"> <li>Continued management and officer focus on this area to ensure risk is minimised as much as possible</li> <li>Continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity.</li> </ol>
	Impact	Financial	3 (Moderate)	
		Service Quality	4 (Major)	
		Reputation	5 (Catastrophic)	
		Legal / Regulatory	3 (Moderate)	
		Health and Safety	4 (Major)	
		Morale / Staffing	4 (Major)	

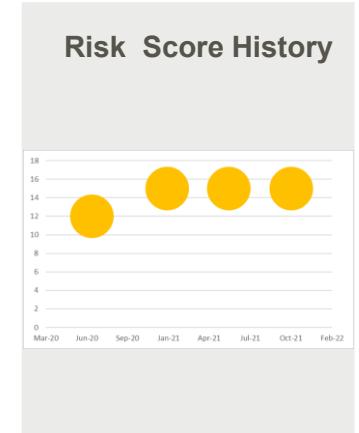
**Current Update (November 2021)**  
 The Council continues to engage with the Local Resilience Forum and is keeping its emergency response plans up to date. Winter plans are developed and in place.  
 Most of our emergency response support will be provided by the Environmental Health Team who are also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

## Overall Scoring

**Risk Score (Current)**

**15**

Likelihood 3 x Impact 5



**Risk Direction**

**Risk Title:**

**Delivery of Waste and Recycling Service Changes**



**Overall Scoring**

What is the risk? The risk is that the Trial of 3 weekly residual collections is negatively impacted by the Covid-19 pandemic as a result of higher than normal waste from homes resulting in skewed data

What is causing the risk? One aim of the trial is to collect data which will be used to inform a Member decision on introduction of the scheme to all households. it is likely that data will be compromised due to lockdown when we expect more waste was created.

Page 89	Likelihood of risk occurring		1 (Rare)	<p><b><u>What are we doing to reduce the risk?</u></b></p> <ol style="list-style-type: none"> <li>Cross check trial data against whole district data and take into account in Hub report</li> <li>Detailed planning for decision points.</li> </ol>
	Impact	Financial	1 (Insignificant)	
		Service Quality	1(Insignificant)	
		Reputation	1 (Insignificant)	
		Legal / Regulatory	1(Insignificant)	
		Health and Safety	1 (Insignificant)	
		Morale / Staffing	1 (Insignificant)	

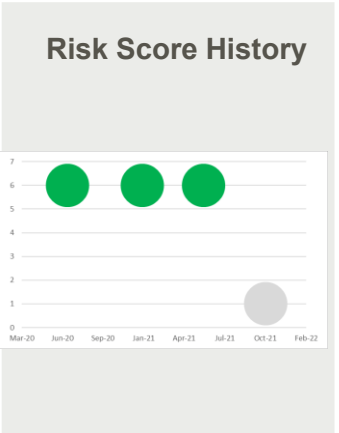
Current Update (November 2021) Members of the Hub committee voted on 21 Sept 2021 to end the trial and to not extend the 3 weekly service across the whole Borough.

**The risk is now closed (trial project ended) and will be removed from the Strategic Risk Register**

**Risk Score (Current)**

1

Likelihood 1 x Impact 1



**Risk Direction**

**Risk Title:**

**Maximising use of government economic support funds**



**Overall Scoring**

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

**Risk Score (Current)**

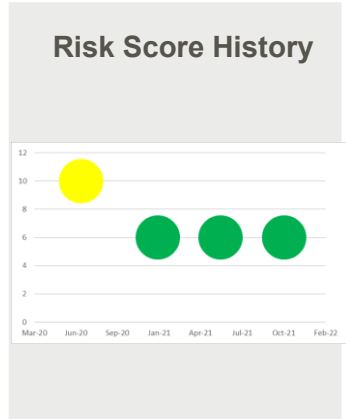
**6**

Likelihood 2 x Impact 3

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

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

Page 90	Likelihood of risk occurring		2 (Unlikely)	<p><b>What are we doing to reduce the risk?</b></p> <ol style="list-style-type: none"> <li>1. Implementation of a dedicated team to support the economic and 'place based' activities required to support the area</li> <li>2. Clear guidance related to the Government funding schemes to be issued</li> <li>3. Work with our town councils, the LEP, DCC (Team Devon) and other key stakeholders to develop co-ordinated plans</li> <li>4. Delivery partner agreements in place in order to make responsibilities clear</li> </ol>
	Impact	Financial	2 (Minor)	
		Service Quality	1 (Insignificant)	
		Reputation	3 (Moderate)	
		Legal / Regulatory	3 (Moderate)	
		Health and Safety	2 (Minor)	
		Morale / Staffing	1 (Insignificant)	



Current Update (November 2021)

As part of its Plan for West Devon, the Council has placed a significant emphasis on the support to the economy of West Devon with a clear delivery plan in place for the next three years.

