

# South Hams Audit and Governance Committee



<b>Title:</b>	<b>Agenda</b>
<b>Date:</b>	<b>Thursday, 28th September, 2023</b>
<b>Time:</b>	<b>9.30 am</b>
<b>Venue:</b>	<b>Council Chamber - Follaton House</b>
<b>Full Members:</b>	<p style="text-align: center;"><b>Chairman</b> Cllr Bonham <b>Vice Chairman</b> Cllr Nix</p> <p><i>Members:</i>           Cllr Dennis                   Cllr Presswell                           Cllr Hancock               Cllr Rake                           Cllr Oram                     Cllr Yardy</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

<b>1. Apologies for Absence</b>	
<b>2. Minutes</b>	<b>1 - 4</b>
To approve as a correct record the minutes of the Audit Committee held on 27 July 2023;	
<b>3. Urgent Business</b>	
Brought forward at the discretion of the Chairman;	
<b>4. Division of Agenda</b>	
To consider whether the discussion of any item of business is likely to lead to the disclosure of exempt information;	
<b>5. Declarations of Interest</b>	
In accordance with the Code of Conduct, Members are invited to declare any Disclosable Pecuniary Interests, Other Registerable Interests and Non-Registerable Interests including the nature and extent of such interests they may have in any items to be considered at this meeting;	
<b>6. Grant Thornton (External Audit) report - Audit Progress Report and Sector Update</b>	<b>5 - 10</b>
<b>7. Update on the 2023-24 Internal Audit Progress Report and Internal Audit Charter and Strategy</b>	<b>11 - 28</b>
<b>8. Internal Audit Recommendations Tracker</b>	<b>29 - 36</b>
<b>9. Freeport Task and Finish Group: Verbal Update</b>	
<b>10. Annual Treasury Management Report 2022/23</b>	<b>37 - 58</b>
<b>11. Sundry Debt</b>	<b>59 - 66</b>
<b>12. Buildings Maintenance Progress Update</b>	<b>67 - 70</b>
<b>13. Committee Workplan and Dates of Future Meetings</b>	<b>71 - 72</b>
<b>14. Investment Properties - Update and Monitoring Report</b>	<b>73 - 80</b>

**MINUTES OF A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE  
HELD IN THE COUNCIL CHAMBER, FOLLATON HOUSE, PLYMOUTH ROAD,  
TOTNES ON THURSDAY, 27 JULY 2023**

<b>Members in attendance</b>			
* Denotes attendance			
Ø Denotes apology for absence			
*	Cllr L Bonham (Chairman)	*	Cllr C Oram
*	Cllr S Dennis	*	Cllr A Presswell
Ø	Cllr D Hancock	*	Cllr S Rake
*	Cllr A Nix (Vice-Chairman)	*	Cllr G Yardy

<b>Member(s) also in attendance:</b>
Cllrs Brazil and Cllrs Birch and Hopwood (via Teams)

<b>Item No</b>	<b>Minute Ref No below refers</b>	<b>Officers and Visitors in attendance</b>
All Items		Section 151 Officer; Director – Strategy & Governance; Head of Finance; Director of Customer Service & Delivery (via Teams); Senior Democratic Services Officer; Assistant Director – Strategy & Organisational Development (via Teams); Internal Audit Manager; Grant Thornton – Key Audit Manager

**AG.08/23 MINUTES**

The minutes of the Audit and Governance Committee meeting held on 6 July 2023 were confirmed as a true and correct record.

**AG.09/23 DECLARATIONS OF INTEREST**

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

(The order of the agenda was changed from the published version to facilitate a discussion on the Internal Audit Report (agenda item 6 (Minute AG.10/23 below refers)) before the Committee considered the Annual Governance Statement (agenda item 5) (Minute AG.11/23 below refers))

**AG.10/23 ANNUAL INTERNAL AUDIT REPORT 2022/23**

The Committee was provided with the annual report which summarised the internal audit assurances during 2022-23 and informed the Annual Governance Statement. The Internal Audit Manager provided a detailed introduction to his paper.

In discussion, particular reference was made to:

- (a) Procurement and that a number of councils had signed up to the Devon Procurement Strategy a number of years ago and were now

looking to create a new strategy setting out the aims and the objectives. SHDC, West Devon Borough Council and Teignbridge District Council shared a Procurement Officer and Members queried whether the arrangement provided sufficient procurement expertise and capacity.

- (b) Audit Recommendations were categorised as being low, medium and high and Heads of Service had the responsibility to oversee them and this arrangement had been in place for the last 10 months;
- (c) Totnes Market and how this had been administered. The Committee requested that its Work Programme be updated to invite the Director of Customer Services and Delivery (who has responsibility for Totnes Market) to a future meeting of the Committee to share how the issues would be addressed;
- (d) the Building Maintenance audit work was on-going and a report would be presented to the Committee at the next meeting.

It was then:

### **RESOLVED**

That Members note the Internal Audit Report for 2022-23 and consider it further when reviewing the Annual Governance Statement.

AG.11/23

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

The Committee considered a report that gave the narrative statement to the accounts and provided a summary of the main items in the Statement of Accounts for 2022/23.

In discussion, particular reference was made to:

- (a) The Statement of Accounts would be audited by Grant Thornton but not until January 2024;
- (b) The surplus of £57,000 on the 2022/23 Accounts and how this was explained within the Accounts. It was agreed that further narrative around the additional costs and additional income would be included within the Narrative Statement;
- (c) Car parking charges had last been increased 4 years ago by an inflationary amount;
- (d) Producing an addendum report which provided a short narrative outlining the key financial figures in the Accounts.

The S151 Officer was asked to include some additional narrative in the Narrative Statement with regards the waste and recycling service being brought back in house and the approved use of reserves to fund the transitional costs. There were exceptional one-off transitional costs of £1.5m in 22/23 of bringing the waste and recycling service back in house.

It was **PROPOSED** and **SECONDED** and when put to the vote was declared **CARRIED** that:

*'A summary report which includes significant events to be produced alongside the Audited Statement of Accounts' to share as a communication with residents'.*

It was then:

**RESOLVED**

1. That the Draft Statement of Accounts and the Draft Annual Governance Statement (AGS) for the financial year ended 31 March 2023 were noted; and
2. That a summary report (which includes significant events) be produced alongside the Statement of Accounts to be shared as a communication document with residents

AG.12/23

**INDEPENDENT MEMBER OF THE AUDIT AND GOVERNANCE COMMITTEE**

The Committee considered the report which set out the CIPFA (The Chartered Institute of Public Finance) position statement that stated that "The Audit Committees of Local Authorities should include co-opted independent members in accordance with the appropriate legislation."

In discussion, the following points were raised:

- (a) Specialised knowledge in accountancy would be a requirement in this role;
- (b) A remuneration package would be offered and expectation to attend at least 4 meetings and to spend time reading the agenda and assimilate the information;
- (c) It may not be possible to have both independent members present at every Audit and Governance meeting and the current meeting dates would remain the same.

It was then:

**RESOLVED**

1. That the S151 Officer work with the Devon Audit Partnership in progressing the appointment of up to two Independent Members to the Audit and Governance Committee as soon as is reasonably practicable during 2023/24;
2. That consideration be given to joint appointments of independent persons to more than one Devon Local Authority Audit Committee (through a joint exercise with neighbouring Local Authorities in Devon, co-ordinated through the Devon Audit Partnership);
3. That Devon Local Authority partners consider setting a consistent remuneration value, to avoid competing with one another in what may be a limited pool of candidates;

4. That it be noted that Independent Members would not have voting rights on the Audit and Governance Committee;
5. That the S151 Officer present a report to a meeting of Full Council following the conclusion of the recruitment exercise, to formally appoint the successful co-opted Independent Member(s) to the Audit and Governance Committee.

AG.13/23 **AUDIT COMMITTEE WORKPLAN 2023/24**

Members were presented with the latest version of the Committee Work Programme and noted its contents.

It was then:

**RESOLVED**

That the Committee Workplan 2023/24 (as set out within the published agenda papers) be updated to include:

- Building Maintenance Report – September
- Update on the recommendations (Audit Tracker) – September
- Totnes Market Report - December
- Strategic Risk Register and Risk Strategy - December
- Risk Policy - December
- Internal Audit on car parking in the Internal Audit plan to include costs and benefits - March
- St Ann's Chapel Task and Finish - December

(Meeting commenced at 9:30 am and concluded at 12.18 pm)

---

Chairman

# South Hams District Council Audit Progress Report and Sector Update

September 2023



# Contents

Section	Page
Introduction	03
Progress at September 2023	04
Sector Update	05

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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.



