

Audit & Governance Committee Agenda



To: Dr. Olu Olasode (Independent Chair)
Councillor Matt Griffiths (Vice-Chair)
Councillors Claire Bonham, Simon Brew, Sherwan Chowdhury,
Patricia Hay-Justice, Endri Llabuti and Danielle Denton

Reserve Members: Sean Fitzsimons, Simon Fox, Mark Johnson,
Enid Mollyneaux, Stella Nabukeera and Nikhil Sherine Thampi

A meeting of the **Audit & Governance Committee** which you are hereby invited to attend, will be held **Thursday, 24 November 2022** at **6.30 pm. Council Chamber, Town Hall, Katherine Street, Croydon, CR0 1NX.**

Katherine Kerswell
Chief Executive and Head of Paid Service
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

Marianna Ritchie, Democratic Services
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www.croydon.gov.uk/meetings

Members of the public are welcome to attend this meeting.

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If you require any assistance, please contact Marianna Ritchie, Democratic Services as detailed above

AGENDA

1. Apologies for Absence

To receive any apologies for absence from any members of the Committee.

2. Disclosure of Interests

Members are invited to declare any disclosable pecuniary interests (DPIs) they may have in relation to any item(s) of business on today's agenda.

3. Minutes of the Previous Meeting (Pages 5 - 14)

To approve the minutes of the meeting held on 13 October 2022 as an accurate record of the proceedings.

4. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. Internal Audit Update Report (Pages 15 - 46)

This report details the work completed by Internal Audit so far during 2022/23 and the progress made in implementing recommendations from audits completed in previous years.

6. Treasury Management Mid-Year Review 2022-23 (Pages 47 - 68)

This Report is prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice in respect of capital finance and treasury management. The codes recommend that members are advised of treasury management activities of the first six months of each financial year and of compliance with various strategies and policies agreed by the Council.

7. Anti-Fraud Update Report 1 April 2022 - 30 September 2022 (Pages 69 - 74)

This report details the performance of the Council's Corporate Anti-Fraud Team (CAFT) and includes details of the team's performance together with an update on developments 1 April 2022 – 30 September 2022.

8. Enterprise Risk Management Health Check (Pages 75 - 80)

The report updates the Audit & Governance Committee Members on an Enterprise Risk Management Health Check commissioned from Zurich Resilience Services and associated action plan.

Public Document Pack Agenda Item 3

Audit & Governance Committee

Meeting of held on Thursday, 13 October 2022 at 6.30 pm in Council Chamber, Town Hall, Katherine Street, Croydon, CR0 1NX

MINUTES

Present: Dr. Olu Olasode (Independent Chair)
Councillor Matt Griffiths (Vice-Chair);
Councillors Claire Bonham, Simon Brew, Sherwan Chowdhury,
Danielle Denton, and Patricia Hay-Justice

PART A

9/22 **Disclosure of Interests**

There were no declarations of interest made in relation to any item on this agenda.

10/22 **Minutes of the Previous Meeting**

The minutes of the previous meeting were agreed as an accurate record of the meeting, and the minutes of the previous General Purposes and Audit Committee, of which Dr. Olasode was the Chair, were approved as an accurate record of the meeting.

11/22 **Budget Monitoring**

Nish Popat, Interim Head of Corporate Finance and Jane West, Corporate Director of Resources and Section 151 Officer, introduced the report, stating that the Mayor had included in his manifesto that monthly financial reporting was to be conducted so that Cabinet, and the Scrutiny and Overview and Audit and Governance committees had oversight and assurance of the process behind budget setting. Officers also clarified that a more detailed quarterly Capital Programme report would be presented to the committees.

Members thanked officers for the clear and comprehensive report and requested that operational budgeting and financial variances be separated for clarity.

In response to members' questions, officers explained that the council had a deficit recovery plan to try to reduce pressure exerted by rising inflation and interest rates, and that mitigations were built into the plan.

Officers agreed to include wording in the report to include context around the process and consultation with departments and the Assurance and Improvement Panel.

In response to queries from members, officers clarified that there was a structure through which the budget was taken which included budget managers, assurance, and the corporate management team, all of which fed up to the S151 Officer and Chief Executive. Officers also reassured members that budget holders had all had budget management training delivered by the Chartered Institute of Public Finance and Accountancy (CIPFA) which included budget forecasting and the governance process. Officers confirmed that there was a finance business partnering team which supported each directorate with efficiency savings, and which challenged services to generate savings and deliver within budget.

RESOLVED, to:

1.1 Note the Budget Monitoring cycle at Croydon Council along with the relevant stipulations within the Council's constitution and financial regulations.

*Clerk's note: Councillor Sherwan Chowdhury joined the meeting at 6.44 pm.

12/22

Head of Internal Audit Annual Report 2021/22

Dave Philips, Interim Head of Internal Audit, introduced the paper which reported that the overall opinion of assurance was 'limited'. This was due to more than half of the audits having a limited or no level of assurance. It was explained that this was in line with the level of assurance provided in the previous year's Head of Internal Audit opinion. However, governance and control within the organisation was improving but it would take a while to properly embed.

In response to members' questions officers explained that the IT audit conducted consisted of the asset management and cyber security audits, and that those were quite high-level audits with a wide scope. Officers explained that, since the change in leadership of the IT department, Audit was waiting for new processes and culture to embed, at which point it would conduct a more detailed audit of IT.

Officers also explained that the high turnover of council staff had impacted on the auditing process, due to reduced staff availability and difficulties in obtaining information. There was also the desire for the internal audit

team to give the council the opportunity to succeed, which required giving staff time to embed and therefore was not likely when staffing was volatile.

The committee was reassured that the Internal Control Boards (ICBs), chaired by the S151 Officer, and officers across the council had been working collectively to set and achieve targets. They also engaged in the process of reporting to the Corporate Management Team regularly to ensure improvements were met.

The Chair requested an update on the plan to move out of this level of assurance, to which officers responded that these actions would be included in the Annual Governance Statement.

RESOLVED, to:

1.1 Note the Head of Internal Audit Report 2021/22 (Appendix 1) and the overall Limited level of assurance of the Council's systems of internal control.

13/22

London Borough of Croydon General Fund & Pension Fund Grant Thornton Audit Plan

Matt Dean, Senior Manager Grant Thornton, introduced the report and explained to members that the risks currently present would be the starting points for de-risking, and that there was a standard process for setting materiality, which sat at £14million, which was a reduction from the 2019-20 accounts.

In response to questions from members officers explained that the Opening the Books exercise and a number of workshops with Grant Thornton, the council's external auditor, were making progress towards closing the 2019-20 accounts, but that an end date for that process was not yet in sight.

Members asked when there would be a decision about how the £70million hole in the accounts would be dealt with, to which officers stated that issues to do with the accounts of Croydon Affordable Homes were still being worked through, and that it was up to the council to assure members as to whether the bad debt provision was sufficient.

RESOLVED, to:

- 1.1. Note the 2020/21 Audit Plan Reports from Grant Thornton in relation to the Council's Main Accounts (Appendix A) and the Council's Pension Fund Accounts (Appendix B).
- 1.2. Note that the 2020/21 Audit would take place in parallel with the 2019/20 Audit.
- 1.3. Note that the fee request from Grant Thornton was not yet agreed and would be subject to negotiation with Grant Thornton and Public Sector Audit Appointments (PSAA).

14/22 **Update on Action Plan relating to Report in the Public Interest concerning Fairfield Hall (RIPI 2)**

Stephen Lawrence-Orumwense, Director of Legal Services and Monitoring Officer, introduced the update to members highlighting that a new report template and guidance had been developed and was being rolled out across the council, that a central repository for all contracts to assist the development of strategic procurement plans was in place, and that the council was looking into its decision-making protocols. The Monitoring Officer also stated that there was now regular review of funding envelopes for capital projects which were being reported to Cabinet, as well as quarterly reports on capital projects which would be delivered to Cabinet by Capital Board and other ICBs, the first of which would take place in December.

Officers agreed that, to aid the committee in its duty to examine the progress and effectiveness of the process involved, they would list the 12 recommendations against Red Amber Green (RAG) ratings.

RESOLVED, to:

Consider and comment on the Report in the Public Interest concerning the refurbishment of Fairfield Halls Action Plan Update which is attached as Appendix 1.

*Clerk's note: Councillors Brew and Denton exited the meeting at 7.57 pm.

15/22 **Treasury Management Strategy Statement and Annual Investment Strategy End of Year Review 2021/22**

Matt Hallett, Interim Head of Treasury and Pensions, summarised the report stating that at the end of the year the council had just over £300million in short-term debt, which was to be repaid as much as possible. Officers reassured members that the rise in interest rates would not make a huge impact on the budget as a lot of the debt had been

refinanced in the short-term, and that the best strategy at the moment was to repay the debt. Officers explained that in order to do this the council was identifying assets that could be sold.

Officers assured members that the asset disposal programme which had been in place for the last couple of years had identified a significant numbers of asset receipts, but that officers would wait until the Opening the Books exercise was completed so that the council had a firmer picture of projections and risks.

RESOLVED, to:

1.1 Note the contents of the report.

16/22

Corporate Risk Report

Malcolm Davies, Head of Insurance, Anti-Fraud and Risk, summarised to the committee that corporate risk referred to any risk stopping the organisation from meeting its objectives, of which the council currently had 35. Officers also explained that risk was rated by the impact it had on the organisation, and the level of severity and likelihood that risk held.

The Chair informed the committee that there was an opportunity for deep-diving areas where it felt risk rating was not improving or remained high, and to suggest recommendations based on that exercise. Members suggested it would be helpful for officers to include comments within the report to give reassurance that risk was being reviewed and the justification for any movement in risk ratings, to which officers responded that there was an intention to include robust improvement plans. The Chair agreed that commentary on the movement of risk ratings would support members' understanding of the process and provide reassurance that risk was being monitored. Officers agreed to put an arrow or other indicator of the direction of travel of risk next to items to help members identify improvement and decline.

The Chair asked members to send him their suggestions by email, and officers agreed to include new and emerging risks to the register.

RESOLVED, to:

Note the contents of the corporate risk register as at October 2022.

The meeting ended at 8.28 pm

Date of meeting	Agenda item	Officers
24-Nov-22	Internal Audit update report Treasury Management Mid-Year Review 2022-23 Anti-Fraud Update Financial Performance Report Review of Governance and Assurance Arrangements for significant partnerships or collaborations Zurich Risk Framework Review	Head of Internal Audit Head of Pensions and Treasury Head of Fraud, Risk and Insurance Director of Finance Peter Mitchell Malcolm Davies
19-Jan-23	Fusion Implementation Update Annual Governance Statement Assurance Mapping Review Review of the MTFS January Cabinet Report Report in the Public Interest Action Plan - Progress Update Quarterly report on whistleblowing activity Audit report 2019-20 Update on Independent Member recruitment	S151 Officer Monitoring Officer Monitoring Officer S151 Officer Monitoring Officer Monitoring Officer S151 Officer Adrian May
02-Feb-23	Financial Recovery and Sustainability review Budget Monitoring Review Risk Deep Dive Audit 2020-21 progress report Internal Audit update report Corporate Risk Register	S151 Officer Nish Popat Malcolm Davies S151 Officer Head of Internal Audit Head of Fraud, Risk and Insurance
02-Mar-23	Audit Charter Strategy and Plan Report in the Public Interest (Fairfield Halls) Action Plan - Progress Update Anti-Fraud Update Audit Committee Draft Annual Report Opening the Books review 2023/24 Budget	Head of Internal Audit Monitoring Officer Head of Fraud, Risk and Insurance Chair S151 Officer S151 Officer
	Internal Audit update report Corporate Risk Register	Head of Internal Audit Head of Fraud, Risk and Insurance

20-Apr-23

Annual and Quarterly reports on whistleblowing activity
External Auditor's Annual Assessment Report in the Public Interest (Governance) Action Plan - Progress Update

Monitoring Officer
External Auditor
Monitoring Officer

Audit and Governance Committee Action Log 2022-23

Date of meeting	Action	Agenda ref.	Deadline	Progress
13 October 2022	Officers separate operational budgeting and financial variances	11/22	By next Budget Monitoring report	Officers plan to incorporate this additional analysis i.e., showing separately the impact of unbudgeted balance sheet movements, from the Month 7 financial monitoring report.
13 October 2022	Officers include wording in the report about context around the process and consultation with the Assurance and Improvement Panel	11/22	As above	Reference is made to the process with the Assurance and Improvement Panel in the monthly monitoring reports. However, the report to Cabinet on 30 November 2022 covering the Medium Term Financial Strategy will go into more detail on the engagement with the Assurance and Improvement Panel.
13 October 2022	Chair requested an update on the plan to move out of the Limited level of assurance – actions to be included in the Annual Governance Statement	12/22	24 November	
13 October 2022	Officers to include RAG ratings against the 12 RIPI recommendations	14/22	By next report	
13 October 2022	Officers to include commentary on the movement of risk ratings to support members’ understanding of the process – arrow indicator to be included to show the direction of travel risk had moved	16/22	By next report	

Completed Actions

Date of meeting	Action	Deadline	Progress	

Agenda Item 5

REPORT TO:	AUDIT AND GOVERNANCE COMMITTEE 14 November 2022
SUBJECT:	Internal Audit Update Report to 30 October 2022
LEAD OFFICER:	Dave Phillips, Interim Head of Internal Audit
CABINET MEMBER:	Councillor Jason Cummings Cabinet Member for Finance
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT: Internal Audit's work helps the Council to improve its value for money by strengthening financial management and supporting risk management. Strengthening value for money is critical in improving the Council's ability to deliver services which, in turn helps the Council achieve all its visions and aims. The external auditor relies on the work from the internal audit programme when forming opinions and assessments of the Council's performance.	
FINANCIAL IMPACT The Internal Audit contract for 2022/23 is a fixed price contract of £368k and appropriate provision has been made within the budget for 2022/23.	