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

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

**Risk Direction**

## **NOT FOR PUBLICATION**

This report contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (matters affecting the financial affairs of the Council) - (applies to Appendix 2 and 3)

Report to: **Audit Committee**

Date: **7th December 2021**

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

Portfolio Area: **Resources – Cllr Edmonds**

Wards Affected: **All Wards**

Relevant Scrutiny Committee: N/A

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

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

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

Contact: **Telephone/email: [Chris.brook@swdevon.gov.uk](mailto:Chris.brook@swdevon.gov.uk)**

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### **Recommendations: That the Audit Committee:**

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

#### **1. Executive summary**

- 1.1. This report considers the performance of the investment portfolio to date and the risks associated therewith looking forward.
- 1.2. Four purchases have been made to date totalling £21.5m including costs representing 43% of the agreed borrowing limit for all Council services (£50m).
- 1.3. The net revenue income (an ancillary benefit) after allowing for management, maintenance and risk mitigation is £300,000 per year.
- 1.4. The portfolio has achieved a geographic and sector balance in line with the Investment Strategy. It has not achieved a balance of spread between tenants and there are future pressure points in 2028 created by lease events.
- 1.5. The revised Investment strategy, in particular the location constraints and agreed borrowing limits will make balancing the portfolio difficult, particularly if funds are only able to be for in-area development.

- 1.6. Over the last 12 months a small number of opportunities have been considered, with none currently under active consideration, no purchases have been made since September 2019.
- 1.7. The PWLB (Public Works Loans Board) future lending terms consultation review in November 2020 has changed the terms on which PWLB funds can be used. Although the document references a reduction in the borrowing rate, more importantly it significantly constrains the use of PWLB funds in this area. This has meant that there is a much reduced number of opportunities that can be considered, being in-area only and not primarily for yield.
- 1.8. The Investment Property portfolio already considered revenue as an ancillary benefit, not primarily for yield.
- 1.9. The report sets out the latest portfolio valuation information as shown in Appendix 3.
- 1.10. The impact on the COVID crisis on the portfolio and its tenants is also reviewed in Appendix 2.

## **2. Background**

- 2.1. Four investment property acquisitions have now been made, totalling £21.5m including associated costs.
- 2.2. The Investment properties are generating a net revenue income of £300,000 in 2021/22, which is an ancillary benefit which contributes to the financial sustainability of the Council, enabling it to continue to deliver, and where possible improve, frontline services.
- 2.3. The Investment Strategy (as adopted) was last revised in July 19. The Regeneration and Investment Strategy is on the Hub Committee Forward Plan for March 2022.
- 2.4. The Council has an upper borrowing limit of £50m (for all Council services).
- 2.5. At 30 September 2021, the Council's current level of borrowing is £28.64 million.
- 2.6. This report sets out the risks, statistics and performance of the investment property portfolio to date.

## **3. Outcomes/outputs**

- 3.1. The average net income of the portfolio is 1.3% which is above the minimum target of 1% set out in the Investment strategy.
- 3.2. A net revenue income of £300,000 per annum is currently generated as an ancillary benefit of the investment property portfolio. This is after deducting an allowance of 10% for the management, maintenance and risk mitigation fund (a fund set up to deal with maintenance, repairs or unforeseen risks).
- 3.3. The Investment Property portfolio has a property in each of the main asset classes – Office, Industrial and Retail.