---

# Introduction

Your key Grant Thornton team members are:

[Jackson Murray](#)

Key Audit Partner

E [Jackson.Murray@uk.gt.com](mailto:Jackson.Murray@uk.gt.com)

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

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

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

---

# Progress at September 2023

## Financial Statements Audit

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

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

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

## Value for Money

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

# Proposals to help address Local Authority audit delays

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

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

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

## **Page 9** Introduction of statutory deadlines for accounts and audits, dating back to 2015/16 (“backstop”)

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

## **Changes to NAO Code of Audit Practice**

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



Department for Levelling Up,  
Housing & Communities



© 2023 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Agenda Item 7

Report to: **South Hams Audit and Governance Committee**

Date: **28 September 2023**

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

Portfolio Area: **Cllr Julian Brazil – Leader of the Council**

Wards Affected: **All**

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

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

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

---

## Recommendations:

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

Approve the Internal Audit Charter and Strategy.

## 1. Executive summary

The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team, and to obtain approval for the Audit Charter and Strategy.

## 2. Background

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

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

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

### 3. Outcomes/outputs

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

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

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

### 4. Options available and consideration of risk

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

### 5. Proposed Way Forward

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

### 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards.</p> <p>The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.</p>
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.

Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Supporting Corporate Strategy	Y	This Progress Report and the work of Internal Audit supports all the Council's corporate strategy themes.
Climate Change – Carbon / Biodiversity Impact	Y	None directly arising from this report. The Internal Audit function, managed by Devon Audit Partnership is mindful of the need to minimise travel in completing the internal audit plan. Where possible, desk-top review of documents, and the use of electronic records, is used to support the audit process, although it is inevitable that on-site verification may be required at times. The team use an audit management system (Ideagen) which enables managerial review to take place remotely, thus also saving on the need for travel.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

### **Supporting Information**

#### **Attachments:**

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

#### **Background Papers:**

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

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

<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>

# Internal Audit Progress Report 2023-24

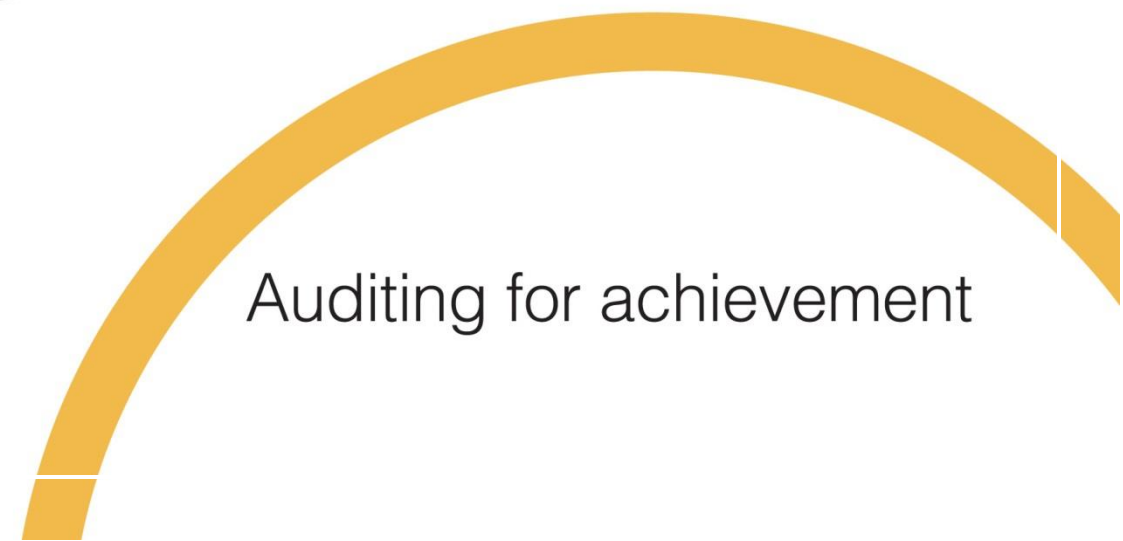
## South Hams Audit & Governance Committee

Page 14

28 September 2023

Tony Rose  
Head of Audit Partnership

Paul Middlemass  
Audit Manager



Auditing for achievement



## Introduction

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

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

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

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

### **Expectations of the Audit and Governance Committee from this progress report**

Audit Committee members are requested to consider:

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

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

## Contents

Introduction

Opinion Statement

Executive Summary of  
Audit Results

Value Added

Audit Coverage &  
Progress Against Plan

### Appendices

1 – Summary of Audit  
Results

2 – Audit Plan Progress

## Opinion Statement

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

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

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

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

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

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

## Executive Summary of Audit Results

### Key Financial Systems

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

### Risk Based Audits

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

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

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

<b>Substantial Assurance</b>	A sound system of governance, risk management and control exist across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
<b>Reasonable Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

## Counter Fraud Work

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

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

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

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

## Internal Audit Recommendation Tracking

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

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

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

## Value Added

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

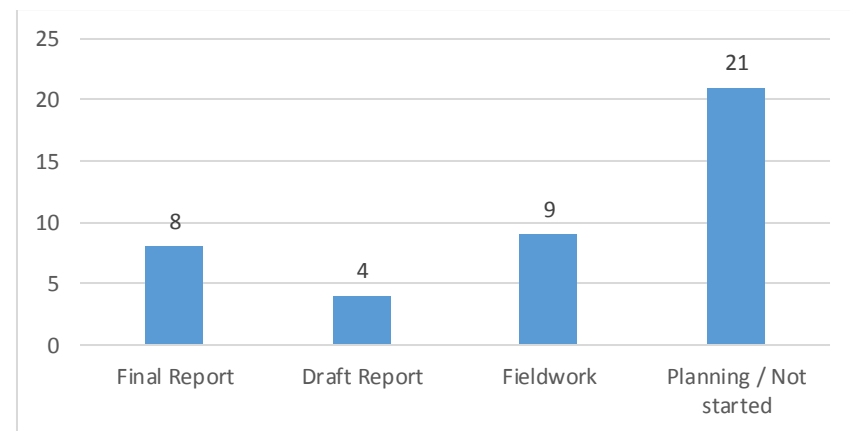
- Providing objective and relevant assurance.
- Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.
- Adjusting the audit plan when needed to provide real time assurance.
- Comparing and contrasting controls across the different Devon Councils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

## Audit Coverage and Performance Against Plan

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

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

**Chart: Delivery of the 2023-24 audit plan**



## Customer Satisfaction

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

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

### DAP Member event – 16 Nov 23

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

## Appendix 1 – Summary of audit reports and findings

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

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

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

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

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

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

## Insurance Reasonable Assurance

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

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

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

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

**We agreed two Medium and five Low priority recommendations.**

## Food Safety Reasonable Assurance

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

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

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

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

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

The two High recommendations related to:

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

## Project Management Reasonable Assurance

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

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

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

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

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

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

**We agreed three Medium and six Low priority recommendations.**

## Travel and Subsistence Reasonable Assurance

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

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

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



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

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

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

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

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

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

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

**We agreed four Medium and one Low priority recommendation.**

## Appendix 2 – Progress to deliver the audit plan.

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

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

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

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

Report to: **Audit and Governance Committee**

Date: **28 September 2023**

Title: **Internal Audit Recommendations Tracker**

Portfolio Area: **Councillor Julian Brazil**  
**Leader South Hams District Council**

Wards Affected: **All**

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

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

---

## **Recommendations:**

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

### **1. Executive summary**

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

### **2. Background**

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

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

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

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

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

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

## 2.7 Target Implementation Year: - 2021

Total recommendations due for completion during the year:- 181

Priority	Completed	In Progress	Not Started	Total
High	22	2		24
Medium	107	33		140
Low	14	3		17
<b>Total</b>	<b>143</b>	<b>38</b>		<b>181</b>
%	79%	21%		100%

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

2.7.1 Health & Safety: Consideration should be given to the level of staff resource available to deliver the health and safety function, including the Councils' response to the Covid-19 pandemic, and whether this is sustainable in terms of staff welfare, as well as meeting the Councils' aspirations with respect to health and safety. **Update September 2023**: – Health and Safety capacity is kept under continual review with a cross-department network of officers working to ensure we operate safely.