1. RECOMMENDATIONS

- 1.1 The Committee is asked to note the Internal Audit Report to 30 October 2022 (Appendix 1).

EXECUTIVE SUMMARY

- 2.1 This report details the work completed by Internal Audit so far during 2022/23 and the progress made in implementing recommendations from audits completed in previous years.

3. DETAIL

- 3.1 The Internal Audit report (Appendix 1) includes the following:
- a list of all audits completed so far in 2022/23, including audits relating to prior audit plans, but finalised after the start of the current year, and
 - lists of follow up audits completed and the percentage of priority one, and other audit recommendations implemented.
- 3.2 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the Full Council through the Audit and Governance Committee and the Chief Financial Officer (also known as the Section 151 Officer). It also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.
- 3.3 Of the 5 Internal Audit reports finalised since the Head of Internal Audit Report, 2 (40%) are limited or no assurance.

4. FOLLOW-UP REVIEWS

- 4.1 When Internal Audit identifies risks, recommendations are made and agreed with service managers to mitigate these. The Council then needs to ensure that action is taken to implement audit recommendations. The Council's targets for audit recommendations implemented are 80% for all priority 2 and 3 recommendations and 90% for priority 1 recommendations. The performance in relation to the targets for 2017/18 to 2021/22 audits are shown Table 1.

Table 1: Implementation of Audit Recommendations

	Target	2017/18	2018/19	2019/20	2020/21	2021/22
Implementation of priority one recommendations at follow-up	90%	100%	98%	94%	69%	50
Implementation of all recommendations at follow-up	80%	91%	93%	90%	81%	76

5. PROGRESS AGAINST THE AUDIT PLAN

- 5.1 By 30 October 2022 **33%** (35% last year) of the 2022/23 planned audit days had been delivered and **10%** (12% last year) of the draft audit reports due for the year had been issued. The contractor is confident that the audit plan will be delivered by 31 March 2024.

6. FINALISED INTERNAL AUDIT REPORTS

6.1 All finalised internal audit reports are published on the Council's public internet site and these can be found at:

<https://www.croydon.gov.uk/democracy/budgets/internal-audit-reports/introduction>

6.2 In addition, the tables below set out the priority 1 and 2 issues identified at each audit finalised since the last update report to this committee. (Please note that, although some of these audits were included in the annual Head of Internal Audit Report in September 2021, these have been included here as the Committee would not have seen the breakdown of the priority 1 and 2 issues for these.)

6.3

Out of Borough Adult Social Care Placements (Limited Assurance)
Priority 1 Issues <ul style="list-style-type: none">The Council did not have a process to communicate with and notify the host authorities for out of borough placements
Priority 2 Issue <ul style="list-style-type: none">For the one safeguarding concern relating to an out of borough placement reported April 2020 to July 2021 we were unable to evidence the actions to review and mitigate this safeguarding concernExamination of the records held for a sample of five out of borough placements found that in two cases there was delay in the approval of funding by the Funding Panel and Head of Service and that only two (of the three due) annual reviews had been completed.The 'Out of Area Services' and 'Generic Placement Process' standard operating procedures were last updated for 2015-2017 and since then had not been reviewed and updated to align with the current process.Discussion with the Head of Service for Adult Social Care established that the Council did not have a process to prepare the required contingency plans for clients placed out of the borough.

6.4

Croydon Affordable Homes – Taberner House Contract Management (Limited Assurance)
Priority 1 Issues <ul style="list-style-type: none">We asked for but were not provided with any evidence of how Hub Residential Limited was chosen as the developer for the Taberner House siteWe asked for but were not provided with payment requests submitted by Taberner House LLP to the Council in respect of the

development/construction costs of the Taberner House site.

- We could not be provided with a budgetary control statement monitoring development/construction costs of the Taberner House site
- The December 2020 cost centre summary spreadsheet (budget monitoring CAH Management) for Croydon Affordable Homes did not include a current budget and subjective code breakdown and therefore variance analysis against budgeted figures. We acknowledge we were informed that a full budget will be set for the financial year 2021-22.

Priority 2 Issues

- A copy of the First Supplemental to the Conditional Sale of Agreement could not be located in the Council's SharePoint website
- Valuation recommendations and payment notices numbered 26 to 28 could not be located in the Council's SharePoint site.

6.5

Long Term Sick and Maternity Leave (Limited Assurance)

Priority 1 Issues

- Risk assessments were not evidenced as completed for eight out of a sample of ten employees tested from the maternity leave group.

Priority 2 Issue

- Attendance review meetings were not evidenced as held for seven out of a sample of ten employees returning from sick leave.
- Return to work forms were not completed for 11 out of a sample of 15 employees tested.
- Medical certificates were not saved for ten out of a sample of 15 employees tested.

6.6

Right to Work Checks (Substantial Assurance)

No Priority 1 Issue

- There was a lack of evidence that copies of documents obtained when conducted RTW checks had been properly verified in line with Home Office requirements.

Priority 2 Issue

- Training for HR recruitment staff members on the revised RTW checks required for EEA nationals and Swiss Citizens from 1 July 2021 had not yet been provided.

6.7

End to end Placement Process (including disabilities) (Substantial Assurance)
No Priority 1 Issues
<p>Priority 2 Issues</p> <ul style="list-style-type: none"> • Testing of a sample of 25 cases found two instances with delays (in excess of five months) in finalising Child & Family Assessments, of which one was still in draft form at the time of the audit. • Testing of a sample of 25 cases found three instances where Child in Need reviews were not undertaken at the expected intervals, of which the longest interval without review was 11 months. • Testing the five instances, where the provision of a care package was agreed from the sample of 25 cases, found that there were issues with the timeliness of the set-up of payments in two cases.

6.8

Contract Management – Health and Work programme (Substantial Assurance)
No Priority 1 Issues
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • We asked for but could not be provided with a ‘master listing’ / ‘register’ of any ‘service’ complaints for the 2020 financial year to date. Additionally, review of the June, September, December 2019 and February 2020 MI reports that contained Reed's performance against the service standards noted that these reports did not indicate whether the complaints received by Reed had been responded to within the timeline stated in the complaints procedure

6.9

Capital Budgeting and Treasury Management (No Assurance)
No Priority 1 or 2 Issues
<ul style="list-style-type: none"> • Lack of engagement prevented audit from progressing

6.10

Parking Enforcement: Pay and Display (Limited Assurance)
Priority 1 Issue
<ul style="list-style-type: none"> • The contract with cash collector, BDI Securities, was not provided during the audit. We were therefore unable to complete relevant testing and deliver the agreed scope for this audit.

Priority 2 Issues

- The Reconciliation Policy is out of date alongside a lack of segregation when preparing and reviewing/ approving reconciliations of the cash collected by the contractor and the Council's system.
- Lack of supporting evidence regarding one of the selected samples for the testing of refunds paid to customers

6.11

Service Based Budget Monitoring: Across the Organisation (Limited Assurance)**No Priority 1 Issues**

- There is a lack of guidance and training provided to budget holders in relation to budget setting and monitoring processes
- Based on interviews, 29% of the Budget Managers did not believe that they had sufficient financial information to discharge their duties. In addition, 57% of the Budget Managers suggested that timely financial information was not provided prior to any significant impact on their budget.

Priority 2 Issue

- 14% of the sample of Budget Managers interviewed did not know of the budget setting timetable along the appropriate level of input required.
- 14% of Budget Managers interviewed did not feel that they had appropriate consultations with the Central Finance Team prior to ratification of the budget.
- Agenda and actions arising from (monthly or quarterly) meetings between Budget Manager and Finance are not documented for future reference.

6.12

Food Safety (Limited Assurance)**Priority 1 Issue**

- Insufficient food safety inspections had been conducted (based on figures at 25 February 2022) during 2021/22 to meet the requirements of the FSA Code

Priority 2 Issue

- Sample testing highlighted that food safety inspections were not being carried out in a timely manner

6.13

Community Fund Contracts (Limited Assurance)
<p>Priority 1 Issue</p> <ul style="list-style-type: none"> Signed contracts were not held for two of the sample of five organisations tested. Both organisations receive funds in excess of £15k per annum and despite having no signed contract funds had been released to both of these organisations
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> Contract monitoring meetings with grant recipient organisations were not recorded/minuted. Evidence of appropriate KPIs being set and monitored or end of project reports were not provided for three of the sample of ten grants selected.

6.14

Information Management (Limited Assurance)
<p>Priority 1 Issue</p> <ul style="list-style-type: none"> The Information Asset Registers (IAR) were not subject to regular review.
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> The Information Management Team did not review consent records.

6.15

HRA Accounting (Limited Assurance)
<p>Priority 1 Issue</p> <ul style="list-style-type: none"> A lack of evidence existed to verify that discrepancies in reconciliations between the HRA Control Cash and the Ohms Cash Balance were being investigated and resolved Examination of the HRA recharges identified that the basis for calculating the recharges to the General Fund had not been reviewed in the current year. It was unclear from evidence retained when the last review was completed
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> A review of the HRA Business Plan and the associated documentation found that performance against the business plan was not being evidenced as monitored and reviewed.

6.16

Fees and Charges (Limited Assurance)
Priority 1 Issue <ul style="list-style-type: none">• Fees and charges were not reviewed during 2019/20 and 2020/21• Testing a sample of 152 fees and charges (out of 970) confirmed that proposed charges for 2021-22 had not been applied for 45 of these on the Council's website
Priority 2 Issues <ul style="list-style-type: none">• There was a lack of an overarching policy or procedure notes relating to fees and charges.• Internal Audit was unable to confirm whether 15 of the sample of 21 fees and charges (out of 970 fees and charges) were supported by an adequate information base for cost attribution because the named Lead Officers did not respond to Internal Audit's requests for evidence.• Although requested, we were not provided with evidence of an action plan in response to the findings from the LG Futures benchmarking of fees and charges against other London local authorities.• There was incomplete information in the master data listing for fees and charges.

6.17

Leasehold Service Charges (Limited Assurance)
Priority 1 Issue <ul style="list-style-type: none">• An error was identified in the 2021/22 service charge calculation relating to the repairs and maintenance element of the service charge.
Priority 2 Issue <ul style="list-style-type: none">• The departmental policy and procedures need to be reviewed and updated to reflect current practice and legislation.• Webforms and guidance was unavailable for leaseholders wanting to raise comments, complaints and complements.• Service charge calculations were only reviewed by a junior officer and evidence of this check was not recorded• The major works consultation process was not available to leaseholders on the Council's website.

6.18

Business Rates and Business Grants (Substantial Assurance)
No Priority 1 Issues

<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • Monthly reconciliations between Northgate and General Ledger were not being undertaken.
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6.19

UASC – Value for Money (Substantial Assurance)
No Priority 1 Issues
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • Two instances were observed (from a sample of 33 payments towards placement of UASC) where payments for emergency clothing were not supported by receipts and prior agreement. • Two instances were observed (from a sample of 12 payments to travel providers) where parking tickets totalling £120 were invoiced to (and paid by) the Council despite not being obliged to pay for parking tickets.