- 3.4. A geographical spread within the South West Peninsula has been achieved; Regional - Bristol, Sub-regional – Exeter & Plymouth, Local – Okehampton. Following the November 20 PWLB review the portfolio has been restricted to in-area purchases only.
- 3.5. Single and Multi-let opportunities have been acquired, with a mix of tenants (11 in total), including those with the strongest covenant strength.
- 3.6. A spread of lease expiries and breaks have been achieved, however, there are certain points, particularly 2028, at which there is a concentration of lease events. Any future purchases need to avoid having similar lease event dates. The acquired properties have various unexpired lease terms – these are shown in Appendix A.
- 3.7. The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £301,565 at 31.3.2021. This is shown in the Earmarked Reserve Note to the Statement of Accounts for 2020-21. 10% of rent from the investment property portfolio (£119,000 per annum) goes into the Revenue Earmarked Reserve for MMRM which will fund void periods, management costs and repairs as and when they arise. As at 31.3.2022, the MMRM Earmarked Reserve has a predicted balance of £417,000.
- 3.8. Opportunities for further acquisitions within West Devon (although limited) could further balance the investment property portfolio and the management of risk, by increasing the number of rental streams, spreading the points at which the income into the portfolio ceases (e.g. lease ends and break clauses) and increasing the diversity of tenants.
- 3.9. The Portfolio was revalued at March 2021 as part of the annual valuation for the Statement of Accounts, details are shown in Appendix 3 (Exempt).
- 3.10. Full details of the investment property portfolio performance can be found in Appendix 1. Details relating to the rental income are in Appendix 2 (Exempt).
- 3.11. The future of the Office is a much discussed topic, with the expectation that some people will continue to work in a 'hybrid' home/office pattern moving forward following the pandemic. It is expected that organisations may reduce their desk space. Space for meetings, collaborating, training, mentoring etc. takes on additional importance and space may be repurposed for this. The full effect of this is currently unknown as organisations are still planning for the future. However it should be recognised that this has a potential knock-on effect on the requirement for office space as organisations assess their space needs.

#### **4 Options available and consideration of risk**

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

- 4.1.1 As an example, if one of our tenants did not renew their lease and another served a break clause, 73% of the current rental income could end in 2028. Alternative tenants would be sought, however, this remains a risk.
- 4.1.2 As a further example, 55% of the rental income of the investment property portfolio is currently paid by one tenant.
- 4.1.3 Therefore the net income into the Council's budget from the investment property portfolio could be significantly affected should it suffer a tenant default or tenancies ending coinciding with each other. The gross rental income from the investment property portfolio is just under £1.2million.
- 4.1.4 The investment property portfolio has a management, maintenance and risk mitigation (MMRM) Earmarked Reserve fund to help off-set the above situations. However depending on the income shortfall encountered, this may just cover the cost of the debt repayments rather than the whole gross budgeted rental income . Also note the issue detailed in Appendix 2 that may require funds from the MMRM reserve.
- 4.2 If further acquisitions are made within West Devon (recognising that opportunities are limited), the following could be considered. These are examples rather than requirements/targets as opportunities will be limited by those properties that are available to acquire.
  - 4.2.1 Avoid properties with significant lease events in 2028 and balance the investment property portfolio with expiry dates before and after.
  - 4.2.2 The Bristol office is quite a high proportion of the overall investment property portfolio income, particularly being single let. Look to acquire further offices, but to alternative tenants and consider multi-let offices. There are limited options for further office purchases due to the revised geographical constraints and consider the potential changing work patterns in 3.11.
  - 4.2.3 Further balance the portfolio with further industrial/logistic property – however, noting that this sector is particularly difficult to buy at the moment, particularly within our yield and geographic requirements.
  - 4.2.4 Continue to very cautiously consider retail, in particular supermarket and smaller convenience store opportunities, but recognise the structural changes in the retail market.
  - 4.2.5 Continue to explore alternative sectors.

## 5 **Proposed Way Forward**

- 5.1 It is recognised that the Council has other demands on the level of funds it can prudently borrow. Therefore further funds for the investment property portfolio will be balanced against the requirements of other projects.
- 5.2 If in area development projects are further considered (such as employment assets), the Council should consider this impact on the portfolio balance and remain true to the risk based approach set out in the Investment property strategy, so as not to over expose the Council to one sector or area.



- 5.3 That the MMRM Earmarked Reserve fund continues to be set aside for its intended purpose (with 10% of all rental income from the investment property portfolio being put into this reserve on an annual basis, which equates to ); to ensure there is a buffer against any significant unforeseen events and to deal with future likely points of expected expenditure.

## 6 Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The public interest test has been applied as to whether Appendix 2 & 3 should be published and the public interest lies in non-disclosure at this time.
Financial	Y	<p>As at the end of March 2021, 98% of the Council's investment portfolio income has been received. Therefore of the £1,190,919 of gross rental income from investment properties, only £22,914 is outstanding in arrears.</p> <p>Since April 2018, four investment properties have been purchased to date. The net revenue income from these investment properties (an ancillary benefit) is £300,000 in 2021/22. Further details are shown in Appendix 1.</p> <p>The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £301,565 at 31.3.2021. This is shown in the Earmarked Reserve Note to the Statement of Accounts for 2020-21. 10% of rent from the investment property portfolio (£119,000 per annum) goes into the Revenue Earmarked Reserve for MMRM which will fund void periods, management costs and repairs as and when they arise. As at 31.3.2022, the MMRM Earmarked Reserve has a predicted balance of £417,000.</p>