2.7.2 Insurance: Consideration should be given to seeking advice from an impartial external consultant, or another local authority which has in-house insurance expertise, to assist in a review of the type and value of insurance cover held by each of SHDC and WDBC. **Update September 2023**: – We are continually reviewing the insurance cover in place and update as required. The Council continues to



access the services of an insurance broker and will seek specialist advice where required during the retendering for insurance (due for December 2024)

## 2.8 Target Implementation Year: - 2022

Total recommendations due for completion during the year: - 170

Priority	Completed	In Progress	Not Started	Total
High	31	14	3	48
Medium	65	30	2	97
Low	17	6	2	25
<b>Total</b>	<b>113</b>	<b>50</b>	<b>7</b>	<b>170</b>
%	67%	29%	4%	100%

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

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

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

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

- 2.8.5 Business Rates: We support the intention to tender a new enforcement agent contract, encompassing the additional services identified as being available from some enforcement agents. Update **September 2023:- Ongoing**
- 2.8.6 Business Rates: As part of the detailed review of revenues recovery, opportunities for proactive enforcement, and the resources to undertake this, should be identified. **Update September 2023:-** This is being addressed through the current Revenues and Benefits service review.
- 2.8.7 Council Tax: As part of the detailed review of revenues recovery to be made the most effective means of undertaking manual reviews should be considered and whether any can be automated. **Update September 2023:-** This is being addressed through the new Revenues and Benefits Structure implementation.
- 2.8.8 Council Tax: We support the intention to review and update the Corporate Debt Policy, at which time those points raised above should be considered. **Update September 2023:-** In progress with a corporate debt policy being developed during 2023/24.
- 2.8.9 Creditors: Procurement of specialist agricultural planning advice. **Update September 2023:-** There is a limited market for this advice and while the intention is still to carry out a procurement, it is unlikely to result in a significantly different outcome to the current provision.
- 2.8.10 Dartmouth Lower Ferry:- To provide additional controls, the Head of Maritime (CSS) should ensure that two people are involved in the counting and reconciliation of the cash and banking. **Update September 2023:-** Due to the part time operation of staff, this has been difficult to implement. The alternative would be to look at increasing some posts to full time to cover this. As a mitigation, as suggested by Audit, regular reconciliations are undertaken.
- 2.8.11 Dartmouth Lower Ferry:- As we have previously reported, the Head of Maritime (CSS) should contact the eHarbour company with regard to enabling the addition of recording 'error' transactions onto the eHarbour system, against individual operatives, prior to the completion of the daily Bank Report. **Update September 2023:-** We have requested this from the

software provider but the functionality isn't available with the system. We will continue to raise this to them.

- 2.8.12 Dartmouth Lower Ferry:- The Team Leader Dartmouth Ferry (LT) should ensure that there is a report from the eHarbour system that provides information on the Saver Travel Pass income sold in advance. **Update September 2023:-** We continue to work with the software provider on this matter. This recommendation is however no somewhat out of date as we have a better understanding of the upfront payments now that the self-service portal is up and running.
- 2.8.13 Debtors:- The amount of staff resource available for debt recovery should be reviewed, to ensure that this is sufficient to allow recovery to take place on a timely basis across all values and types of debt, helping reduce the amount of aged debt and to allow all available recovery options to be utilised. **Update September 2023:-** The principal accountant will oversee this, and the intention is for a new Corporate Debt policy and enforcement agent contract to be in place during 2023.
- 2.8.14 Debtors:- It should be ensured that there is sufficient staff resource available to allow the timely recovery of sundry debts, to avoid the otherwise seemingly inexplicable delays in progressing recovery action, such as in some of the cases we reviewed. **Update September 2023:-** The Principal Accountant who has responsibility for Sundry Debt, is new in post, and has taken further steps on the recovery of sundry debts with the relevant departments. The Head of Finance and the Head of Revenues and Benefits will oversee this work. The intention is for a new Corporate Debt policy and enforcement agent contract to be in place during 2023.
- 2.8.15 Debtors:- We support the intention to ensure that all officers are using the web-based version of Civica Financials, including seeking training for officers from the software supplier. **Update September 2023:-** The Head of Finance in conjunction with the Head of Revenues and Benefits will oversee this. Finance team members have received training from Civica however it is considered that the 'web' version is not currently user friendly for the wider organisation. Work continues with the software provider to address this, and training will be rolled out in 2024. Budget holders still have access to manage budgets via the non-web version.

- 2.8.16 Housing Benefit:- A programme of quality checks, reviewing the accuracy of the Benefits Assessors' work, should be re-introduced as soon as possible. **Update September 2023:-** The PMQA module is went live in June 2023 and a Quality Assurance and Training Officer post is proposed in the new structure.
- 2.8.17 Grounds Maintenance:- The prioritisation of the work delivered by the Property and Ground Maintenance teams should be primarily guided by the Assets strategy, to ensure that the strategic objectives and priorities of the wider Assets service are met. **Update September 2023:-** We are currently developing an updated Asset Management Strategy which will address this. Scheduled for consideration by Executive in November 2023.

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

Total recommendations due for implementation:- 27

Priority	Completed	In Progress	Not Started	Total
High	1	7		8
Medium	7	9	2	18
Low		1		1
<b>Total</b>	<b>8</b>	<b>17</b>	<b>2</b>	<b>27</b>
%	30%	63%	7%	100%

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

- 2.9.1 Business Rates:- We support the intention to require customers with a business rates account to provide evidence of their ownership or tenancy of a premises, in order that the correct legal liable party is billed for business rates and allowing any potential future recovery to be undertaken correctly. **Update September 2023:-** Being implemented into new procedures and training for the team.
- 2.9.2 Business Rates:- Regular, targeted reviews should be implemented for those reliefs and exemptions where there is the greatest risk of the Councils not being informed of changes. We support the work commenced by the Revenues team with respect to this. **Update September 2023:-** Annual timetable for reviews commenced May 2023.

- 2.9.3 Business Rates:- We support the intention to make a detailed review of the revenues recovery and enforcement procedures. **Update September 2023**:- Partially implemented and will be fully addressed through the Revenues and Benefits Service review.
- 2.9.4 Business Rates:- We support the intention to make a detailed review of the revenues recovery and enforcement procedures. **Update September 2023**:- This will be addressed through the current Revenues and Benefits Service review.
- 2.9.5 Council Tax:- Regular, targeted reviews should be made of those discounts and exemptions where there is the greatest risk of the Councils not being informed of changes. **Update September 2023**:- This will be included in the 2023/24 service plan update for Revenues and Benefits.
- 2.9.6 Council Tax:- The recommendations with respect to introducing more efficient or alternative HBOP recovery methods, should be built into procedures and used to best effect. **Update September 2023**:- This will be picked up as part of a suite of measures reviewing the recovery of OBHP.
- 2.9.7 Property Maintenance:- A Property Maintenance Strategy should be put in place, which is informed by the Councils' corporate priorities and strategic themes, as well as building condition and legislative requirements. The Strategy should be supported by a Policy to guide those responsible for its delivery. **Update September 2023**:- This will form part of the updated Asset Management Strategy considered by the Executive in November 2023.

### **3. Proposal and Next Steps**

- 3.1 Overall, since 2021, 70% of the recommendations made have been completed with a further 28% in progress. All Internal Audit recommendations will continue to be monitored by the Performance Board and managed to completion by the relevant Director and Head of Service.
- 3.2 It is recommended that the Audit & Governance Committee note progress against the Internal Audit recommendations tracker and request a further update in six months' time to monitor progress against the above progress.

#### 4. Implications

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

#### **Supporting Information**

##### **Appendices:**

None

##### **Background Papers:**

None

Report to: **Audit and Governance Committee**  
Date: **28 September 2023**  
Title: **Annual Treasury Management Report  
2022/23**  
Portfolio Area: **Cllr Brazil – Finance**  
  
Wards Affected: **ALL**  
  
Urgent Decision: **N** Approval and clearance obtained: **Y**  
  
Date next steps can be taken: **N/A**

Author: Clare Scotton                      Role: **Principal Accountant**  
  
                 Pauline Henstock                      **Head of Finance Practice**  
Contact: **Email: [clare.scotton@swdevon.gov.uk](mailto:clare.scotton@swdevon.gov.uk)**  
**Email: [pauline.henstock@swdevon.gov.uk](mailto:pauline.henstock@swdevon.gov.uk)**

---

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

- 1. Approves the actual 2022/23 prudential and treasury indicators in this report.**
- 2. Notes the Annual Treasury Management report for 2022/2023 and the additional investment income generated in the year of £1.02m as shown in 1.1.**

## **1. Executive summary**

- 1.1 Income from investments this year was £1,147,385 which is £1,024,385 higher than the budget of £123,000 at an average return of 2.02%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.17% return on investments below the benchmark for 22/23. The reason for the benchmark not being met is that rates were very low at the start of 2022/23 (0.04%) and then substantially rose throughout the year.

