

Audit & Governance Committee Agenda



To: Dr Olu Olasode (Independent Chair)
Councillor Matt Griffiths (Vice-Chair)
Councillors Claire Bonham, Simon Brew, Endri Llabuti, Enid Mollyneaux,
Nikhil Sherine Thampi and Sean Fitzsimons

A meeting of the **Audit & Governance Committee** which you are hereby invited to attend, will be held **Thursday, 30 November 2023** at **6.30 pm. Council Chamber, Town Hall, Katherine Street, Croydon, CR0 1NX.**

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

Hannah Cretney, Democratic Services
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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 - 22)

To approve the minutes of the meetings held on 21 September 2023 and 19 October 2023 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. Audit & Governance Committee Action Log (Pages 23 - 26)

To note the Audit & Governance Committee Action Log.

6. Audit & Governance Committee 2023-24 Work Programme

To note the Audit & Governance Committee Work Programme for the remainder of the municipal year.

7. Committee Assurance Mapping (Pages 27 - 38)

This report details the results of the mapping of the Committee's terms of reference to the different sources of assurance that it receives.

The Audit and Governance Committee is asked to:

1. Note results of the mapping of the Committee's terms of reference to the different sources of assurance that it receives and to use this to inform the Committee's forward plan.
2. Agree that going forward, the assurance mapping document be reviewed at each Committee meeting alongside the forward plan.

8. External Audit Findings Report on the 2019-20 Statement of Accounts

Report to follow.

9. Risk Register Entries "Deep Dive" (Pages 39 - 58)

The presentations update the Audit & Governance Committee Members on progress against selected entries from the corporate risk register (the register).

The Audit & Governance Committee is asked to:

1. Note the contents of the risk presentation attached in Appendix 1.

Gas Safety & Heating Contractor Risk Presentation to follow.

10. Revenue & Capital Monitoring Improvements

Report to follow.

11. Sales, Fees and Charges Compensation Scheme 2020-21 and 2021-22 (Pages 59 - 62)

This report provides details of the compensation received as a result of COVID-19 for Sales fees and charges.

The Audit & Governance Committee is recommended to:

1. Note the details of the compensation received from the Sales, fees and charges scheme for the financial year 2020-21 and the first quarter of 2021-22.
2. Note that a reconciliation was carried out and the income received is in line with the losses incurred and claimable and that the grant for these losses has been received.

12. Internal Audit Update (Pages 63 - 92)

This report details the work completed by Internal Audit so far during 2023/24 and the progress made by the Council in resolving findings identified from audits.

The Audit and Governance Committee is asked to:

1. Note the work completed by Internal Audit so far during 2023/24 and the progress made by the Council in resolving findings arising from audits.

13. Mid Year Treasury Management Update (Pages 93 - 110)

This Report reviews the Council's treasury management activities for the first six months of financial year 2023/24.

The Audit and Governance Committee is recommended to:

1. Note the contents of the mid-year report on the treasury management activity for 2023/24.

Audit & Governance Committee

Meeting of held on Thursday, 21 September 2023 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);
Councillor Claire Bonham, Simon Brew, Endri Llabuti and
Nikhil Sherine Thampi

Also Present: Councillor Nabukeera

Apologies: Councillor Enid Mollyneaux
Councillor Sean Fitzsimons

PART A

12/22 **Disclosure of Interests**

There were none.

13/22 **Minutes of the Previous Meeting**

The minutes of the previous meeting were agreed as an accurate record pending the inclusion of Scrutiny Health and Social Care Sub Committee and an edit to the figure within the Financial Accounts 2019-20 item, as the capital receipt generated had been for £112 million not £75 million.

14/22 **Urgent Business (if any)**

There were no items of urgent business.

15/22 **Audit & Governance Committee Action Log**

Officers agreed to provide updates for due actions.

16/22 **Audit & Governance Committee Work Programme 2023-24**

Dave Philips, Head of Internal Audit advised a first draft of the assurance mapping following the assurance mapping workshop would be developed and brought to Committee for review alongside the Committee Work Programme.

The Committee requested Officers to ensure future training arrangements did not create clashes with other Committees where possible.

Update on Cultural Transformation Programme

Elaine Jackson, Assistant Chief Executive introduced the report for members and Dean Shoesmith, Chief People Officer gave their People & Cultural Transformation Update presentation to the Committee. Officers agreed to share the progress pillars slides with the Committee. There had been significant activity across the organisation and a recognition of the impact previous culture and the Report in the Public Interest (RIPI) had on staff. Efforts were ongoing to ensure staff felt able to speak out on issues and to build trust from the roots of the organisation.

The Committee queried the governance arrangements in place and how it could have assurance on its effectiveness. Officers advised following the adoption of the new organisational model in July 2021 a review of the council's governance model had been undertaken. As a result the Equality Diversity and Inclusion and Workforce Internal Control Boards had been established. These encompassed staff from across the council at all levels of seniority, were chaired by the Chief Executive and reported to Corporate Management Team meetings (CMT) each month. Additionally, a Transformation Board had been established in January 2022 to oversee service delivery work programmes. The newly recruited Director of Transformation was working closely with the Chief People Officer to support the alignment of the cultural transformation and programme delivery. Officers advised their attendance and reporting to Audit and Governance Committee would provide assurance and suggested it would be beneficial for the Committee to hear directly from staff in the future.