Risk	Y	Refer to section 4 and Appendix 1
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		

### **Supporting Information**

#### **Appendices:**

Appendix 1 – Investment property performance reports  
EXEMPT Appendix 2 – Rent position  
EXEMPT Appendix 3 – Valuation information

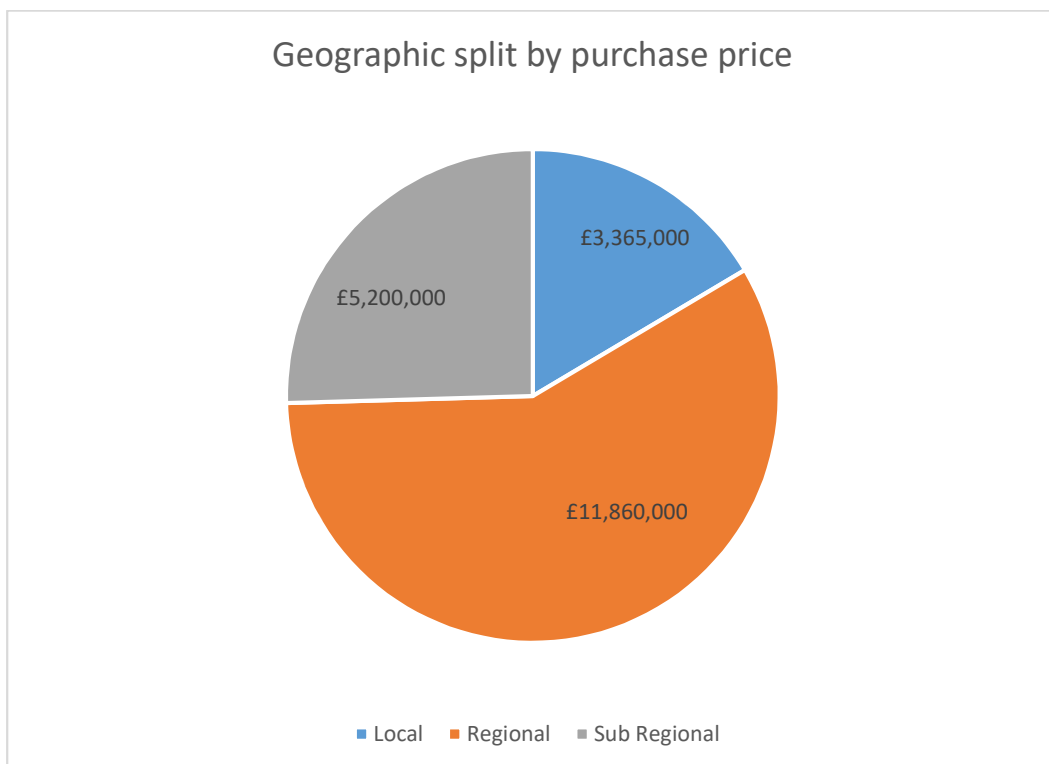
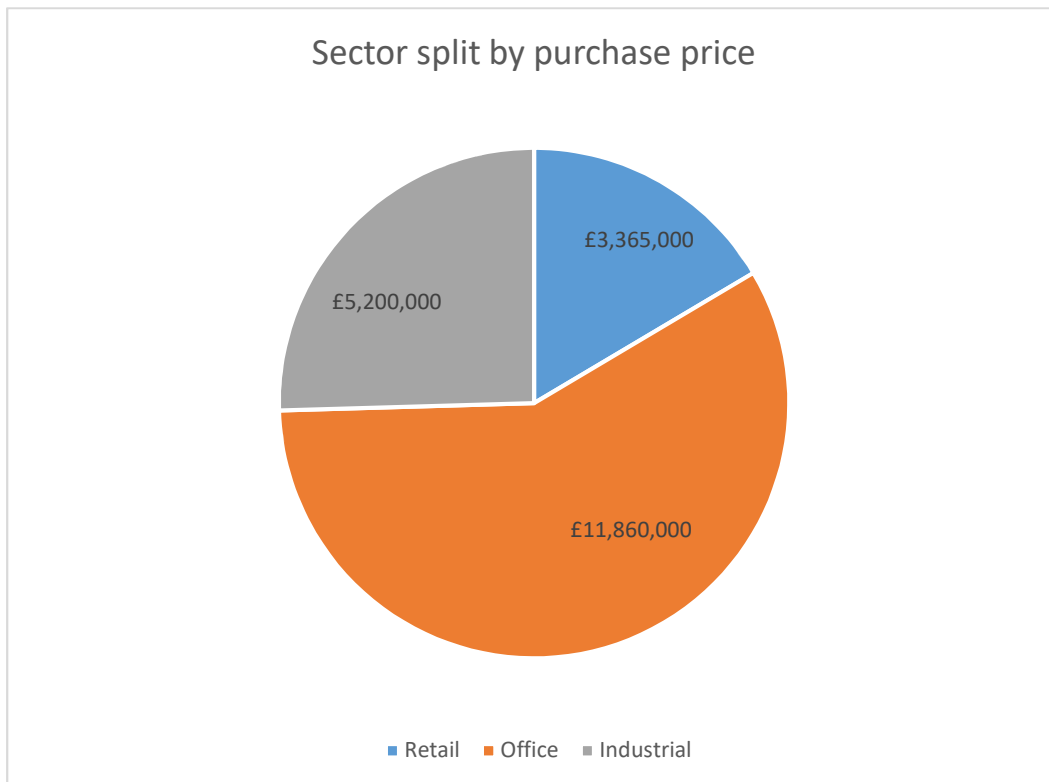
#### **Background Papers:**