## **2. Background**

- 2.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

- 2.2 Treasury management is defined as:

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

- 2.3 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Minute C76/21)
- A mid-year (minimum) treasury update report (Minute A40/22)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

- 2.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by Members.

- 2.5 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during 2020/21 and will be carried out again in November 2023 in order to support their scrutiny role.



### 3. The Economy and Interest Rates

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

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

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

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

#### 4. Overall Treasury Position as at 31 March 2023

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

Treasury Portfolio	31 March 2022		31 March 2023	
	£'000	Rate%	£'000	Rate%
Treasury Investments:				
Short term – fixed	30,500	0.51	*17,900	4.24
Money Market Funds	22,400	0.38	**14,200	3.99
Heritable Bank	11	-	11	-
CCLA – LAPF (more information on CCLA funds is in section 4.2 below)	1,573	3.25	***1,313	4.26
CCLA – DIF (more information on CCLA funds is in section 4.2 below)	2,032	2.39	***1,312	3.02
<b>Total treasury investments</b>	<b>56,516</b>		<b>34,736</b>	
Treasury External Borrowing				
PWLB	14,380	2.49	14,284	2.49
<b>Total external borrowing (£13.825m of long term borrowing and £459k of short term borrowing)</b>	<b>14,380</b>		<b>14,284</b>	
<b>Net treasury investments / (borrowing)</b>	<b>42,136</b>		<b>20,452</b>	

\*The reduction in investments, cash and cash equivalents and creditors as at 31 March 2023 partly relates to the timing of the Council Tax energy rebate grant (£4.51m) which was received at the end of 2021/22 and the payments were made on behalf of Central Government at the beginning of 2022/23. In addition the Council also administered various Business Grants on behalf of Central Government in 2021/22 and part of the reduction in investments, cash and cash equivalents and creditors relates to unapplied funding being repaid to Central Government in 2022/23.

\*\*In line with the reduction in investments as at 31 March 2023, the amount of cash invested in Money Market Funds also reduced by £8.2m. The higher balance at 31 March 2022 relates to the unapplied funding in respect of the various Business Grants which was repaid to Central Government in 2022/23.

\*\*\*The CCLA Diversified Income Fund experienced a downward revaluation of £720,000 in 2022/23. The outlook for global economic growth continues to be weaker. Inflation is likely to remain above target rates for some time, interest rates in most areas will still be negative in real terms. This backdrop placed some downward pressure on investments during 2022. However, the CCLA fund continued to outperform the benchmark. CCLA will maintain the portfolio's emphasis on real assets such as good quality equities and alternatives, adding selectively to fixed income as attractive opportunities are identified to support continued performance for this long term investment.

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

### **Fixed Term Deposits**

<b>Amount</b>	<b>Investment</b>	<b>Average Interest rate</b>
£4,000,000	Barclays Bank plc	3.95%
£1,900,000	Debt Management Office	3.95%
£6,000,000	Standard Chartered Bank	4.17%
£6,000,000	Lloyds Bank plc	4.88%
<b>£17,900,000</b>	<b>Total</b>	

### **Money Market Funds**

<b>Amount</b>	<b>Investment</b>	<b>Average Interest rate</b>
£6,000,000	BlackRock	4.06%
£2,500,000	Deutsche	3.97%
£5,700,000	LGIM	3.95%
<b>£14,200,000</b>	<b>Total</b>	

### **CCLA Funds**

<b>Valuation at 31.3.2023</b>	<b>Investment</b>	<b>Dividend Yield</b>
£1,313,568	*CCLA – Property Fund (Original Investment of £1.5million)	4.26%
£1,312,087	*CCLA – Diversified Income Fund (Original Investment of £2million)	3.02%
<b>£2,625,655</b>	<b>Total</b>	

4.3 At 31 March 2023, the Council had investments of £1.5million with the CCLA Property Fund and £2million with the CCLA Diversified Income Fund. On 29 March 2018, the Council made the decision to invest £500,000 in the CCLA Local Authority Property Fund and £1million in the CCLA Diversified Income Fund in 2018/19. The investment was increased from £1.5m to £3.5m at Council on 21<sup>st</sup> February 2019 (Minute CM53/18).

4.4 The investment was made with a view to a long term commitment. The bid market value as at 31 March 2023 for the Council's investments were £1,313,568 (Local Authorities Property Fund) and £1,312,087 (Diversified Income Fund). As shown above in 4.1, the CCLA Diversified Income Fund has since recovered and is valued at £1.86 million as at August 2023 – an increase of £550,000. The Property Fund has been valued at £1.30 million as at August 2023.

- 4.5 2022 has been a difficult year for the fund as equities were down in value but it is starting to see some stability and positivity. These investments have yielded returns of 4.26% and 3.02% as shown above. Due to the nature of these investments they are long term strategic investments (the Council does not currently intend to sell them) and the Council elected to designate them as fair value through other comprehensive income. This election means that there is no impact on the revenue budget of changes in their valuation. Any gains or losses on the valuation of the CCLA investments are transferred to a Financial Instruments Revaluation Reserve. This is classed as an unusable reserve.

### **South West Mutual**

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

## **5. The Strategy for 2022/23**

### **Investment strategy and control of interest rate risk**

- 5.1 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.
- 5.2 Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24. As at September 2023 the bank base rate is 5.25%.
- 5.3 The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.
- 5.4 Investment meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

- 5.5 Nonetheless, while the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- 5.6 The Treasury Management Strategy Report for 2022/23 was approved by the Council on 31 March 2022 (Minute – C76/21).

### **Borrowing strategy and control of interest rate risk**

- 5.7 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.
- 5.8 A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 5.9 The policy of avoiding new borrowing by instead using spare cash balances has served well over the last few years.
- 5.10 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Strategic Finance (S.151 Officer) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
  - if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

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

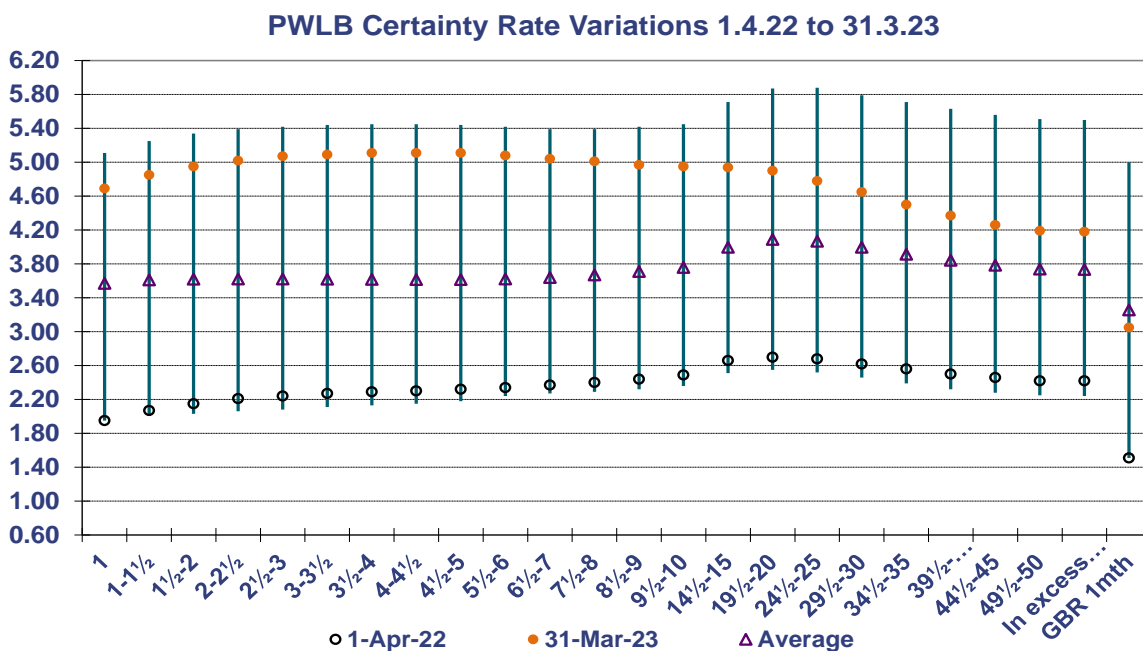
5.12 Interest rate forecasts during 2022/23 are shown below (as at 27.3.2023).