6.20

Youth Offending (Substantial Assurance)
No Priority 1 or 2 Issues

6.21

Children with Disabilities - Placement Costs and Spend Review (Substantial Assurance)
No Priority 1 Issues
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • The Head of Social Work with Families and Children with Disabilities (CWD) did not consistently obtain and review monthly budget performance reports.

6.22

CALAT (Croydon Adult Learning and Training) - Income generation and controls (Substantial Assurance)
No Priority 1 Issues
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • Examination of the payments due for a sample of ten learners found that three had only been paid after the corresponding courses commenced.

6.23

Traffic Management (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issue <ul style="list-style-type: none">• Sufficient evidence was not maintained of inspections.

6.24

Pension Improvement Plan (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issue <ul style="list-style-type: none">• The frequency of updates to the Pensions Committee and Board on the targets within the improvement plan was only on an annual basis.

6.25

Reserves: General and Earmarked (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issue <ul style="list-style-type: none">• Evidence of a Reserves Policy was not made available to Internal Audit.

6.26

Community Equipment Service - Governance (Full Assurance)
No Priority 1 or 2 Issues

6.27

Housing Rents: Service Charge Calculations - (Tenant Service Charge) (Substantial Assurance)
No Priority 1 or 2 Issues

6.28

Saffron Valley Collegiate (Full Assurance)
No Priority 1 or 2 Issues

6.29

Purley Nursery School (Substantial Assurance)
No Priority 1 Issues
<p>Priority 2 Issues</p> <ul style="list-style-type: none"> • Only one reference was held by the school for one (a meal supervisor) of the three new starters sampled. • Evidence of appropriate medical clearance was not provided by the school for any of the sample of three new starters. • Examination of the supporting documents for a sample of 15 purchases found that six payments had purchase orders dated after the corresponding invoices. • Examination of the completed 'Croydon Schools Health & Safety Questionnaire' by the school noted some 'red' and 'amber' status areas, which the school will need to address

6.30

Beaumont Primary School (Substantial Assurance)
No Priority 1 Issues
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • A checklist of the various responsibilities and duties under current health and safety legislation (as these relate to the maintenance, statutory compliance and repair upkeep of school buildings) was reviewed as part of the audit. Whilst it was evidenced through completion of the checklist by the school that a good overall level of compliance was reported, some gaps were noted.

6.31

Elmwood Junior School (Substantial Assurance)
No Priority 1 Recommendations
<p>Priority 2 Recommendation</p> <ul style="list-style-type: none"> • The Headteacher's pay was not reviewed by 31 December 2020 as required.

6.32

Gresham Primary School (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issues

<ul style="list-style-type: none"> • Sample testing of 15 purchases identified that that there were four cases where purchase orders were not raised in advance of the corresponding invoices and there was no evidence available to demonstrate urgency • Sample testing of 15 purchases identified that for 5 purchases, a goods check was not evidenced • The Data Mapping Register has several incomplete fields • Review of the school health & safety questionnaire completed by the school identified that, while the school had a good level of compliance, some gaps in compliance existed.
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6.33

Howard Primary School (Substantial Assurance)
No Priority 1 Issue
Priority 2 Issue <ul style="list-style-type: none"> • The school submitted a complete Health and Safety questionnaire. This identified some gaps in the school’s compliance with Health and Safety requirements, relating to the lack of a glazing risk assessment, an inspection testing regime for work equipment not being in place and having the pressure systems serviced.

6.34

Rockmount Primary School (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issues <ul style="list-style-type: none"> • The school did not have a formal 3-to-5-year finance strategy. • Internal audit reviewed the Health and Safety checklist which confirmed that, although general risk assessment is in place, the school did not have a Glazing Risk Assessment or Traffic Management Plan.

6.35

St John’s C of E School (Substantial Assurance)
No Priority 1 Issues
Priority 2 Issues <ul style="list-style-type: none"> • The Terms of Reference for the Policy and Finance Committee were out of date and not consistent with the Finance Policy • Some Disclosure and Barring Service (DBS) checks for governors

were not requested within 21 days of their appointment.

7. CONSULTATION

- 7.1 The outcome of all audit work is discussed and agreed with the lead service managers. The final reports and audit recommendations are sent for consideration by Departmental Leadership Teams (DLT). Details are circulated and discussed with Directors on a regular basis.

8. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 8.1 The fixed price for the Internal Audit Contract is £368k for 2022/23 and there is adequate provision within the budget. The Finance team will need to ensure recommendations flagged by the internal audit are implemented to build a robust and efficient finance function.
- 8.2 In light of the recent financial challenges faced by the Council the finance function is engaging with Internal Audit to ensure the Council acts upon its recommendations to improve financial management and value for money.

Approved by Lesley Shields, Head of Finance for Assistant Chief Executive and Resources on behalf of the Director of Finance.

9. LEGAL CONSIDERATIONS

- 9.1 The Head of Litigation & Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Council should be taking steps to improve the Assurance level within the Council.
- 9.2 Information provided in this report is necessary to demonstrate the Council's compliance with requirements imposed by Regulation 5 of the Accounts and Audit Regulations 2015. The Council is required 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 or guidance.
- 9.3 The Committee should also note the Council are under a duty (s3(1) Local Government Act 1999) as a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 9.4 When undertaking its Audit functions this Committee's role includes the following responsibilities:
- Oversee internal and external audit, helping to ensure that efficient and effective assurance arrangements are in place
 - To review (but not direct) internal audit's risk-based strategy, plan and resource requirements
 - To review summary internal audit reports and the main issues arising and

- seek assurance that action has been taken where necessary
- To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

9.5 In considering the recommendation in this report the Committee should have regard to the Council's overall governance and financial position.

9.6 The contents of this report, and of the Internal Audit Report 1st April 2022 to October 2022 should be carefully considered, in particular in relation to those Audits where the Assurance Level is Limited, and in relation to the implementation of recommendations.

Approved by: Sandra Herbert, Head of Litigation & Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer.

10. HUMAN RESOURCES IMPACT

10.1 There are no immediate human resources issues arising from this report for LBC employees or staff. Should any issues arise, these will be managed through the Council's relevant HR policies and procedures.

Approved by: Gillian Bevan, Head of HR Resources and Assistant Chief Executives on behalf of the Chief People Officer

11. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS

11.1 When Internal Audit is developing the Annual Audit Plan or individual audit programmes the impacts of the issues above are considered depending on the nature of the area of service being reviewed. Issues relating to these impacts would be reflected in the audit reports and recommendations.

12. DATA PROTECTION IMPLICATIONS

12.1. **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

No.

12.2. There are no immediate data protection issues arising from this report.

CONTACT OFFICER: Dave Phillips, Interim Head of Internal Audit

BACKGROUND DOCUMENTS: Internal Audit report for the period to 30 October 2022 (appendix 1)

London Borough of Croydon

Internal Audit Report

1st April 2022 to October 2022

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 6 of this report for further information about responsibilities, limitations and confidentiality.

1. Internal Audit Performance

- 1.1 The 2022/23 internal audit plan was approved by the Audit and Governance Committee on 7 July 2022 and work in delivering the internal audit plan is now well underway.
- 1.2 As reported in the annual Head of Internal Audit report to the Audit and Governance Committee (at the meeting held on 13 October 2022) the prior year audit plans were critically reviewed in quarter 4 of 2021/22. This was to help minimise the impact on delivery of the 2022/23 audit plan from slippage from prior year audit plans. All 2020/21 and 2021/22 year audit draft reports are now issued, although work is still ongoing to finalise some of these.

2. Audit Assurance

- 2.1 Internal Audit provides four levels of assurance as follows:

Full	The systems of internal control are sound and achieve all systems objectives and that all controls are being consistently applied.
Substantial	The systems of internal control are basically sound, there are weaknesses that put some of the systems objectives at risk and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited	Weaknesses in the systems of internal control are such as to put the systems objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No	The system of internal control is generally weak leaving the system open to significant error or abuse and /or significant non-compliance with basic controls leaves the system open to error or abuse.

- 2.2 The table below lists the internal audits for which final reports were issued from 1 April to October 2022. Some of these reports were also included in the annual Head of Internal Audit Report. Details of the key issues arising from these reports are shown in Appendix 1.

Internal Audit Title	Assurance Level	Planned Year	Included in the annual Head of Internal Audit Report √ / X
Non-School Internal Audits			
Out of Borough Adult Social Care Placements	Limited	2020/21	√
Croydon Affordable Homes – Contract Management	Limited	2020/21	√
Long Term Sick and Maternity Leave	Limited	2020/21	√

Internal Audit Title	Assurance Level	Planned Year	Included in the annual Head of Internal Audit Report √ / X
Right to Work Checks	Limited	2020/21	X
End to end Placement Process (including disabilities)	Substantial	2020/21	√
Contract Management – Health and Work programme	Substantial	2020/21	√
Capital Budgeting and Treasury Management	No	2021/22	√
Parking Enforcement: Pay and Display	Limited	2021/22	√
Service Based Budget Monitoring: Across the Organisation	Limited	2021/22	√
Food Safety	Limited	2021/22	√
Community Fund Contracts	Limited	2021/22	√
Information Management	Limited	2021/22	√
HRA Accounting	Limited	2021/22	√
Fees and Charges	Limited	2021/22	√
Business Rates and Business Grants	Substantial	2021/22	√
UASC – Value for Money	Substantial	2021/22	√
Youth Offending	Substantial	2021/22	√
Children with Disabilities - Placement Costs and Spend Review	Substantial	2021/22	√
CALAT - Income generation and controls	Substantial	2021/22	√
Traffic Management	Substantial	2021/22	√
Pension Improvement Plan	Substantial	2021/22	√
Reserves: General and Earmarked	Substantial	2021/22	X
Community Equipment Service - Governance	Full	2021/22	√
Contract Management - Health and Work Programme (2019/20 audit)	Substantial	2021/22	X

Internal Audit Title	Assurance Level	Planned Year	Included in the annual Head of Internal Audit Report √ / X
Housing Rents: Service Charge Calculations - (Tenant Service Charge)	Substantial	2022/23	X
Leaseholder Service Charge	Limited	2022/23	X
School Audits			
Saffron Valley Collegiate	Full	2021/22	√
Purley Nursery School	Substantial	2021/22	√
Beaumont Primary School	Substantial	2021/22	√
Elmwood Junior School	Substantial	2021/22	√
Gresham Primary School	Substantial	2021/22	√
Howard Primary School	Substantial	2021/22	√
Rockmount Primary School	Substantial	2021/22	√
St John's C of E School	Substantial	2021/22	√

3. Follow-up audits – effective resolution of recommendations/issues

- 3.1 During 2022/23 in response to the Council's follow-up requirements, Internal Audit has continued following-up the status of the implementation of agreed actions for audits carried out during 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22. There are no follow-up audits due for 2022/23 as yet.
- 3.2 Follow-up audits are undertaken to ensure that all the recommendations/issues raised have been successfully implemented/resolved according to the action plans agreed with the service managers. The Council's target for internal audit recommendations/issues to be resolved at the time of the follow-up audit is 80% for all priority 2 & 3 recommendations/issues and 90% for priority 1 recommendations/issues.