None

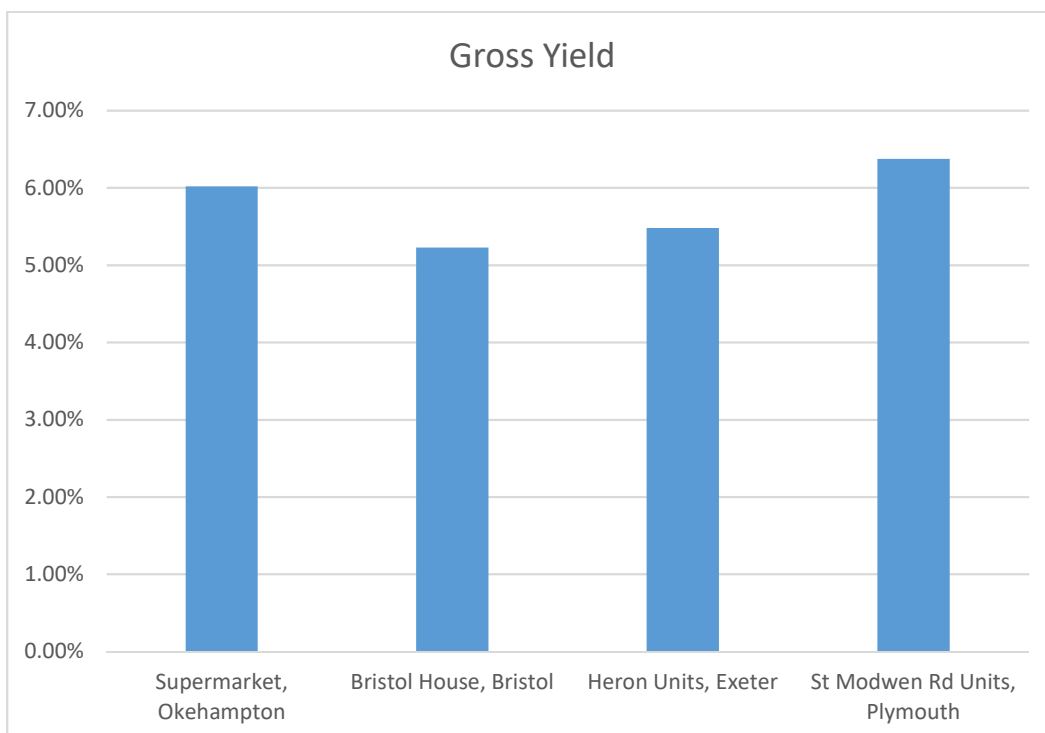