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

5.13 The latest interest rate forecasts as at 26 June 2023 are shown below.

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

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



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

- 5.15 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.
- 5.16 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.
- 5.17 At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.
- 5.18 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)



## 6. Borrowing Outturn for 2022/23

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

<b>Lender</b>	<b>Type and Date Borrowing taken out</b>	<b>Maturity</b>	<b>Interest Rate %</b>	<b>Principal held at 31 March 2022 £'000</b>	<b>Principal held at 31 March 2023 £'000</b>
PWLB – 23 maturity loans – Loans mature each year from May 2023	Fixed Interest Rate Borrowed in May 2018 for leisure investment.	5-19 Years	2.41*	5,490	5,490
PWLB – Annuity loan	Fixed Interest Rate Borrowed in December 2019 for an investment property in Dartmouth	50 Years	3.09	5,011	4,965
PWLB – Annuity loan	Fixed Interest Rate Borrowed in September 2019 for Dartmouth Health and Wellbeing Hub	50 Years	1.97	3,879	3,829
<b>Total</b>				<b>14,380</b>	<b>14,284</b>

\*Average interest rate

### Repayments and MRP (Minimum Revenue Provision)

6.2 During 2022/23 the Council repaid interest of £371,691 at an average rate of 2.49%. The Council also paid £487,711 in MRP (capital repayment on the borrowing) payments during the year. The borrowing for the leisure investment (£5.49million) consists of 23 maturity loans. An MRP payment of £300,136 is made on the leisure investment each year. The first loan matures in May 2023 where £360,000 of the principal is being repaid annually on the maturity loans. MRP payments of £935,000 have been made on the leisure investments to date since 2019-20. The MRP payments are credited to the Capital Adjustment Account (CAA) and reversed out through the MIRS (Movement in Reserves Statement). This will finance the repayments when each loan for the leisure investment matures from May 2023 onwards each year.

### **Borrowing in advance of need**

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

### **Debt rescheduling**

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

## **7. Investment Outturn for 2022/23**

- 7.1 **Investment Policy** – the Council’s investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 5 April 2022 (Minute – CM73). This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).
- 7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 7.3 **Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. Income from investments this year was £1,147,385 which is £1,024,385 higher than the budget of £123,000 at an average return of 2.02%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.17% return on investments below the benchmark for 22/23. The reason for the benchmark not being met is that rates were very low at the start of 2022/23 (0.04%) and then substantially rose throughout the year.
- 7.4 By March 2023 the rate of investment return achieved on investments was 4.19% (Link Services March 2023 report).

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

<b>Balance Sheet Resources £'000</b>	<b>31 March 2022</b>	<b>31 March 2023</b>
General Fund Balance	2,056	2,113
Earmarked Reserves	20,839	15,424
Usable Capital Receipts	2,950	2,920
Provisions	1,494	901
Other (Collection Fund and Capital contributions unapplied)	(1,705)	4,366
<b>Total</b>	<b>25,634</b>	<b>25,724</b>

## **8. Other Issues 2022/23**

### **IFRS 9 fair value of investments**

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

## **9. Outcomes/outputs**

9.1 Income from investments this year was £1,147,385 which is £1,024,385 higher than the budget of £123,000.

9.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The SONIA rate at the end of March was 2.19% which is 0.17% higher than our average return of 2.02% as at 31 March 2023. Further information is shown in section 7.3.

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

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

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

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

## 11. Proposed Way Forward

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

## 12. Compliance with Treasury Limits and Prudential Indicators

12.1 During 2022/23 the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2022/23 are detailed and shown in Appendix B.

## 13. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003
Financial Implications to include reference to value for money	Y	Income from investments this year was £1,147,384 which is £1,024,384 higher than the budget of £123,000 at an average return of 2.02%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 2.19%. Therefore the Council achieved 0.17% return on investments below the benchmark for 22/23.  By March 2023 the rate of investment return achieved on investments was 4.19% (Link Services March 2023 report).  Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning.
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.

		<p>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members through the Council's revenue budget monitoring report.</p>
Supporting Corporate Strategy		The income from treasury management supports all the Council's corporate strategy themes.
Climate Change - Carbon / Biodiversity Impact		No direct carbon/biodiversity impact arising from the recommendations.
<b>Comprehensive Impact Assessment Implications</b>		
Equality and Diversity	N	None directly arising from this report.
Safeguarding	N	None directly arising from this report.
Community Safety, Crime and Disorder	N	None directly arising from this report.
Health, Safety and Wellbeing	N	None directly arising from this report.
Other implications	N	None directly arising from this report.

### **Supporting Information**

#### **Appendices:**

Appendix A – Lending list as at 31 March 2023

Appendix B - Prudential and Treasury Indicators 2022/23

#### **Background Papers:**

Annual treasury strategy in advance of the year (Council 31 March 2022 – Minute C76/21)

A mid-year treasury update report (Audit and Governance Committee 9 March 2023 – Minute A40/22)

## APPENDIX A

Counterparty as at 31st March 2023		Fitch Rating				Moody's Ratings			S&P Ratings			Suggested Duration	
		Long Term	Short Term	Viability	Support	Long Term	Short Term	Long Term	Short Term				
<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>Nationalised and Part Nationalised Banks</b>	Al Rayan Bank PLC	SB					SB	A1	P-1				R - 6 mths
	Bank of Scotland PLC (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a	WD	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Barclays Bank UK PLC (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	PO	A	A-1	R - 6 mths
	Close Brothers Ltd	NO	A-	F2	a-	WD	SB	Aa3	P-1				R - 6 mths
	Clydesdale Bank PLC	SB	A-	F2	bbb+	WD	SB	A3	P-2	SB	A-	A-2	G - 100 days
	Co-operative Bank PLC (The)	SB	BB	B	b	WD	PO	Ba1	NP				N/C - 0 mths
	Goldman Sachs International Bank	SB	A+	F1		WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Handelsbanken Plc	SB	AA	F1+		WD				SB	AA-	A-1+	O - 12 mths
	HSBC Bank PLC (NRFB)	SB	AA-	F1+	a	WD	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	HSBC UK Bank Plc (RFB)	SB	AA-	F1+	a	WD	SB	A1	P-1	SB	A+	A-1	O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	A+	F1		WD	SB	A1	P-1	SB	A	A-1	R - 6 mths
	Lloyds Bank Plc (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	National Bank of Kuwait (International) PLC	SB	A+	F1		WD				SB	A	A-1	R - 6 mths
	NatWest Markets Plc (NRFB)	SB	A+	F1	WD	WD	SB	A1	P-1	SB	A-	A-2	R - 6 mths
	Santander Financial Services Plc (NRFB)	SB	A+	F1		WD	NO	A1	P-1	SB	A-	A-2	R - 6 mths
	Santander UK PLC	SB	A+	F1	a	WD	NO	A1	P-1	SB	A	A-1	R - 6 mths
	SMBC Bank International PLC	SB	A-	F1		WD	SB	A1	P-1	SB	A	A-1	R - 6 mths
Standard Chartered Bank	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	
<b>Building Societies</b>	Coventry Building Society	SB	A-	F1	a-	WD	SB	A2	P-1				R - 6 mths
	Leeds Building Society	SB	A-	F1	a-	WD	SB	A3	P-2				G - 100 days
	Nationwide Building Society	SB	A	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths
	Principality Building Society	SB	BBB+	F2	bbb+	WD	SB	Baa2	P-2				N/C - 0 mths
	Skipton Building Society	SB	A-	F1	a-	WD	SB	A2	P-1				R - 6 mths
	West Bromwich Building Society						SB	Ba3	NP				N/C - 0 mths
Yorkshire Building Society	SB	A-	F1	a-	WD	SB	A3	P-2				G - 100 days	
<b>Nationalised and Part Nationalised Banks</b>	National Westminster Bank PLC (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A	A-1	B - 12 mths
	Royal Bank of Scotland Group Plc (RFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A	A-1	B - 12 mths

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

**PRUDENTIAL AND TREASURY INDICATORS 2022/23**

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

**Capital Expenditure and Financing**

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

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

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

<b>Capital Expenditure</b>	<b>2021/22 Actual £000</b>	<b>2022/23 Estimate £000</b>	<b>2022/23 Actual £000</b>
General Fund services	3,991	*23,074	7,543
Housing	0	2,100	1,836
<b>TOTAL</b>	<b>3,991</b>	<b>25,174</b>	<b>9,379</b>

\*This estimate included the Ivybridge supermarket proposals (Executive 7<sup>th</sup> July 2022, Minute E.22/22) and the Plymouth and South Devon Freeport (Council report 31<sup>st</sup> March 2022, Council Minute 73/21 and Council report 30<sup>th</sup> March 2023, Council Minute CM 77/22), as estimates were prepared in January 2022.