Performance Objective	Target	Performance (to date)				
		2017/18	2018/19	2019/20	2020/21	2021/22
Percentage of priority one actions implemented at the time of the follow up audit	90%	100%	98%	94%	69%	50%

Percentage of all actions implemented at the time of the follow up audit	80%	91%	93%	90%	81%	76%
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- 3.3 In order to help progress long outstanding and significant agreed actions arising from internal audits, a series of ‘audit focus’ workshops have been set up by the Corporate Management Team. The first such meeting was held on 19 January 2022 and these have been subsequently ongoing.
- 3.4 The results of those for 2017/18, 2018/19, 2019/20,2020/21 and 2022/23 audits that have been followed up are included in Appendixes 2, 3, 4, 5 and 6 respectively.
- 3.4 Appendix 2 shows the one incomplete 2017/18 follow-up audit. For 2017/18 91% of the total recommendations/issues were found to have been implemented and 100% of the priority 1 recommendations/issues which have been followed up have been implemented.
- 3.5 Appendix 3 shows the incomplete 2018/19 follow-up audits undertaken to date and the number of recommendations/issues raised and implemented. 93% of the total recommendations/issues were found to have been implemented and 98% of the priority 1 recommendations/issues which have been followed up have been implemented. The outstanding priority 1 recommendation/issue is detailed below:

Audit Title	Assurance Level	Summary of recommendations/issues arising in outstanding priority 1 recommendations/issues
Energy Recharges	No	<p>A priority 1 issue was raised as no energy costs for 2017/18 had been invoiced and some were still outstanding for 2016/17 amounting to over £4m. In addition, no costs had yet been invoiced for 2018/19.</p> <p><u>Current position:</u></p> <p>The response to the follow up detailed that, ‘Provision has now been made in the 19/20 accounts for c£4.5m as it is clear that the previously stated debt of £6.5m is incorrect. This provision is against debt up to 18/19 and invoicing post this date has not been made.</p> <p>A process has been agreed for tackling the schools debt and work is underway to engage additional resource to help deal with this.’</p>

- 3.6 Appendix 4 shows the 2019/20 follow-up audits undertaken to date and the number of recommendations/issues raised and implemented. 90% of the total recommendations/issues were found to have been implemented and 94% of the priority 1 recommendations/issues which have been followed up have been implemented. The outstanding priority 1 recommendations/issues are detailed below:

Audit Title	Assurance Level	Summary of recommendations/issues arising in outstanding priority 1 recommendations/issues
Lettings Allocations and Assessments	Limited	<p>A priority 1 issue was raised as the application forms (on line and in hardcopy) in use were not compliant with the Data Protection Act 2018 or the General Data Protection Regulation.</p> <p><u>Current position:</u></p> <p>A new Head of Service is now in place. Her response to the follow up was that, ‘I will speak to digital and information services as well as interim operational manager to find out where we are with this and update with my findings and hopefully sign off.’</p>

Audit Title	Assurance Level	Summary of recommendations/issues arising in outstanding priority 1 recommendations/issues
Wheelchair Service – Community Equipment Service	Limited	<p>A priority 1 issue was raised as the follow up of the recommendations raised in the 2017 ad hoc report identified that the recommendation relating to the BACs files being open to amendment had still not been implemented, meaning that any of the BACs payments during the last 2 years may have been manipulated. As about £1m of payments is made per month, this is a significant issue.</p> <p><u>Current position October 2022</u></p> <p>Actively working on completing all activities included in the timeline, this comes on top of normal BAU activities making it really challenging.</p> <p>The first payment run using the new process is expected to be done in W/C 7/11/22.</p> <p>(Please note: The 2022-23 Internal Audit Plan includes an audit 'CES Banking Compliance' which will supersede this issue.)</p>
Enforcement Agents - Procurement	No	<p>A priority 1 issue was raised as an individual scoresheet and the record of moderation are missing for the tender evaluation of January 2018.</p> <p>Contemporaneous records of the reasons and reasoning for the allocation of scores in moderation for both lots of the tender evaluations of August 2019 could not be provided. Attempts have also been made to recreate the reasons and reasoning at a later date.</p> <p><u>Current position May 2022</u></p> <p>No change. The review and update of the Procurement handbook is within the Procurement Improvement Plan, and the person that will undertake this has only just started with the Council.</p> <p>A priority 1 issue was raised as a number of formal agreements extending the arrangements with the service providers could not be provided.</p> <p><u>Current position</u></p> <p>The commissioning framework and procurement handbooks have not yet been reviewed. This is in our project pipeline for Q1/Q2 of 2021/22.</p> <p>Pending this, we are undertaking additional management action, such as:</p> <ul style="list-style-type: none"> • introducing bite-size training sessions to provide additional training and support for procurement officers – the first session covering Procurement Do's and Don'ts. • increased oversight at CCB • Improved Quality Assurance of award reports, with weekly pre-meets in advance of CCB with Head of Commissioning and Procurement and legal services.

3.7 Appendix 5 shows the 2020/21 follow-up audits undertaken to date and the number of recommendations/issues raised and implemented. 81% of the total recommendations/issues were found to have been implemented and 69% of the priority 1 recommendations/issues which have been followed up have been implemented. The outstanding priority 1 recommendations/issues are detailed below:

Audit Title	Assurance Level	Summary of outstanding recommendations/issues arising in priority 1 recommendations/issues
Creditors – Procure to Pay	Limited	<p>Priority 1 issues were raised as:</p> <ul style="list-style-type: none"> • Examination of the documentation retained for a sample of 17 transactions identified that for five of these the order was raised either after delivery or after the invoice date. • Examination of the documentation retained for a sample of 17 transactions identified that for four of these the goods or services received check preceded actual delivery.

Audit Title	Assurance Level	Summary of outstanding recommendations/issues arising in priority 1 recommendations/issues
		<ul style="list-style-type: none"> Examination of the documentation retained for a sample of 17 transactions identified that five of the invoices included client names (including children in care) thus potentially breaching the Data Protection Act 2018. As at 28 September 2020 the Council had invoices totalling £25,757,492 on hold, of which £7,220,978 related to previous financial years (i.e. 2019/20 and prior) with oldest invoice on hold dating 8 May 2014. <p><u>Current position:</u> A working party chaired by the Assistant Chief Executive was set up in August 2022 to deal with the above and other issues ranging from supplier set up through to the payment of invoices. This working party meets monthly.</p>
Clinical Governance	Limited	<p>A priority 1 issue was raised as there was no evidence of an overall clinical governance policy being in place for the Council and consequently the clinical governance framework and systems in place were unclear.</p> <p>Workshop being organised to coordinate pulling together all the relevant information to produce a clinical governance policy. Stakeholders include: Commissioners, Public Health, Designated Safeguarding leads, SWL CCG.</p> <p><u>Current position:</u> The last update provided in January 2022 was that, <i>'Draft document to be presented at Adult Social Care (ASC) SMT; with the recommendation that a task and finish group is established from the One Croydon Risk Working Group. This group will ensure that the LA policy is linked to other key partners/ stakeholders policies and procedures where joint working arrangements are in place for certain ASC services and PH contracts.'</i></p>
Temporary Accommodation: Standards in Private Sector	Limited	<p>Priority 1 issues were raised as:</p> <ul style="list-style-type: none"> Electrical, gas and energy certificates were not located for some of the sample of Croybond properties and most of the sample of Croylease properties checked. 'Decent Homes Inspection' reports were not available for eight of the sample of 15 property records checked. <p><u>Current position</u> An update provided in May 2022 detailed, for each of the above respectively, that:</p> <ul style="list-style-type: none"> <i>'The procedure has now been completed and is being rolled out to the team. The next step is to set up the checking procedure for the Quality team. A percentage of cases will be checked and any issues noted and reported back to the team and the manager. The cases will continue to be checked until the correct documentation is in place.'</i> <i>'The procedure has now been revised and the Quality team will now introduce periodic checks with the new Head of Service and team manager. Also discussed will be the periodic visits made to Croylease properties to check on any issues with the property which will then be reported through for any repairs issues noted.'</i> <p>Internal Audit has asked for confirmation of checks and visits being in place before closing this follow up.</p>
SEN Transport Safeguarding	Limited	<p>A priority 1 issue was raised as examination of a sample of ten contracts found that seven had not been evidenced as signed or dated, two contracts were signed but had not been dated and one contract could not be located on SharePoint.</p> <p><u>Current position:</u> The response provided in July 22 detailed that: <i>It hasn't been completed.</i> <i>It requires some fairly intricate financial analysis spanning 3 years, that then needs to be then forwarded to Procurement colleagues, and then sent to CCB for acknowledgement before there can be any movement.</i> <i>The whole issue is a fairly ridiculous set of self-reporting criteria which were set when this DPS was initiated, (and the Council was new to DPS) whereby we suggested that we would report quarterly to CCB, all of the contractor spend, broken down by contractor. In SEND transport this was never going to be practical as we were awarding around 600 DPS contracts per year, alongside approx. £10m spend.</i></p>

Audit Title	Assurance Level	Summary of outstanding recommendations/issues arising in priority 1 recommendations/issues
		<p><i>Without the CCB reports, the criteria we have set ourselves then stated that we would be unable to issue contracts as we hadn't followed these criteria with CCB, and therefore there have been no contracts issued to all DPS taxi companies since Round 3 of the DPS, around 3.5 years ago.</i></p> <p><i>We don't have to do the reporting (legally or via PCR), and were at the time already reporting the spend through a Board Structure which included Cllrs and Exec Directors, where the spend was being scrutinised on a monthly basis.</i></p> <p><i>Really, we should waiver the requirement to do this.</i></p> <p><i>Otherwise, I will need to produce a report as attached (I need to do 6 of these) and they are at the limit of my Excel Pivot skills, and therefore take me quite a lot of time to produce. With some finance resource, I estimate that this would only take around half a day to complete.</i></p>

3.8 Appendix 6 shows the 2021/22 follow-up audits undertaken to date and the number of recommendations/issues raised and implemented. 76% of the total recommendations/issues were found to have been implemented and 50% of the priority 1 recommendations/issues which have been followed up have been implemented. The outstanding priority 1 recommendations/issues are detailed below:

Audit Title	Assurance Level	Summary of outstanding recommendations/issues arising in priority 1 recommendations/issues
Information Management	Limited	<p>A priority 1 issue was raised as Information Asset Registers (IARs) were not subject to regular review.</p> <p><u>Current position:</u></p> <p>The response to the follow up in October 2022 detailed that, 'The DPO is reviewing this and starting to compile this information to ensure that the IAR is created and relevant.'</p> <p>(Please note: The 2022-23 Internal Audit Plan includes an audit 'The role of the DPO' which will supersede this issue.)</p>

Appendix 1: Summary from finalised audits of Key (Priority 1) issues

Year	Internal Audit Title	Assurance Level & Number of Issues	Summary of Key Priority 1 Issues Raised
Non-School Internal Audits			
2020/21	Out of Borough Adult Social Care Placements	Limited (One priority 1 and four priority 2 issues)	The Council did not have a process to communicate with and notify the host authorities for out of borough placements
2020/21	Croydon Affordable Homes – Taberner House Contract Management	Limited (Four priority 1 and two priority 2 issues)	Priority 1 issues were identified relating to: <ul style="list-style-type: none"> We asked for but were not provided with any evidence of how Hub Residential Limited was chosen as the developer for the Taberner House site We asked for but were not provided with payment requests submitted by Taberner House LLP to the Council in respect of the development/construction costs of the Taberner House site. We could not be provided with a budgetary control statement monitoring development/construction costs of the Taberner House site The December 2020 cost centre summary spreadsheet (budget monitoring CAH Management) for Croydon Affordable Homes did not include a current budget and subjective code breakdown and therefore variance analysis against budgeted figures. We acknowledge we were informed that a full budget will be set for the financial year 2021-22.
2020/21	Long Term Sick and Maternity Leave	Limited (One priority 1 and three priority 2 issues)	Risk assessments were not evidenced as completed for eight out of a sample of ten employees tested from the maternity leave group.
2020/21	Right to Work Checks	Limited (One priority 1, one priority 2 and one priority 3 issue)	There was a lack of evidence that copies of documents obtained when conducted RTW checks had been properly verified in line with Home Office requirements.
2021/22	Capital Budgeting and Treasury Management	No (No issues raised)	Lack of engagement prevented audit from progressing.
2021/22	Parking Enforcement: Pay and Display	Limited (One priority 1, two priority 2 and one priority 3 issue)	The contract with cash collector, BDI Securities, was not provided during the audit. We were therefore unable to complete relevant testing and deliver the agreed scope for this audit.
2021/22	Service Based Budget Monitoring Across the Organisation	Limited (Two priority 1 and three priority 2 issues)	Priority 1 issues were identified relating to: <ul style="list-style-type: none"> There is a lack of guidance and training provided to budget holders in relation to budget setting and monitoring processes Based on interviews, 29% of the Budget Managers did not believe that they had sufficient financial information to discharge their duties. In addition, 57% of the Budget Managers suggested that timely financial information was not provided prior to any significant impact on their budget.
2021/22	Food Safety	Limited (One priority 1 and one priority 2 issue)	Insufficient food safety inspections had been conducted (based on figures at 25 February 2022) during 2021/22 to meet the requirements of the FSA Code
2021/22	Community Fund Contracts	Limited	Signed contracts were not held for two of the sample of five organisations tested. Both organisations receive funds in excess of