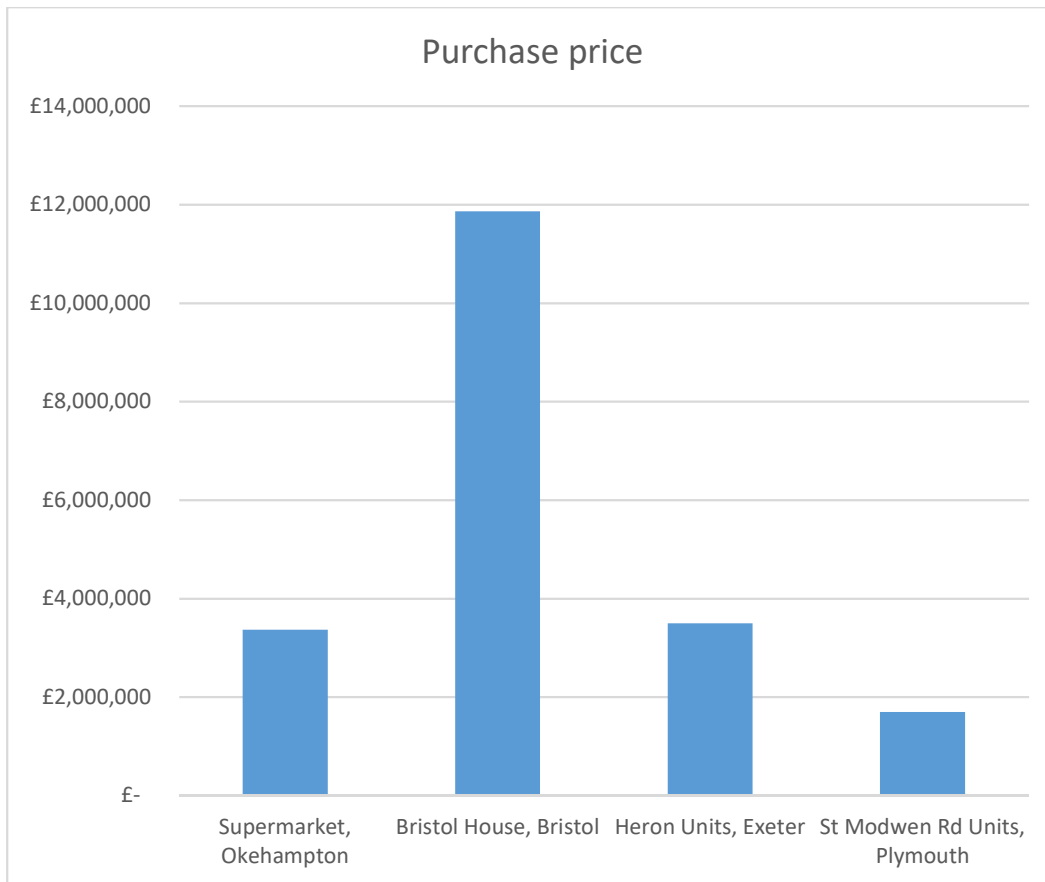
### **Approval and clearance of report**