<b>Capital Expenditure and Financing</b>	<b>2021/22 Actual £000</b>	<b>2022/23 Estimate £000</b>	<b>2022/23 Actual £000</b>
Capital Expenditure	3,991	25,174	9,379
<b>Financed by:</b>			
External sources	(1,156)	(3,198)	(2,596)
Own resources	(1,815)	(3,857)	(1,312)
<b>Unfinanced capital expenditure</b>	<b>1,020</b>	<b>*18,119</b>	<b>5,471</b>

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

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

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

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

<b>CFR</b>	<b>2021/22 Actual £000</b>	<b>2022/23 Estimate £000</b>	<b>2022/23 Actual £000</b>
Opening balance	13,002	13,527	13,536
Add unfinanced capital expenditure (as above)	1,020	*18,119	5,471
Less MRP/VRP	(486)	(487)	(487)
<b>Closing balance</b>	<b>13,536</b>	<b>31,159</b>	<b>18,520</b>

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



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

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £0.84m in 2021/22. This is only a short term position as this will finance future capital expenditure which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

	<b>2021/22 Actual £000</b>	<b>2022/23 Estimate £000</b>	<b>2022/23 Actual £000</b>
Debt	14,380	*30,862	14,284
Capital Financing Requirement	13,536	*31,159	18,520
Over/(under) funding of CFR	844	(297)	(4,236)

\*The 2022/23 estimates were prepared in January 2022. See the Capital Expenditure table above for an explanation of the differences in value between the borrowing estimates for capital schemes and the actual level of borrowing in 2022/23. No additional external borrowing was taken out during 2022/23.

### AFFORDABILITY PRUDENTIAL INDICATORS

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

These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

#### Ratio of financing costs to net revenue stream

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

	<b>2021/22 Actual</b>	<b>2022/23 Estimate</b>	<b>2022/23 Actual</b>
Financing costs (£)	711,914	727,602	*(296,783)
Proportion of net revenue stream	7.2%	6.9%	(2.8%)

\*The estimates were prepared in January 2022. During the year income from investments was £1,147,385 which was £1,024,385 higher than the budget of £123,000. This was due to successive increases in the bank base rate. As at March 2023 the Council was achieving 4.19% return from its treasury management investments. In addition to this the Council took out no external borrowing in 2022/23 and therefore financing costs were lower than estimated.

### **TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY**

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

<b>Operational Boundary</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£</b>	<b>£</b>
Borrowing	70,000,000	50,000,000
Other long term liabilities	-	-
Total	70,000,000	50,000,000

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

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

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

<b>Authorised limit</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£</b>	<b>£</b>
Borrowing	75,000,000	75,000,000
Other long term liabilities	-	-
Total	75,000,000	75,000,000

South Hams District Council's current level of borrowing as at 31 March 2023 was £14.284 million.

As part of the Budget Setting process, Members approved an overall Borrowing Limit of £75million.

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

Refinancing rate risk indicator	Approved minimum limits	Approved maximum limits	Actual 31 March 2022		Actual 31 March 2023	
	%	%	£million	%	£million	%
Less than 1 year	0%	10%	0.096	0.7	0.459	3.2
Between 1 and 2 years	0%	30%	0.459	3.2	0.461	3.3
Between 2 and 5 years	0%	50%	1.392	9.7	1.400	9.8
Between 5 and 10 years	0%	75%	2.375	16.5	2.390	16.7
Between 10 and 20 years	0%	100%	3.642	25.3	3.318	23.2
20 years and above	0%		6.416	44.6	6.256	43.8
<b>Total</b>			<b>14.380</b>	<b>100.0</b>	<b>14.284</b>	<b>100.0</b>

This page is intentionally left blank

Report to: **Audit and Governance Committee**

Date: **28 September 2023**

Title: **Sundry Debt**

Portfolio Area: **Finance – Cllr Brazil**

Wards Affected: **All**

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

Date next steps can be taken: N/A

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

Contact: **01803 861296** [martin.pound@swdevon.gov.uk](mailto:martin.pound@swdevon.gov.uk)  
**01803 861377** [pauline.henstock@swdevon.gov.uk](mailto:pauline.henstock@swdevon.gov.uk)

---

**Recommendation:**

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

## 1. Executive summary

1.1 This report provides Members with an update of the position of Sundry Debt up to 31<sup>st</sup> August 2023. The report concentrates on debts over 30 days old.

1.2 The key points within this report are:

- Debts have slightly increased from £368k to £392k since January 2023.
- £155k (40%) of this relates to debts where payment is being made by instalments.
- £42k (11%) of this relates to one neighbouring local authority, who are in the process of making payment.

- £24k (6%) relates to a single debtor where the council is taking legal action.
- 1.3 We will continue to monitor and chase outstanding debts, taking the appropriate action in each case.

## **2. Background**

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

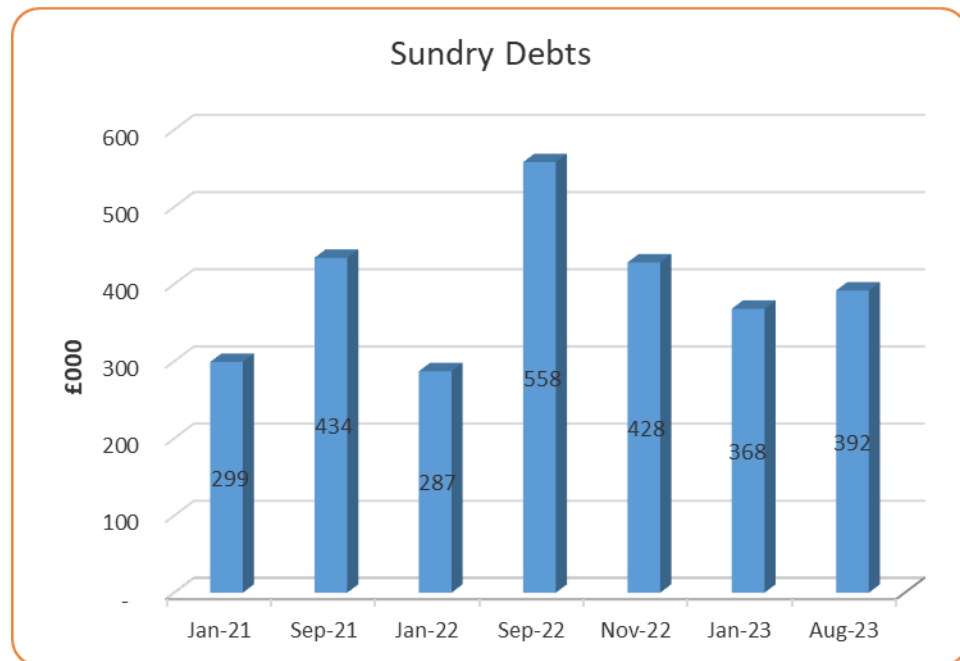
## **3. Outcomes/outputs**

- 3.1 This report covers the;
- a. Level of Sundry Debts over 30 days old
  - b. An analysis of the age of this debt.
  - c. A breakdown of the debts over 6 months old by department.
- 3.2 All Council sundry debts are actively pursued, and in most instances are collected in a timely manner. In cases where payment is not received on time, a series of reminder letters are issued promptly to the debtor. If this fails to secure payment, recovery is pursued, which could ultimately lead to court action.