Year	Internal Audit Title	Assurance Level & Number of Issues	Summary of Key Priority 1 Issues Raised
		(One priority 1, two priority 2 and one priority 3 issue)	£15k per annum and despite having no signed contract funds had been released to both of these organisations
2021/22	Information Management	Limited (One priority 1, one priority 2 and one priority 3 Issue)	The Information Asset Registers (IAR) were not subject to regular review
2021/22	HRA Accounting	Limited (Two priority 1, one priority 2 and two priority 3 issues)	Priority 1 issues were identified relating to: <ul style="list-style-type: none"> A lack of evidence existed to verify that discrepancies in reconciliations between the HRA Control Cash and the Ohms Cash Balance were being investigated and resolved Examination of the HRA recharges identified that the basis for calculating the recharges to the General Fund had not been reviewed in the current year. It was unclear from evidence retained when the last review was completed
2021/22	Fees and Charges	Limited (Two priority 1 and four priority 2 issues)	Priority 1 issues were identified relating to: <ul style="list-style-type: none"> Fees and charges were not reviewed during 2019/20 and 2020/21 Testing a sample of 152 fees and charges (out of 970) confirmed that proposed charges for 2021-22 had not been applied for 45 of these on the Council's website
2022/23	Leaseholder Service Charge	Limited (One priority 1, four priority 2 and two priority 3 issue.)	An error was identified in the 2021/22 service charge calculation relating to the repairs and maintenance element of the service charge

Appendix 2 - Follow-up of 2017-18 audits (incomplete follow ups only)

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Non School Internal Audits						
2017/18	Admitted Bodies (Response due 21/01/2022)	Resources	Substantial (5 th follow up in progress)	4	3	75%
Issues and resolution from internal audits that have had responses				431	392	91%
Priority 1 Issues from internal audits that have had responses				47	47	100%

Appendix 3 - Follow-up of 2018/19 audits (incomplete follow ups only)

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
2018/19	Energy Recharges	Resources	No (2nd follow up in progress)	7	4	57%
				One priority 1 issue not yet resolved		
2018/19	Air Quality Strategy, Implementation and Review	SCRER	Limited (6 th follow up in progress)	8	6	75%
2018/19	Council Investment and Operational Properties – Income Maximisation	Resources	Substantial (7 th follow up in progress)	4	3	75%
Issues and resolution from internal audits that have had responses				364	339	93%
Priority 1 Issues from internal audits that have had responses				51	50	98%

Appendix 4 - Follow-up of 2019/20 audits (incomplete follow ups only)

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Non School Internal Audits						
2019/20	Lettings Allocations and Assessments	Housing	Limited (3 rd follow up in progress)	3	1	33%
				One priority 1 issue not yet resolved		
2019/20	Placements in Private Housing Accommodation	Housing	Limited (4 th follow up in progress)	4	2	50%
2019/20	Wheelchair Service – Community Equipment Service	ASC&H	Limited (10 th follow up in progress)	3	2	67%
				One priority 1 issue not yet resolved		
2019/20	Freedom of Information and Subject Access Requests	ACE	Limited (4 th follow up in progress)	3	2	66%
2019/20	Enforcement Agents - Procurement	Resources	Limited (6 th follow up in progress)	6	3	50%
				Two priority 1 issues not yet resolved		
2019/20	IT Policies Review	ACE	Substantial (3 rd follow up in progress)	5	0	0%
2019/20	Uniform IT Application	ACE	Substantial (9 th follow up in progress)	4	1	25%
2019/20	Peoples ICT Application	ACE	Substantial (1 st follow up in progress)	7	4	57%
Non-School Internal Audits Sub Total: Issues and resolution from internal audits that have had responses				175	150	85%
Non-School Internal Audits Sub Total: Priority 1 Issues from internal audits that have had responses				38	34	89%
School Internal Audits						
Financial Year	Audit Followed up	Department	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2019/20	Winterbourne Nursery and Infant School	CYP&E	No (No further follow up)	22	22	100%
2019/20	Beulah Junior School	CYP&E	Limited (No further follow up)	14	13	93%
2019/20	Kenley Primary School	CYP&E	Limited (No further follow up)	11	10	91%
2019/20	Margaret Roper Catholic Primary School	CYP&E	Limited (No further follow up)	11	10	91%
2019/20	Minster Infant School	CYP&E	Limited (No further follow up)	16	13	81%
2019/20	Norbury Manor Primary School	CYP&E	Limited (No further follow up)	13	13	100%

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Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
2019/20	St Joseph's Federation	CYP&E	Limited (No further follow up)	14	13	93%
2019/20	Virgo Fidelis Convent Senior School	CYP&E	Limited (No further follow up)	19	19	100%
2019/20	Crosfield Nursery and Selhurst Early Years	CYP&E	Substantial (No further follow up)	8	7	87%
2019/20	All Saints C of E Primary School	CYP&E	Substantial (No further follow up)	12	12	100%
2019/20	Elmwood Infant School	CYP&E	Substantial (No further follow up)	6	6	100%
2019/20	Heavers Farm School	CYP&E	Substantial (No further follow up)	13	13	100%
2019/20	Selsdon Primary School	CYP&E	Substantial (2nd follow up in progress)	3	3	100%
School Internal Audits Sub Total: Recommendations and implementation from internal audits that have had responses				162	154	95%
School Internal Audits Sub Total: Priority 1 Recommendations from internal audits that have had responses				31	31	100%
Issues/Recommendations and resolution/implementation from internal audits that have had responses				337	304	90%
Priority 1 Issues/Recommendations from internal audits that have had responses				69	65	94%

Appendix 5 - Follow-up of 2020/21 audits

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Non School Internal Audits						
2020/21	Creditors – Procure to Pay	Resources	Limited (2 nd follow up in progress)	12	3	25%
				Four priority 1 issues not yet resolved		
2020/21	Banking	Resources	Limited (2 nd follow up in progress)	4	3	75%
2020/21	Overtime payments Limited Assurance with no priority 1 issues	Resources	Limited (No further follow ups))	5	5	100%
2020/21	Clinical Governance	ASC&H	Limited (4 th follow up in progress)	6	3	50%
				1 priority 1 issue not yet resolved		
2020/21	Disabled Facilities Grants	Housing	Limited (No further follow up)	4	4	100%
2020/21	Public Health – Contract Management – Sexual Health Services	ASC&H	Limited (No further follow up)	7	7	100%
2020/21	Temporary Accommodation – Standards in Private Sector (Update provided and being reviewed)	Housing	Limited (4 th follow up in progress)	6	1	17%
				2 priority 1 issues not yet resolved		
2020/21	Placement Deposits	CYP&E	Limited (No further follow up)	5	5	100%
2020/21	Overtime Payments – Parking Services	SCRER	Limited (No further follow up)	6	5	83%
2020-21	SEN Transport – Safeguarding (Update provided and being reviewed)	SCRER	Limited (5 th follow up in progress)	4	3	75%
				1 priority 1 issue not yet resolved		
2020/21	Long Term Sick and Maternity Leave	ACE	Limited (No further follow up)	4	4	100%
2020/21	New Supplier Set Up	ACE	Limited (No further follow up)	6	6	100%
2020/21	Right to Work Checks	ACE	Limited (3 rd follow up in progress)	3	2	66%
2020/21	Cyber Security	ACE	Limited (4 th follow up in progress)	9	4	44%
2020/21	Ordinary Residents	ASC&H	Substantial (No further follow up)	2	2	100%
2020/21	Blue Badges	ACE	Substantial (No further follow up)	4	4	100%
2020/21	Corporate Estate: Building Compliance	Resources	Substantial (4 th follow up in progress)	6	2	33%

Internal Audit Report April 2022 to October 2022

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Non-School Internal Audits Sub Total: Issues and resolution from internal audits that have had responses				93	63	68%
Non-School Internal Audits Sub Total: Priority 1 Issues from internal audits that have had responses				24	16	67%
School Internal Audits						
Financial Year	Audit Followed up	Department	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2020/21	Tunstall Nursery School	CYP&E	Substantial (No further follow up)	3	3	100%
2020/21	Thornton Heath Nursery School	CYP&E	No (No further follow up)	14	13	93%
2020/21	Forestdale Primary School	CYP&E	Substantial (No further follow up)	11	11	100%
2020/21	Greenvale Primary School	CYP&E	Substantial (No further follow up)	10	8	80%
2020/21	Purley Oaks Primary School	CYP&E	Substantial (No further follow up)	9	9	100%
2020/21	Smitham Primary School	CYP&E	Substantial	5	4	80%
2020/21	Winterbourne Nursery and Infants School	CYP&E	(No further follow up)	5	5	100%
2020/21	Archbishop Tenison's CofE High School	CYP&E	Limited (No further follow up)	11	10	91%
2020/21	Thomas More Catholic High School	CYP&E	Limited (2 nd follow up in progress)	14	13	98%
				1 priority 1 recommendation not yet implemented		
2020/21	St Giles	CYP&E	Substantial (No further follow up)	3	3	100%
2020/21	St Nicholas	CYP&E	Substantial (No further follow up)	7	6	86%
2020/21	Red Gates	CYP&E	Substantial (No further follow up)	5	5	100%
School Internal Audits Sub Total: Recommendations and implementation from internal audits that have had responses				97	90	93%
School Internal Audits Sub Total: Priority 1 Recommendations from internal audits that have had responses				5	4	80%
Issues/Recommendations and resolution/ implementation from internal audits that have had responses				190	153	81%
Priority 1 Issues/Recommendations from internal audits that have had responses				29	20	69%

Appendix 6 - Follow-up of 2021/22 audits

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Non School Internal Audits						
2021/22	Parking Enforcement – Pay and Display	SCRER	Limited (1 st follow up in progress)	4	-	-
2021/22	Service Based Monitoring – Across the Organisation	Resources	Limited (1 st follow up in progress)	5	-	-
2021/22	Community Fund: Contracts	ACE	Limited (No further follow up_	2	2	100%
2021/22	Information Management	ACE	Limited (3 rd follow up in progress	3	0	0%
				1 priority 1 issue not yet resolved		
2021/22	Business Rates and Business Grants	Resources	Substantial (1 st follow up in progress)	1	-	-
2021/22	Youth Offending	CYP&E	Substantial (No further follow up)	3	3	100%
2021/22	Traffic Management	SCRER	Substantial (1 st follow up in progress)	2	-	-
Non-School Internal Audits Sub Total: Issues and resolution from internal audits that have had responses				8	5	62%
Non-School Internal Audits Sub Total: Priority 1 Issues from internal audits that have had responses				2	1	50%
School Internal Audits						
Financial Year	Audit Followed up	Department	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2021/22	Downsview Primary	CYP&L	Substantial (No further follow up)	2	2	100%
2021/22	Gresham Primary	CYP&L	Substantial (No further follow up)	7	6	86%
School Internal Audits Sub Total: Recommendations and implementation from internal audits that have had responses				9	8	89%
School Internal Audits Sub Total: Priority 1 Recommendations from internal audits that have had responses				-	-	-
Issues/Recommendations and resolution/ implementation from internal audits that have had responses				17	13	76%
Priority 1 Issues/Recommendations from internal audits that have had responses				2	1	50%

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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Croydon Council

REPORT TO:	Audit and Governance Committee 24 November 2022
SUBJECT:	Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2022/23
LEAD OFFICER:	Jane West, Corporate Director of Resources (Section 151 Officer)
CABINET MEMBER	Councillor Jason Cummings Cabinet Member for Finance
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT/FINANCIAL SUMMARY:	
This Report details the Council's Treasury Management activities during the first half of 2022/23 and its compliance with the relevant codes of practice.	

1. RECOMMENDATION

- 1.1 The Committee are asked to note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 This Report is prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice in respect of capital finance and treasury management. The codes recommend that members are advised of treasury management activities of the first six months of each financial year and of compliance with various strategies and policies agreed by the Council. The report:

- Reviews compliance with the Treasury Management Strategy Statement (TMSS), Capital Strategy and Annual Investment Strategy as agreed by Council on 7 March 2022 (Minute 6/21 applies);
- Reviews treasury borrowing and investment activity for the period 1 April 2022 to 30 September 2022; and
- Demonstrates compliance with agreed Prudential Indicators.