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

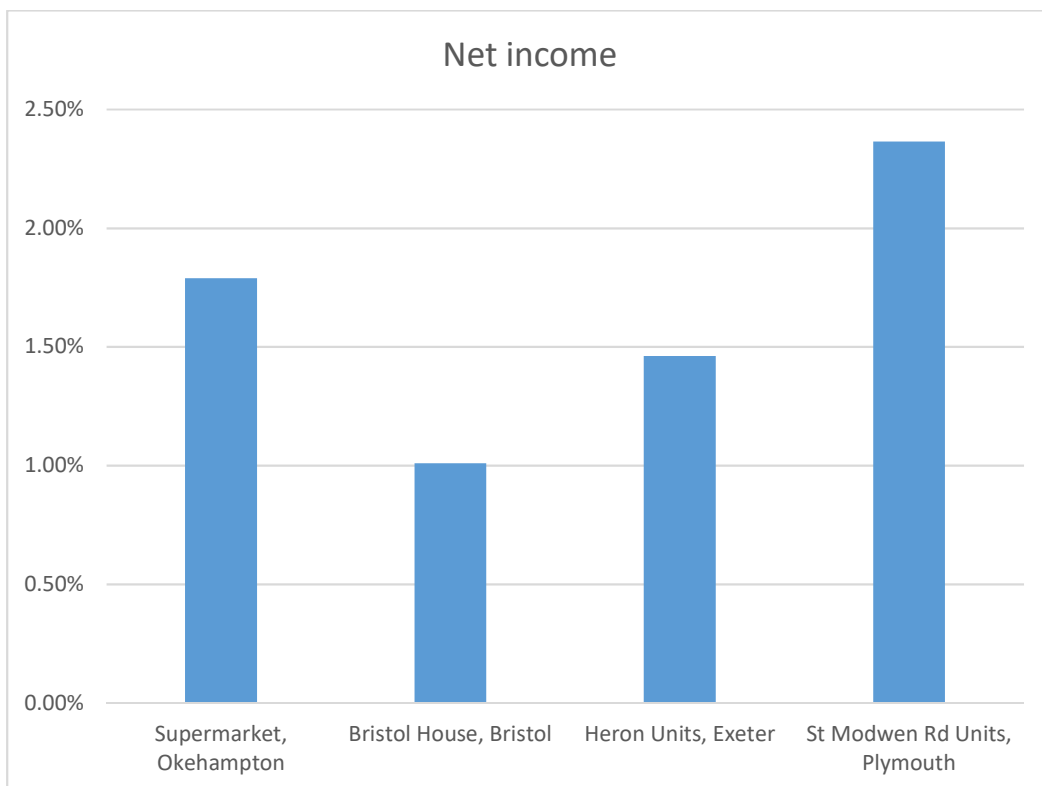
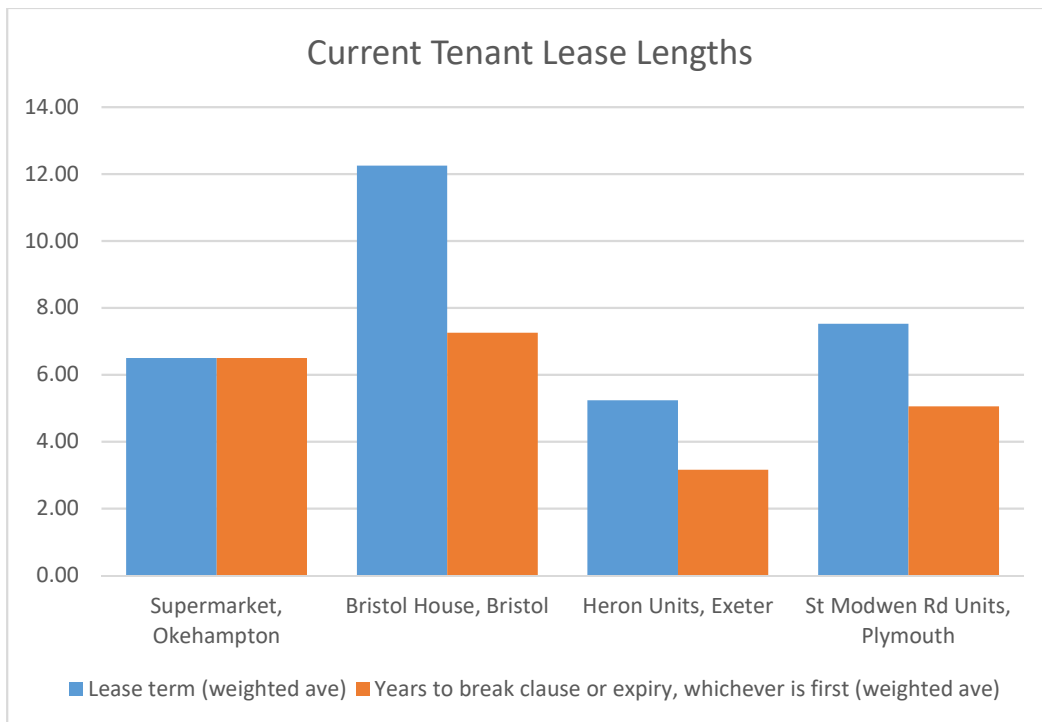
Investment Property Report - December 2021