### **Sundry Debts**

- 3.3 The balance of arrears for Sundry Debts over recent years is summarised in the graph below. This figure has slightly increased from £368k to £392k since January 2023.
- 3.4 Sundry Debts consist of Estates Management, Licensing, Trade Waste and Housing. This excludes car parking fines, Council tax

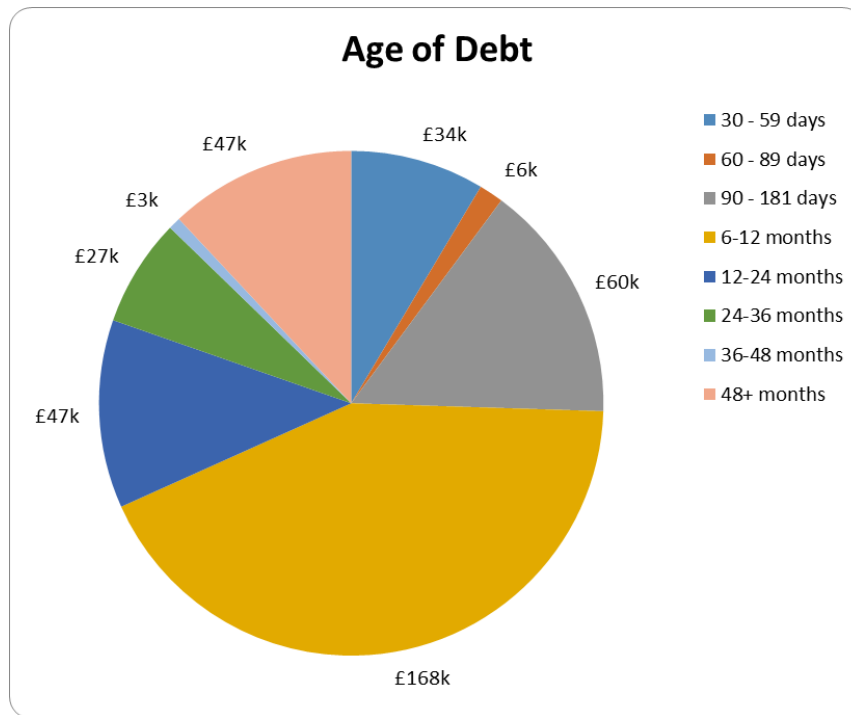
and Housing Benefits which are included on different systems. The debts over time are shown in the graph below.



3.5 The £392k debt level at August 2023 includes 6 debtors who owe a total of £233k. Below is a summary of the status of these debtors:

- 3 of the debtors, totalling £153k, are paying by instalments. One debt relates to a S106 agreement and is within the Development Management service. This is being paid by instalments.
- One of the debts relates to a public sector organisation (£42k), which is in the process of being paid by a neighbouring Council.
- One debtor has gone into liquidation owing the council £14k. The company has significant overall debts, and it is unlikely that we will receive the payment due. This debt is therefore likely to be written off.
- The Council is progressing legal action against one debtor (£24k).

3.6 The balance of £392k can be further broken down into age bands to give a clearer picture of the nature of Sundry Debt arrears as follows.



3.7 There are 5 debtors that owe in excess of £20k each and these are included within the analysis in paragraph 3.5 above.

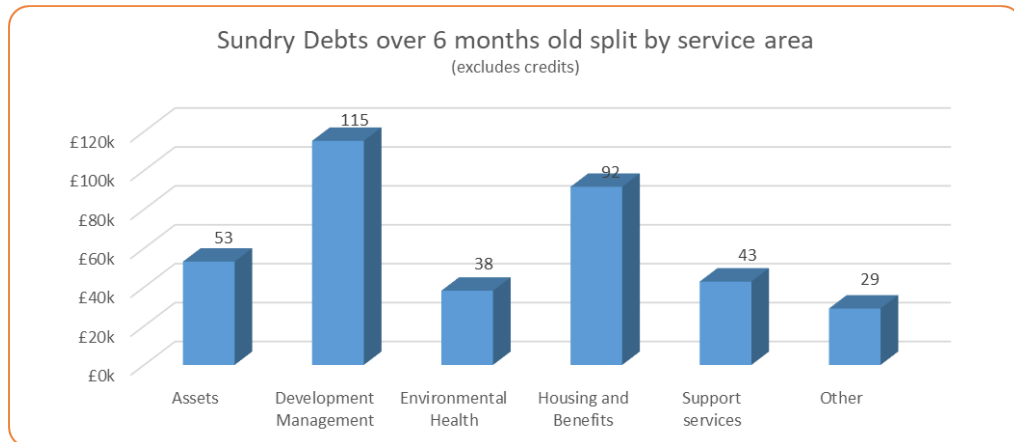
3.8 Alongside a single large debtor in Development Management for a s106 agreement, the majority of the sundry debt relates either to Housing and Benefits or to arrangements made by the Assets team. The latter have been actively pursuing unpaid debtor invoices and supporting our customers with options such as payment arrangements.

3.9 The Assets team are receiving regular information, showing the outstanding debtors and the respective values. Ultimately, the team will look at repossessing a unit where payment is not forthcoming and the tenant will not actively engage with us.



## Older sundry debt

3.10 Sundry debts over six months old total £370k and can be further analysed by service area in the graph below.



3.11 The Development Management heading includes a debtor described in paragraph 3.5.

3.12 It can be seen that £92k relates to Housing and Benefits which are difficult debts to recover. This makes up 25% of the total debt in this age category.

3.13 Almost half of the debt relating to the Assets team (£53k) is in respect of one debtor. This debt has been passed to the legal team, who are preparing the next steps.

3.14 Over half of the debts under Environmental Health (£38k) relates to two individual debtors. The remainder are mainly licences and therefore low value, high volume.

3.15 Within the figure shown as "other", there are a small number of covid business grant overpayments. An instalment plan has been agreed and the balance is slowly reducing for each.

## Sundry debt written off

3.16 There have been no sundry debt write offs during the financial year.

## 4. Options available and consideration of risk

4.1 The Principal Accountant for Business Support is keen to continue to focus on debt recovery and 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 chased accordingly.

## 5. Proposed Way Forward

5.1 The Committee note the content of this report and continue to receive half yearly updates.

## 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	<p>The financial implications are set out within the report.</p> <p>The balance of arrears for Sundry Debts over recent years is summarised within the report. This figure has slightly increased from £368k to £392k since January 2023.</p> <p>Improved income collection, resulting in less impact of uncollectable debt on the Income and Expenditure Account, due to fewer write offs.</p>

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 six of the Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change - Carbon / Biodiversity Impact		None directly arising from 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

This page is intentionally left blank

Report to: **Audit and Governance Committee**

Date: **28 September 2023**

Title: **Building Maintenance Progress Update**

Portfolio Area: **Community Services – Cllr Abbott**

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: **Steve Mullineaux** Role: **Director of Customer Services and Delivery**

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

---

## **RECOMMENDATIONS:**

### **That the Audit and Governance Committee**

- 1. Note the work being undertaken to address the Audit report.**
- 2. Agree to defer the follow up audit from 2023-24 to Quarter 1 of 2024/25 to allow this work to complete.**

## **1. Executive summary**

- 1.1. Audits undertaken by the Internal Audit team in December 2020 and subsequently in February 2023 reported Limited assurance for the Building Maintenance service. As a result of this, the Audit and Governance Committee requested a written report to update them on the actions taken by officers to rectify the areas of concern highlighted.
- 1.2. This update paper provides an overview of the key actions being undertaken to address the areas of concern highlighted in the previous internal audit reports. The main concerns (and actions underway) related to:
  - Absence of a Building Maintenance Strategy (see 3.2).
  - Out of date Asset Condition Surveys (see 3.2, 3.3).
  - Resourcing and management of the Asset and Building Maintenance Teams (see 3.7).
  - Prioritisation of the work of the Building Maintenance Team (see 3.8).

- Ensuring asset data on Concerto, the Asset Maintenance Software is accurate and complete (see 3.5).

## 2. **Background**

- 2.1. The Building Maintenance team has suffered from numerous changes in management over the last 3 years and significant management resource and operational capacity within the team was diverted to support the deterioration of the waste service during 2021 and 2022, where performance was below the expected standard. This was carried out with the full support of the Executive.
- 2.2. Following the creation of a management structure to support the waste and recycling services, a vacancy for the Head of Service role was recruited and appointed to in April 2023 with direct responsibility for the Community and Operations service.
- 2.3. Work to review the service was paused due to the Covid pandemic and the waste service issues (para 2.1).
- 2.4. It is recognised that this work is a priority if the council is to secure good value for money from its assets portfolio.

## 3. **Progress to date**

- 3.1. A monthly meeting to agree and manage the improvement activity is now in place chaired by the Director of Customer Service and Delivery. Attendees include Head of Assets, Head of Community Service and Operations, and the Internal Audit team.
- 3.2. An updated Strategic Asset Management plan is being drafted and will be reviewed by the team ahead of being presented to the Executive for approval at its next meeting in November 2023. This will provide good detail on all the assets held by the council and how they will be maintained.
- 3.3. Assets are also being categorised into 5 areas to align with the Council's new corporate strategy. This will help identify the assets and the cost of associated management & maintenance resources by category. The categories are:
  - Housing
  - Operational
  - Community Services
  - Environment and Biodiversity
  - Economy and Jobs
- 3.4. The assets team are data cleansing the Estate Management IT system (Concerto) of historic tasks and working with the Community Service & Operations team to ensure maintenance tasks are up to date.
- 3.5. The Customer Service Improvement Manager has been tasked by the Head of Assets to assess the use of the Concerto system against the functionality and review current business processes across the service.