3 DETAIL

3.1 Capital Strategy

3.1.1 In December 2017, CIPFA issued “The Prudential Code for Capital Finance in Local Authorities.” (“Prudential Code”) This requires all local authorities to prepare a Capital Strategy which is to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

3.2 Treasury management

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

3.2.2 The second main function of the treasury management service is the funding of the Council’s capital plans. These plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short- term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3.2.3 Accordingly, treasury management is defined as:

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

3.3 Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes

3.3.1 Also in December 2017 CIPFA published “Treasury Management in the Public Services: Code of Practice and Cross- Sectoral Guidance Notes” (“the Code”). This Report has been written in accordance with its requirements.

3.3.2 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the way in which the Council will seek to achieve those policies and objectives.

- Receipt by the full Council of an annual TMSS - including the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy - for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the designated body is the Audit and Governance Committee.

3.3.3 This mid-year report has been prepared in compliance with the codes and covers the following:

- An economic update for the first half of the 2022/23 financial year (Section 3.4);
- A medium-term interest rates forecast (Section 3.5)
- A review of the Council's TMSS and Annual Investment Strategy (Section 3.6);
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators (Section 3.7);
- A review of the Council's borrowing strategy (Section 3.8);
- A review of the Council's investment strategy and portfolio (Section 3.9);
- A review of any debt re-scheduling undertaken (Section 3.10).
- A review of compliance with Treasury and Prudential Limits (Section 3.11)

3.4 Economic update

3.4.1 A commentary provided by the Council's independent treasury advisers Link Asset Services (Link) in the first week of October 2022 is included as Appendix A.

3.5 Interest rate forecasts

3.5.1 Following the last Monetary Policy Committee meeting held on 1 November 2022, Link have updated forecasts of key interest rates as detailed in Table 1. These inform decisions as to the timing and duration of borrowing decisions. Base Rate is currently forecast to peak between June and December 2023.

Table 1 Interest rates forecast

Link Group Interest Rate View		08.11.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

3.5.2A commentary by Link is included as Appendix B.

3.6 Treasury Management Strategy Statement and Annual Investment Strategy

3.6.1 The TMSS and Annual Investment Strategy for 2022/23 were approved by full Council on 7 March 2022 (Minute 6/21 applies). No policy changes are recommended.

3.7 Capital Position and Prudential Indicators

3.7.1 The paragraphs in this section cover:

- The Council’s capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

3.7.2 Table 2 below shows the original capital budget as agreed by full Council on 7 March 2022 (Minute 6/21 applies) and the estimated outturn at month six.

Table 2 Capital expenditure by service

	Approved Budget £m	Outturn Projection £m
Adult Social Care and Health	1.7	-
Housing	3.5	3.6
Assistant Chief Executive	13.4	14.0
Children, Young People and Education	16.0	7.1
Sustainable Communities, Regeneration and Economic Recovery	37.0	31.6
Resources	11.4	12.0
Corporate	2.5	4.0
Capitalisation Direction	25.0	25.0
HRA	22.1	19.7
Total	132.6	117.0

3.7.3 The table below details the funding sources of the capital programme. The borrowing element in the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (MRP). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements

Table 3 Financing of capital expenditure

	Approved Budget £m	Outturn Projection £m
Capital receipts	2.5	4.0
Capital grants	33.5	18.7
Capital reserves	9.8	7.4
Community Infrastructure Levy	7.4	9.0
Section 106 receipts	2.5	2.4
Major Repairs Allowance	12.3	12.3
Total financing	68.0	53.8
Borrowing requirement	64.6	63.2

3.7.4 The key controls over treasury management activity to ensure that, over the medium term, borrowing will only be for a capital purposes are the prudential indicators. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and the next two financial years. This allows some flexibility for limited early borrowing for future years. Full Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The table below shows changes in the CFR and borrowing requirements reflecting the actual outturn for 2021-22 and arising from the changes in the capital programme described above.

Table 4 Borrowing and CFR

	Original Estimate £m	Outturn Projection £m
Borrowing	1,560.2	1,428.0
Other long term liabilities	68.5	68.5
Total debt	1,628.7	1,496.5
CFR (year end position) - GF	1,370.1	1,310.9
CFR (year end position) - HRA	373.5	370.9
CFR (year end position) - Total	1,743.6	1,681.8

3.7.5 The Prudential Indicators relevant to the capital programme and its borrowing implications are the Operational Boundary (the expected debt position) and the Authorised Limit (the limit beyond which borrowing is prohibited).

Table 5 Operational Boundary and Authorised Limit

	Original Estimate £m	Outturn Projection £m
Operational Boundary	1,624.6	1,496.5
Authorised Limit	1,674.6	1,546.5

3.7.6 The Authorised Limit includes a buffer of £50m to cover unexpected cashflow shortages.

3.8 Borrowing Strategy

3.8.1 During 2022/23 the Council has been operating in accordance with the borrowing limits approved by full Council on 7 March 2022. As discussed above, the current limits for the year are:

- Operational Boundary - £1,624.6m
- Authorised Limit - £1,674.6m

3.8.2 The level of the Council's borrowing, which is measured against the limits, was £1,435.8m on 1 April 2022. To date there has been no increase in borrowing.

3.8.3 Borrowing will be taken up as required based on a continuing analysis of actual and projected expenditure over the different components of the capital programme and interest rates forecasts. It is likely that the Council will use a mixture of long-term borrowing from the PWLB, short term borrowing from other local authorities and internal balances. The Council is looking at a range of options to generate additional capital receipts in order to reduce the reliance on short term external borrowing. New borrowing will be undertaken to fit into the Council's existing debt maturity profile to move towards a more even distribution of maturities. Appendix C shows the movements in PWLB interest rates for various loan periods during the first six months of the financial year.

3.8.4 The Council's effective interest payable on debt currently stands at 2.63%.

3.9 Investment Strategy

3.9.1 From time to time, under Section 15 (1) of the Local Government Act 2003 the Secretary of State issues statutory guidance on local government investments to which local authorities are required to "have regard." This guidance was taken into account in the investment policy parameters set within the Council's TMSS, MRP Policy Statement and Annual Investment Strategy as approved by full Council on 7 March 2022 (Minute 6/21 applies). In accordance with the Code it sets out the Council's investment priorities as being security of capital, liquidity and yield.

3.9.2 The current guidance defines investments as "Specified" and "Non-specified"

3.9.3 An investment is a specified investment if all the following apply:

- the investment and any associated payments or repayments are denominated in sterling;

- the investment has a maximum maturity of one year;
- the investment is not defined as capital expenditure; and
- the investment is made with a body or in an investment scheme described as high quality or with the UK Government, a UK local authority or a parish or community council.

3.9.4 A non-specified investment is any investment that does not meet all the conditions in paragraph 3.9.3 above.

3.9.5 It is the Council's priority when undertaking treasury activities to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Investment instruments identified for use by the Council during 2022/23 as advised in the current Treasury Management Strategy are detailed in Appendix D.

3.9.6 Investment activity in the first half of the year conformed to the approved strategy with an average monthly balance of £83.7m being maintained in temporary investments. As at 30 September 2022 investments were as follows:

Table 6 Investment Balances at 30 September 2022

Investment	£m
Money Market Funds	53.9
Banks as in approved credit list	30.0
TOTAL	83.9

3.9.7 In addition the Pension Fund had balances of £43.6m.

3.9.8 The Corporate Director of Resources confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2022/23.

3.10 Repayment of Debt and Debt Rescheduling

3.10.1 During the first half of the year the Council has reduced its short term debt by repaying £15.0m of local authority loans and repaid £23.5m of PWLB debt as it matured. This is part of the strategy to increase reliance on internal borrowing and reduce more expensive short term debt.

3.10.2 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

3.11 Compliance with Treasury and Prudential Limits

3.11.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2022, the Council has operated within the treasury and prudential indicators set out in the

TMSS. The Corporate Director of Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

3.11.2 All treasury management operations have been conducted in compliance with the Council's Treasury Management Practices.

4 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

4.1 There are no additional financial considerations arising from this report.

Approved by: Lesley Shields, Head of Finance for Assistant Chief Executive and Resources comments on behalf of the Director of Finance.

5 HUMAN RESOURCES CONSIDERATIONS

5.1 Ensuring the council maintains a balanced budget and a prudent approach to treasury management, borrowing, and debt repayment are matters of interest to the council's workforce, and workforce representatives, which will impact upon recruitment, retention and employee engagement.

Approved by: Dean Shoesmith, Chief People Officer

6 LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) made pursuant to the Local Government Act 2003 require the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities ("The Prudential Code"). Regulations 23 and 24 provide respectively that capital receipts may only be used for specified purposes and that in carrying out its capital finance functions, a local authority must have regard to the code of practice in "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("The Treasury Code") issued by CIPFA.

6.2 In relation to the Annual Investment Strategy, the Council is required to have regard to the Guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 entitled "Statutory guidance on Local Government Investments 3rd Edition" which is applicable from and effective for financial years commencing on or after 1 April 2018.

6.3 In addition, the Prudential Code and the Treasury Code contain investment guidance which complements the Statutory Guidance mentioned above.

6.4 Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended.

6.5 Under the provisions of Section 3(1) and (8) of the Local Government Act 2003, the Council must determine and keep under review how much money it can afford to borrow, and the function of determining and keeping these levels under

review is a Council, rather than an executive function.

- 6.6 The Council must also have regard to the Guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003 entitled “Statutory guidance on minimum revenue provision”
- 6.7 As set out earlier in the report, the Prudential Code requires authorities to prepare a capital strategy.

Approved by: Sandra Herbert, Head of Litigation & Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer.

7 EQUALITIES CONSIDERATIONS

- 7.1 There are no specific equalities issues set out in this report.
- 7.2 The Council has a statutory duty to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must therefore have due regard to:
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Approved by: Denise McCausland – Equalities Programme Manager

8. FREEDOM OF INFORMATION

- 8.1 This report contains only information that can be publicly disclosed.

9. DATA PROTECTION IMPLICATIONS

- 9.1 Will the subject of the report involve the processing of ‘personal data’?

No.

Has a data protection impact assessment (DPIA) been completed?

No.

CONTACT OFFICER:

Matthew Hallett, Acting Head of Pensions and Treasury,

BACKGROUND DOCUMENTS:

Non

APPENDICES:

- A Economic update
- B Interest rate forecast update
- C PWLB rates
- D Investment instruments

Economic update (as prepared by Link Asset Services in the first week of October 2022)

- The second quarter of 2022/23 saw:
 - GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
 - Signs of economic activity losing momentum as production fell due to rising energy prices;
 - CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
 - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
 - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
 - Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September.
- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.
- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.
- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below \$90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

- During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.
- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of \$1.035 on the Monday following the government's "fiscal event", it has since recovered to around \$1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.
- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.
- Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.
- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500

is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Interest rate forecast update (as prepared by Link Asset Services in the first week of November 2022)

- Since our last update at the end of September, the Bank of England's Monetary Policy Committee (MPC) has increased Bank Rate to 3.00% from 2.25%. The increase was made last Thursday and reflected a split vote – seven members voting for a 75 basis points increase, one for 50 basis points and one for 25 basis points. The MPC continues to grapple with getting inflation back on track over a three-year horizon.
- Moreover, the UK has a new Prime Minister, Rishi Sunak, a new Chancellor, Jeremy Hunt, and new fiscal policies – to be firmed up on the 17th of November Autumn Statement - that seek to ensure that the public finances are kept on a sound footing and that any projected gaps (possibly £50bn to £60bn) are fully funded from services efficiencies and/or net tax increases.
- In the interim period, since the end of September, the Government scrapped the reduction in the basic rate of income tax by 1p in the £; maintained the higher band 45p in the £ income tax rate; did not reduce Corporation Tax to 19% from 25%; only put in place support for businesses and households for 6 months (October to March) regarding caps on the unit costs of gas and electricity.
- In addition, the Bank of England has had to intervene in the longer part of the gilt market to ensure that pension funds did not have to undertake a “fire sale” of assets to raise cash to pay for margin calls, arising from the sell-off of long-dated gilts (yields rising) in the wake of the former Chancellor's policy to seek to boost growth with unfunded tax cuts.
- In recent days, calm has returned to the markets, the £ has risen from a historic low of \$1.03 to \$1.14, and the cumulative movement in gilt yields since the turn of the year is now broadly in line with that seen in the US and Euro-zone bond markets.
- Turning back to Thursday, the Bank's Quarterly Monetary Policy Report detailed that the UK economy is headed for eight quarters of negative growth based on the market's expectation for Bank Rate to increase to 5.25%. Since then, market expectations have been recalibrated, and now view a peak in Bank Rate of between 4.5% and 4.75%. These views are similar to those held by Link Group's Interest Rate Strategy Group (IRSG). IRSG has reduced its view on the peak of Bank Rate from 5% to 4.5%. However, although we see rates peaking in May of 2023, we now also believe there are several challenges to the Bank that could see them leave rates at this level until early 2024.
- The first of those challenges is the tight labour market (unemployment is at a 48 year low 3.5%), which shows no signs of dissipating, and that could mean wage increases continue to be north of 5% well into 2023 (the Bank would broadly want wages to be in the range of 3% - 3.5%). There is also the prospect that unless the workforce participation rate increases and/or immigration policies are relaxed, there is no clear route that would give rise to sustainable increases in economic growth. And, of course, inflation could be somewhat “sticky” if the Russian invasion of Ukraine remains unresolved and puts continued pressure on global energy prices and staple foods (e.g., wheat), among the many areas negatively impacted.
- Against this backdrop, we believe the MPC will have to tread carefully. It will need to evidence to the markets that it sees the reduction in inflation as a primary objective, but also that it remains alert to the fact that it does not want any recession to be deeper and more prolonged than it needs to be. On that basis our forecast sees Bank Rate increasing 50 basis points in both December and February before the MPC scales down the rate of increase to just 25 basis points in both March and May 2023.