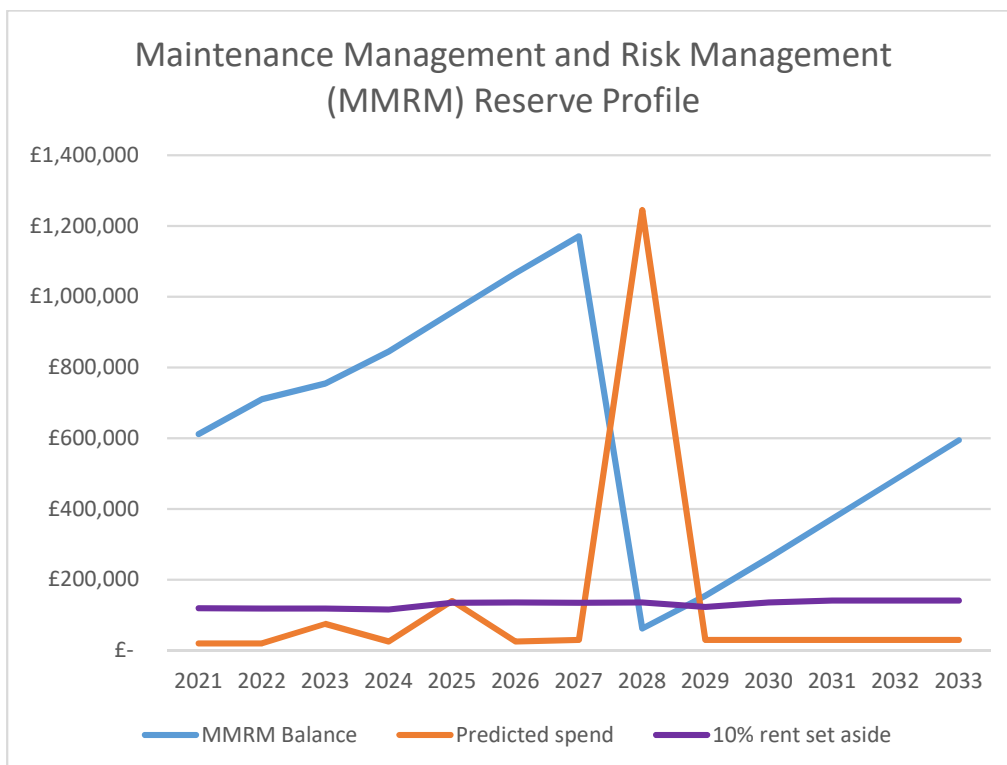
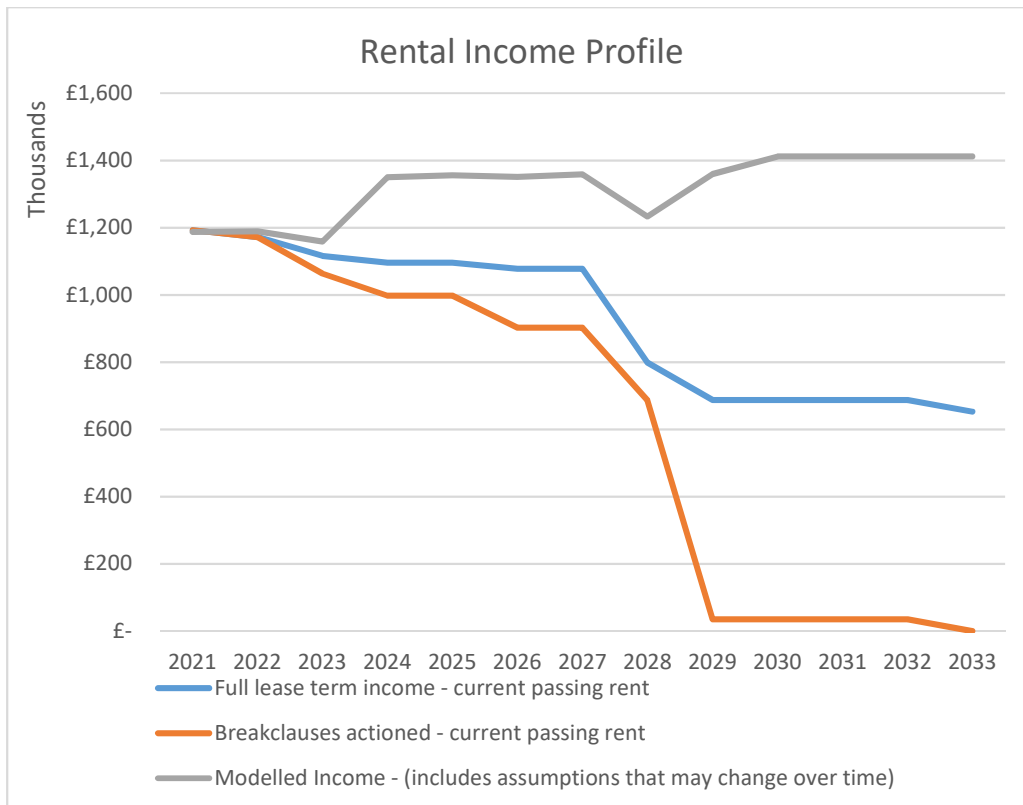
Investment Property Report - December 2021



Investment Property Report - December 2021



Investment Property Report - December 2021



\*The difference between the MMRM Earmarked Reserve balance shown above and the figure in the report, is that the above includes capital set aside at the point of purchase as well as the on-going revenue set aside of 10% of the rental income annually. The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £301,565 at 31.3.2021. The MMRM Earmarked Reserve has a predicted balance of £417,000 as at 31.3.2022.

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

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

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