- 3.6. A new management structure (within the existing service budgets) is currently being finalised and recruitment will commence once approved by the Senior Leadership Team. Further details of the broader improvements are set out in the report to the 21 September Executive titled 'Delivering strategic priorities through Community Services and Operations'.
- 3.7. A new apprenticeship recruitment strategy will see the team offering opportunities to young people to enable them to develop key trade skills.
- 3.8. A fortnightly meeting between the operations team and the assets team is in place to ensure that resources are focussed on completing appropriate tasks and maintenance.

#### 4 **Proposed Way Forward**

- 4.1 Continue the joint monthly meetings with service areas and the Internal Audit team to ensure focus on addressing the weakness and introducing best practice.
- 4.2 Agree to defer the Internal Audit follow up audit from 2023-24 to Q1 of 2024-25 to allow this work to complete.

#### 5 **Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	N	
Financial	N	There are no direct financial implications of the report.
Risk	N	
Supporting Corporate Strategy	Y	Community Services Good Quality Council Services
Consultation and Engagement Strategy	N	External consultation and engagement has not been undertaken with regard to this report.
<b>Comprehensive Impact Assessment Implications</b>		
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:** None

**Background Papers:** None



## Proposed Workplan for the Audit & Governance Committee for the 2023/24 Municipal Year

Committee Meeting Date	Agenda Items
<p>7 December 2023 at 9.30am</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 71</p>	<ul style="list-style-type: none"> <li>i) Grant Thornton Sector update reports</li> <li>ii) Grant Thornton – Auditors’ Annual Report (AAR)</li> <li>iii) Update on Progress on 2023/24 Internal Audit Plan</li> <li>iv) Strategic Risk Register and Risk Strategy</li> <li>v) Anti-Fraud, Bribery and Corruption Strategy/Response Plan – Report of the s151 Officer</li> <li>vi) Counter Fraud and Resilience – Report of the s151 Officer</li> <li>vii) Whistleblowing Policy – Report of the s151 Officer</li> <li>viii) Treasury Management Mid-Year Report 2023/24;</li> <li>ix) Treasury Management – Review of the Investment and Treasury Management Strategy</li> <li>x) St Ann’s Chapel – timing TBA</li> <li>xi) Ombudsman Annual Review Letter;</li> <li>xii) Procurement – update on the internal audit report actions</li> <li>xiii) Committee Workplan;</li> </ul>
<p>7 March 2024 at 2.30pm</p>	<ul style="list-style-type: none"> <li>i) Audited Annual Statement of Accounts and Annual Governance Statement 2022/23</li> <li>ii) Grant Thornton – Audit Opinion on the 2022/23 Statement of Accounts</li> <li>iii) Grant Thornton – Value for Money assessment 2021/22 and 2022/23</li> <li>iv) Bishop Fleming – Audit Plan for the 2023/24 Statement of Accounts</li> <li>v) Proposed Internal Audit Plan for 2024/25;</li> <li>vi) Update on Progress on 2023/24 Internal Audit Plan;</li> <li>vii) Internal Audit Recommendations Tracking</li> <li>viii) 2024/25 Capital Strategy; 2024/25 Treasury Management Strategy; and 2024/25 Investment Strategy;</li> <li>ix) Budget Book 2024/25;</li> <li>x) Shared Services Methodology 2023/24;</li> <li>xi) Sundry Debts – Update on the Debt position as at the end of January (Month 10)</li> </ul>

	xii) Committee Workplan
--	-------------------------

## **NOT FOR PUBLICATION**

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

Report to: **Audit and Governance Committee**

Date: **28<sup>th</sup> September 2023**

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

Portfolio Area: **Economic Development, Commercial Strategy and Governance – Cllr Birch**

Wards Affected: **All Wards**

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**

**Lisa Buckle** **Director of Strategic Finance**

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

---

### **Recommendations:**

**That the Committee NOTE the 31 March 2023 valuation figures of the Council's two Investment Properties and the rental income being received.**

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

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

## 2. **Background**

- 2.1. The property acquisition in Dartmouth was made in December 2019. The purchase price was £4.7million plus acquisition costs of approximately £300,000. A report to the Executive on 6 February 2020 set out further details of the purchase (Minute E.77/19). The investment was for 12,575 sqft retail store plus eight flats (all within one lease to the tenant, the flats are sub-let).
- 2.2. The Dartmouth purchase was funded through long term Public Works Loans Board borrowing with both the principal and the interest being repaid fully over the 50-year life of the asset. The current lease expires in March 2031.
- 2.3. The historic property at Lee Mill, Ivybridge has been let to the Tenant on a ground lease (the tenant built the store) since 1978 and runs for 99 years to December 2077.
- 2.4. The properties generate a combined net income of £652,115 (see Appendix 1) in the financial year, an ancillary benefit which contributes to the financial sustainability of the Council, enabling it to continue to deliver, and where possible improve, frontline services.
- 2.5. The recent valuation information (as at 31 March 2023) can be found in Appendix 1.

## 3. **Outcomes/outputs**

- 3.1. The net income of the combined properties is £652,115. This allows for borrowing costs and the Maintenance Management and Risk Mitigation reserve (MMRM Reserve) for the investment property in Dartmouth.
- 3.2. Both tenants are up to date with their rental payments.
- 3.3. Both Tenants are (or are guaranteed by) secure covenants, reflecting a low risk of business failure.
- 3.4. The valuation figures as at 31 March 2023 are shown in Appendix 1. Both properties are valued by external Chartered Surveyors with the current knowledge, skills and understanding to value this type of property. The valuers are Members of the RICS (Royal Institution of Chartered Surveyors) and Registered Valuers.

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

- 3.5. The Revenue Earmarked Reserve for the Management, Maintenance and Risk Mitigation (MMRM) currently stands at £95,148 at 31 March 2023. This is shown in the Earmarked Reserve Note to the Statement of Accounts for 2022-23. 10% of rent from the investment property in Dartmouth goes into the Revenue Earmarked Reserve for MMRM which will fund void periods, management costs and repairs as and when they arise.

- 3.6. Details of the Council's Regeneration and Investment strategy can be found in the report approved by Full Council on 31 March 2022 (Minute CM 75/21).

<https://mg.swdevon.gov.uk/documents/s28134/Appendix%20A%20-%20Regeneration%20and%20Investment%20Strategy.pdf>

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

- 4.1 The current income is backed by secure low risk covenants.
- 4.2 There remains a long period until the Lee Mill ground lease expires (53 years) and over 7 years for the Dartmouth asset.
- 4.3 Consideration need to be given at the appropriate time in respect of the ending of both tenancies.
- 4.4 The project has a management, maintenance and risk mitigation (MMRM) Reserve fund to help off-set any situations that may arise where there are void periods, management costs or repairs required.

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

- 5.1 Continue to monitor the payments for the quarterly rent.
- 5.2 Continue to build the MMRM Earmarked Reserve.
- 5.3 Ensure the properties continue to be revalued annually as required in March of each year. The Investment properties require an annual valuation.

#### 6 **Implications**

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>Under section 12 of the Local Government Act 2003 the Council has the power to invest not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs. The Council is required to have regard to guidance issued by the Secretary of State. The current guidance requires the Council to have at least one investment strategy. The Council's Regeneration and Investment Strategy is referred to in the report and is publicly available on the Council's website.</p> <p>Appendix 1 to the report contains information relating to both the financial and business affairs of</p>

		<p>the Council and the occupiers of the investment properties. The information is not information that would be required to be published under the Companies Act 1985, the Friendly Societies Acts 1974 and 1992, the Industrial and Provident Societies Acts 1965 to 1978, the Building Societies Act 1986, or the Charities Act 1993. Such information is exempt from publication if and so long as, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing it.</p> <p>While there is a strong public interest in understanding how public money is spent or invested, this is met by the overall report which can be understood without reference to the detailed information set out in the Appendix which is specific to individual properties and occupiers. Accordingly, the public interest lies in non-disclosure at this time.</p>
Financial	Y	The net income (an ancillary benefit) was £652,115 in 2022/23 from both Investment properties. This is set out in Appendix 1.
Risk	Y	Refer to section 4
Supporting Corporate Strategy		The external audit process supports all of the Thematic Delivery Plans outlined in the current corporate strategy and emerging themes.
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/A
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		

**Supporting Information**

**Appendices:**

Exempt Appendix 1 – Investment Property Valuation

**Background Papers:**

None

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

Document is Restricted

This page is intentionally left blank