- Regarding our forecast for PWLB rates, as already stated, the impact of the Truss/Kwarteng fiscal experiment has faded in the past month but we think investors will still remain a little nervous over the UK's future fiscal policy and therefore we have reduced our forecast for near-term PWLB rates across the curve, compared to September's forecast, but have left the longer end of the curve slightly higher to reflect the potential demand by foreign investors for a "confidence premium" in the light of recent market volatility.
- As for the housing market, the most recent survey by Nationwide Building Society showed house prices starting to fall and the MPC will be very cognisant that affordability could be stretched now that fixed rate mortgages are somewhat higher than they were a few weeks ago. Historically, the MPC has appeared reluctant to tighten monetary policy in a falling housing market, but it may be willing to leave rates less high than the market had been pricing in prior to the 3rd of November Quarterly Monetary Policy Report but keep them there for longer as a compromise of sorts.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 375 basis points in the year to date and is expected to increase rates further before the end of the year, and possibly into 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan. Arguably, though, it is US monetary policies that will have the greatest impact on global bond markets.
- Geo-political events continue to lead to frequent whipsawing in equity, bond, commodity and currency markets. And the weather will also play a large part in how high energy prices stay and for how long. Not forgetting developments in Iran, North Korea, Taiwan and China.
- From a practical standpoint those clients looking to borrow will, most probably, need to continue to focus on optimising their cashflow forecasts, and given the (still) relatively elevated level of rates right across the curve at present, seek to fund either temporarily from local authorities or with short-dated loans from the PWLB. You will see from our forecast that we expect both short- and longer-term rates to be somewhat lower over the duration of the forecast. Nonetheless, if certainty is paramount within your debt management strategy, we will help you to optimise any longer dated borrowing requirements you may have.
- On the flipside, if you are an authority that is fully funded or wishes to reduce its exposure to long-dated debt, there may be scope to repay loans prematurely (both market and PWLB) whilst the high discount rates prevail. Your Client Relationship Manager should be contacted if this is something you wish to look at.
- In terms of our forecast, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months. Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Link Group Interest Rate View		27.09.22										
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our central forecast for interest rates was previously updated on 28th September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.
- Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.
- Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present so as to prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)
- On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.20% to 4.80%. The medium to longer part of the yield curve is currently inverted.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England** is **too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- **The Government** acts too quickly to cut taxes and/or increases expenditure in the light of the cost-of-living squeeze.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** continue to rise strongly and pull gilt yields up even higher than currently forecast.

LINK GROUP FORECASTS

We now expect the MPC to swiftly increase Bank Rate during the remainder of 2022 and into Q2 2023 to combat the sharp increase in inflationary pressures. We do not think that the MPC will embark on a series of increases in Bank Rate that would take it to more than 4.5%, but it is possible.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears for inflation and/or recession ebb and flow. The overall longer-run trend is for gilt yields and PWLB rates to remain high in the near-term, given the extent to which market expectations are already priced in and then to fall back once inflation starts to fall through 2023.

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 07.11.22 p.m.	Target borrowing rate now (end of Q4 2022)	Target borrowing rate previous (end of Q4 2022)
5 years	4.20%	4.30%	5.00%
10 years	4.46%	4.50%	4.90%
25 years	4.72%	4.70%	5.10%
50 years	4.26%	4.30%	4.80%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	Now	Previously
2022/23 (remainder)	3.95%	4.80%
2023/24	4.40%	4.60%
2024/25	3.30%	3.20%
2025/26	2.60%	2.80%
2026/27	2.50%	2.80%
Years 6 to 10	2.80%	2.80%
Years 10+	2.80%	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of +/- 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

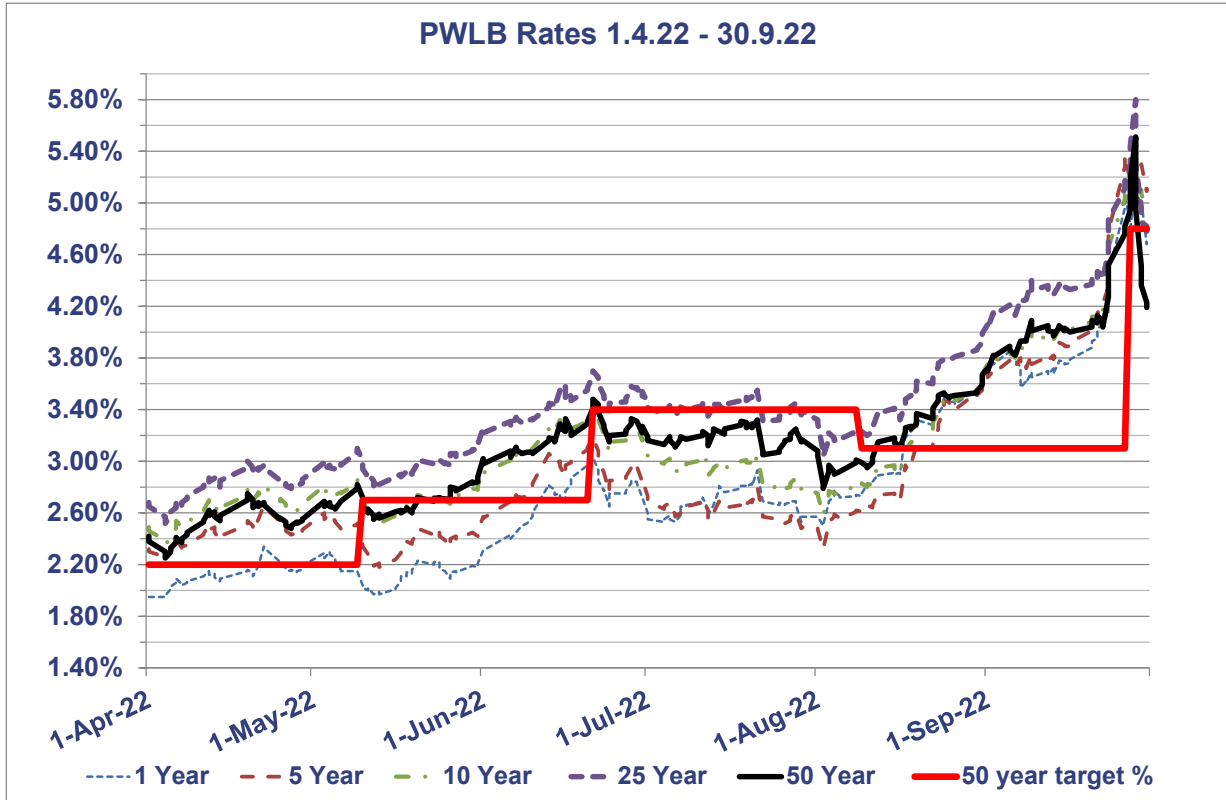
Interest Rate Strategy Group

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APPENDIX C



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

- The current PWLB rates are set as margins over gilt yields 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)

Investment instruments

Specified investments

AAA rated money market funds - limit £20m

Debt Management Office – no limit

Royal Bank of Scotland* – limit £25m

Duration of up to one year.

*Royal Bank of Scotland is included as a specified investment since it is the Council's banker and the UK Government holds a majority stake.

Non-specified investments

All institutions included on Link Asset Services' weekly "Suggested Credit List" – limit £10m

All UK local authorities – limit £10m

Duration to be determined by the "Suggested Credit List" from Link

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REPORT TO:	AUDIT & GOVERNANCE COMMITTEE 24 November 2022
SUBJECT:	Anti-Fraud Update Report 1 April 2022 – 30 September 2022
LEAD OFFICER:	Malcolm Davies, Head of Anti-Fraud, Risk & Insurance
CABINET MEMBER	Councillor Jason Cummings Cabinet Member for Finance
WARDS:	All
<p>The work of the Anti-Fraud service helps the Council to improve its value for money by strengthening financial management and further embedding risk management. Improving value for money ensures that the Council delivers effective services. The detection of fraud and better anti-fraud awareness contribute to the perception of a law-abiding Borough.</p>	
<p>FINANCIAL SUMMARY:</p> <p>The net budget for the antifraud service as a whole is £459,000 (£315,000 general fund plus £144,000 HRA contribution) and the service is currently delivering within budget.</p>	

1. RECOMMENDATIONS

- 1.1 The Committee is asked to:
- Note the Anti-fraud activity of the Corporate Anti-Fraud Team for the period 1 April 2022 – 30 September 2022

2. EXECUTIVE SUMMARY

2.1 This report details the performance of the Council's Corporate Anti-Fraud Team (CAFT) and includes details of the team's performance together with an update on developments 1 April 2022 – 30 September 2022

3. DETAIL

Performance 1 April 2021 to 30 September 2022

- 3.1 The CAFT comprises 6 investigators covering tenancy, corporate and financial investigations. Since January 2022 the Croydon team have been supported by interim management support from the London Borough of Lambeth antifraud service. These arrangements will be formalised by way of a S101 agreement establishing a shared service to the mutual benefit of both boroughs with effect from 1 January 2023. The anti-fraud service investigates allegations of fraud or corruption which affect the Council's business. In addition, the team generates an income by providing services to other London Boroughs. Statistics related to the other councils that CAFT supports are not included in the figures below.
- 3.2 The team has returned to the full range of duties and ways of working including visiting residents and businesses and face to face interviewing within the civic centre.
- 3.3 There are local performance indicators that relate to the Council's anti-fraud work. The two indicators shown in table 1 below detailing the number of successful outcomes and their value. Table 2 shows a breakdown of *all* cases investigated/closed by the team irrespective of outcome.

Table 1 – Key performance indicators

	21/22 to Q2 PERFORMANCE	ANNUAL TARGET 21/22	22/23 to Q2 PERFORMANCE
Successful Outcomes	81	100	51
Identified Overpayments & Savings	£612,900	£850,000	£694,155

Table 2 - Breakdown of Total Cases actioned from 1 April 2022– 30 September 2022 compared to 2021/22

2021/22	2022/23
Blue Badge 7 Corp. Other 2 Council Tax Reduction 20 COVID Additional Restriction Grant 4 COVID Discretionary grant 3	Blue Badge 22 Council Tax Reduction 2 COVID Small business grant 1 Financial Investigations 10 Housing Application 10

COVID Small business grant 12 Direct Payment 1 Financial Investigations 19 Housing Application 14 Housing Illegal Sub-let 12 Housing Non-Occupation 5 Other Housing Fraud 2 Housing Right to buy 3 Housing Succession 3 National Fraud Initiative 2 No Recourse to Public Funds 3 Safeguarding 3 Single Person Discount 1 Staff - Internal misconduct 5 Total 121	Housing Illegal Sub-let 11 Housing Non-Occupation 6 Housing Other Housing Fraud 1 Housing Right to buy 6 Housing Succession 8 National Fraud Initiative 3 Pensions 1 Planning 1 Single Person Discount 2 Staff - Internal misconduct 9 Total 93
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3.4 Case Study:

Polygamous staff working.

CAFT investigates allegations of fraud against the council, including all referrals involving officers, contractors, and agency workers. In addition to investigating allegations of fraud, CAFT also investigate concerns involving officer's failure to follow process or procedure, particularly where this may have a financial or reputational impact on the Council.

Hybrid working provides an opportunity for unscrupulous activities to go unnoticed that may be in breach of policy or procedure, or of greater concern, acts of fraud or theft. A recent fraud type identified widely is referred to as 'polygamous working', where officers working primarily from home carry out more than one job.

It is well established that in times of economic hardship the risk of fraud increases; this has been reported widely during and since the pandemic by many organisations. New ways of working, present new challenges for managing risk and requires managers to develop and utilise skills to manage their officers remotely.

Managers mitigate the risk by ensuring that staff reporting to them are managed appropriately with the following 'red flags' being considered:

- Officers taking a long time to respond to managers emails or not responding at all.
- Officers failing to attend meetings or appearing to be not 'present' during meetings.
- Officers not taking holidays or refusing promotion or other opportunities.
- Controlling behaviour.

- Concerted efforts to avoid scrutiny.

In Croydon we have dealt with several such cases involving staff working for more than one organisation simultaneously including 2 cases dealt with in the last few weeks. In one case an agency worker who was working at home and turned out to be working for 2 different councils simultaneously. The agency worker once investigated admitted the offence and was dismissed immediately. In a second case the Director referred to the ‘classic signs’ they had become aware of, identified above. The CAFT team found that the officer had other self-employment that was undeclared being carried out in Croydon time and also posed a significant conflict of interest risk in this area of the business.

4 INVESTIGATIONS

4.1 Fraud investigations relate to a broad section of service areas within the Council including:

- Environmental enforcement
- Housing
- Parking
- Trading Standards - trademark and rogue trader cases
- Planning – enforcement cases
- Licensing
- Internal cases
- Safeguarding cases
- Revenues & Benefits
- Financial investigations

5 LOCAL GOVERNMENT TRANSPARENCY CODE

5.1 Members will be aware of the Local Government Transparency Code 2015 which requires Councils to publish data about various areas of their activities. Included in the code is detail on Counter Fraud work, most of this information has always been reported to committee; however below are some additional areas which we are required to make public. The figures detailed below are for the last full year from 1 April to 31 March 2022:

Number of occasions the Council has used powers under the Prevention of Social Housing Fraud Act	2
Total number of employees undertaking investigations and prosecutions relating to fraud	9
Total number of full-time equivalent employees undertaking investigations and prosecutions of fraud	8.4
Total number of employees undertaking investigations and prosecutions of fraud who are professionally accredited counter fraud specialists	8
Total number of full-time equivalent employees undertaking investigations of and prosecutions who are professionally accredited counter fraud specialists	7.4

6 FINANCIAL AND RISK ASSESSMENTS

6.1 The net budget for the antifraud service as a whole is £459,000 (£315,000 general fund plus £144,000 HRA contribution) and the service is currently within budget.

6.2 There are no further risk assessment issues than those already detailed within the report.

(Approved by: Nish Popat, Interim Head of Finance, Resources)

7 COMMENTS OF THE SOLICITOR TO THE COUNCIL

7.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Corporate Director of Resources and Chief Finance Officer has a statutory responsibility under Regulation 4 of the Accounts and Audit Regulations 2015 to determine the Council's financial control systems, and those systems must include measures "to enable the prevention and the detection of inaccuracies and fraud". In addition, under Section 151 of the Local Government Act 1972 the Council must make arrangements for the proper administration of its financial affairs.

7.2 The Council also has a duty under the Crime and Disorder Act 1998 section 17 to exercise its functions with due regard to the need to do all that it reasonably can to prevent crime and disorder in its area.

(Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Legal Services and Deputy Monitoring Officer)

8 HUMAN RESOURCES IMPACT

8.1 Other than the cases identified in this report which have been managed through the appropriate policies and procedures there are no other immediate human resource considerations arising from this report for LBC employees or staff.

Any impacts arising will be managed under the Council's HR policies and procedures.

(Approved by: Gillian Bevan, Head of HR – Resources and Assistant Chief Executives Office on behalf of Dean Shoesmith, Chief People Officer)

9 CUSTOMER FOCUS, EQUALITIES, ENVIRONMENTAL, CRIME AND DISORDER REDUCTION & HUMAN RIGHTS IMPACTS

9.1 There are no further considerations in these areas.

10 EQUALITIES IMPACT ASSESSMENT

10.1 There are no equality implications in this report. An EQIA has been carried out on the Anti Fraud policy and will be revised in due course

Approved by Denise McCausland Equalities Programme Manager.

11. DATA PROTECTION IMPLICATIONS

11.1. WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

No, this report is for information only.

11.2. HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

NO

No DPIA has been completed as no personal data is used in the report. Any cases studies used do not include personal identifiers such as name and address

(Approved by: Jane West, Corporate Director of Resources & S.151)

CONTACT OFFICER: Malcolm Davies (Head of Anti-Fraud, Risk & Insurance)

REPORT TO:	AUDIT & GOVERNANCE COMMITTEE 24 November 2022
SUBJECT:	Enterprise Risk Management Health Check
LEAD OFFICER:	Jane West Corporate Director Resources & S151 Officer
CABINET MEMBER	Councillor Jason Cummings, Cabinet Member for Finance
WARDS:	All
<p>As part of the Audit & Governance Committee’s role of overseeing the risk management framework and receiving assurance that significant risks are identified and mitigated by the organisation, an independent ‘Enterprise Risk Management’ report is presented to aid the Committee in its oversight of Risk Management developments and direction of travel in the organisation.</p> <p>In line with the Council’s commitment to openness and transparency, this report will appear in Part A of the agenda unless there is specific justification for any individual entries being considered under Part B (set out under Paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended).</p>	
FINANCIAL SUMMARY: No additional direct financial implications.	

1.1 RECOMMENDATIONS

The Committee is asked to:

Endorse the recommendations of the Enterprise Risk Management Health Check action plan set out in Appendix 1.

2 EXECUTIVE SUMMARY

2.1 The report updates the Audit & Governance Committee Members on an Enterprise Risk Management Health Check commissioned from Zurich Resilience Services and associated action plan.

3 DETAIL

Enterprise Risk Management Health Check Recommendations

3.1 Over the last 18 months significant changes in the Council including a complete change of the Senior Leadership team, Officers, Members, a new

administration and a new council governance model (directly elected mayor) have all required on going governance review and support including support for the Council's Risk Management Arrangements during this period of profound change. New committee structures including the establishment of the new Audit & Governance Committee with an independent chair are also part of this picture. This has also been reflected also in a complete (ongoing) overhaul of governance arrangements internally in the council, for example, with the establishment of a series of internal control boards and the initiation of new functions for example the PMO.

3.2 Whilst resources have come under increasing pressure or have reduced there has been a significant amount of activity to start to embed improvements in the approach to Risk Management. Individual engagement sessions/risk management refresh with Directors and Corporate Directors have now all been delivered as part of the organisational redesign implementation and access granted to the corporate risk management system (JCAD). In addition, all Executive Officers and Executive Support Officers have access to the corporate risk management system. This is designed to help the top layers of management start to feel confident in reviewing, presenting and owning the risks which relate to their Division/Directorate as a core part of their role and competency.

3.3 Risk review dates for all Directors have now been aligned on a quarterly basis going forward. Quarterly reviews are now being signed off on the system by the risk owner to increase accountability. Risk reviews on a quarterly basis with the Corporate Director are being informed/assured by Directors having signed off on their risks. Further work is being done with risk owners with a particular focus on future control measures and review dates for future controls (risk improvements) and future risk ratings. These changes are reflected in the Croydon Council Risk Management Framework (Practical Guide to Risk Management) in Appendix 2. It is recognised though, that a lot is still in development as the new governance models of the organisation gradually take shape and are embedded in the organisation and the new Officer and Member cohort of Croydon establish themselves in role at a time of unprecedented demand and budget pressure.

3.4 With this in mind, an independent Enterprise Risk Management 'Health Check' review was commissioned from the consultancy Zurich Resilience Services with an action plan / recommendations at Appendix 1. The aim of the review was to help inform future development of the risk management framework, in a practical way, recognising the significant resources constraints of the organisation and therefore making best use of existing resources and structures. Zurich were asked to look at 6 broad topics as outlined below.

Risk Culture & Leadership	Exploring the attitude of Senior Officers and Members towards the role and priority of risk management.
Risk Appetite & Strategy	Reviewing the extent to which the policies for risk management support the organisation and how the appetite for risk is considered and utilised.

Governance	Establishing how assurance is provided to stakeholders, the effectiveness of reporting arrangements and how risk is management within departmental areas.
Methodology	Assessing whether effective risk processes and tools are in place to support the organisation.
People & Training	Evaluating the level of risk management skills, knowledge, and capacity across the organisation.
Projects, Partnerships & Supply Chain	Determining whether there are effective arrangements for managing risks within projects and with partners and suppliers.

3.5 The report’s overall assessment of ‘in development’ broadly reflects the Council’s governance improvement journey generally post RIPIs and is considered realistic. The report reflected a positive direction of travel and a degree of cautious optimism about governance improvement generally in the organisation, with an action plan based on the recommendations of the Zurich risk consultant presented at Appendix 1 which has been endorsed by the Council’s Corporate Management Team.

3.6 In line with the Council’s commitment to openness and transparency, the report will appear in Part A of the agenda unless, in accordance with the Access to Information Procedure Rules in the Council’s Constitution there is specific justification for any individual entries being considered under Part B (set out under Paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended).

3.7 It should be noted that some of the grounds for exemption from public access are absolute. However, for others such as that in para.3, ‘Information relating to the financial or business affairs of any particular person (including the authority holding that information)’, deciding in which part of the agenda they will appear, is subject to the further test of whether, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

4 FINANCIAL CONSIDERATIONS

4.1 There are no additional financial considerations arising from this report. The review and report were delivered free of charge as part of Croydon’s Risk Management bursary with Zurich Insurance, as part of its corporate insurance arrangements.

(Approved by Nish Popat Interim Head of Finance Resources on behalf of Interim Director of Finance)

5 LEGAL CONSIDERATIONS

5.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer, as follows. Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council must ensure that it has a

sound system of internal control which “facilitates the effective exercise of its functions and the achievement of its aims and objectives”, “ensures that the financial and operational management of the authority is effective” and “includes effective arrangements for the management of risk”. The Committee is required by its terms of reference to “provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment”, and to “monitor the effective development and operation of the Council’s risk management arrangements”. This report seeks to demonstrate compliance with these duties.

- 5.2** Separately, the management of risk has a direct impact on the Council’s ability to deliver its functions in a manner which promotes economy, efficiency and effectiveness. Therefore, the consideration of this report also seeks to demonstrate the Council’s compliance with its Best Value Duty under the Local Government Act 1999.

(Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Legal Services and Monitoring Officer Stephen Lawrence-Orumwense)

6 HUMAN RESOURCES IMPACT

- 6.1** There are no immediate human resource considerations arising from this report for LBC employees or staff.
Any impacts arising will be managed under the Council’s HR policies and procedures.

(Approved by: Gillian Bevan, Head of HR – Resources and Assistant Chief Executives on behalf of Dean Shoesmith, Chief People Officer)

7 EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS

- 7.1** None

8 RISK ASSESSMENT

- 8.1** No further risk issues other than those detailed in the report.

9 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

- 9.1** Information contained in the ERM health check report may be accessible under the Freedom of Information Act subject to the application of any relevant exemptions, such as commercial sensitivity and whether disclosure was in the ‘public interest’.

10 DATA PROTECTION IMPLICATIONS

- 10.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF ‘PERSONAL DATA’?**

No.

No personal data is processed as part of the production of the ERM Health Check Report

10.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

No.

Not applicable as no personal data is processed as part of the production of the ERM Health Check Report

CONTACT OFFICER:

Malcolm Davies,
Head of Anti-Fraud, Risk & Insurance
Ext 27294

BACKGROUND DOCUMENTS:

Appendix 1 Action Plan
Appendix 2 Croydon Council Risk
Management framework (Practical Guide)

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