The Committee was pleased to note best value for residents was included but queried whether any benchmarking data had been utilised. On best value, officers noted that control mechanisms such as the spending control panels were in place but advised that the council was at the beginning of a journey to embed staff ownership of best value. The council had created internal data dashboards for workforce equality, diversity and inclusion (EDI) which profiled the workforce and reported to the EDI Internal Control Board. Progress towards greater representation within the workforce had been made. There had been issues with staff non-disclosure of their protected characteristic information which had now improved following internal awareness-raising campaigns. Dashboards for supporting internal data reporting on recruitment were used to monitor recruitment practice improvements. Benchmarking from London Councils which included the Human Capital Metrics datasets which covered a range of metrics e.g., staff turnover, sickness absence and staff EDI profiles analysis was used; however this did not cover all areas.

The Committee noted the presentation had not been made available to Members ahead of the Committee meeting, making it challenging to prepare for the discussion and members of the public wishing to

understand the agenda item would not have the detail of the presentation. The Committee requested officers to include a summary of presentations within their reports in future. Officers advised the presentation was internal, but a shareable version could be made available.

The Committee asked how the council was ensuring the engagement of all staff particularly those less willing to engage. Officers felt it was inevitable to have some staff who were more engaged; however all staff members were encouraged to engage and inclusivity was prioritised. The success of the culture change work was being measured by engagement, for example in staff and pulse surveys, focus groups and drop-in sessions. An upward trajectory of engagement would suggest cultural improvement, but this was anticipated to take some time. There had been targeted engagement with harder to reach staff, such as those who may not use the intranet regularly. The staff guardians programme, developed in conjunction with The Old Vic to create safe spaces for staff to discuss issues, was in place and had recently supported front line worker engagement.

The Committee asked how new transformation staff appointments were being managed when faced with the historical cultural challenges. Officers advised cultural transformation work was not happening in isolation, any new staff members were embedded and working alongside colleagues as part of teams with clear messaging on delivery plans.

The Committee queried the attendance figures of 1,535 staff at the programme development events and whether this was unique individuals. Officers advised attendance had not been mandatory and was a reasonable sample size to inform change that had been considered.

In response to questions officers advised budget monitoring training for managers had been conducted in teams with a good spread across the council and positive feedback. However, this had highlighted the need for further training. There had also been widespread Housing Revenue Account (HRA) training and following the appointment of the lead officer for Oracle change management, the training for the new system's implementation would be starting soon. It was noted that all training had been welcomed and received positively by staff.

The Committee asked if a complaint handling system and whistleblowing safety net were in place. Officers confirmed the whistleblowing process had been in place for a number of years and ensured individuals' anonymity unless their complaint was vexatious. There were several qualified assessors across the council and the Monitoring Officer's regular whistleblowing update report was due to come to October committee. There had been concerted effort to promote the whistleblowing process to staff. It was noted the ultimate whistleblowing contact was Paul Dossett, Grant Thornton, the external auditor. The Guardians network was also an early opportunity for concerns to be raised in a less formal manner.

The Committee asked officers to explain the performance management policies in place, particularly regarding managers and how non-compliance was dealt with. Officers advised the performance management system had been simplified for the current year's appraisal round. Monitoring of staff skills and accountability was sporadic across teams at present. Refresher leadership and management training would form an important part of the cultural transformation and improvement work. The performance management capability procedure was in place and utilised when needed. Staff grievance data was recorded and monitored for formal staff complaints. A workplace mediation scheme had recently been introduced as an alternative complaints resolution system based on good practice at other local authorities, and its ability to resolve complaints early and close to the point of origin. EDI data was monitored to identify any disproportionate impacts. Exit survey data from staff leavers was also monitored.

In response to questions officers confirmed the number of staff employed by the council was approximately 3,200 full time making engagement of 1,535 staff around 50%.

The Committee asked how the council's turnover and absence statistics compared with Croydon historically and with other London councils at present. Officers agreed to provide reporting on workforce data to the committee in future. Croydon was sometimes above average London turnover. However, this needed to be considered in the context of the council's financial position, subsequent reductions and enforced turnover.

In response to questions officers explained the Reciprocal Mentoring Pilot was a two-way process for staff to feedback to and receive mentoring from senior leaders.

The Committee queried the impact of Covid-19 on the development of the transformation programme. Officers advised Covid had enabled the council to realise new ways of working. However, there were also challenges with some staff being more isolated. Utilisation of MS Teams promoted greater engagement, for example in online staff 'Tea Talks'.

The Committee queried whether there had been external input and/or consideration of best practice at other local authorities. Officers advised several external organisations had supported the work including the Local Government Association (LGA), The Chartered Institute of Public Finance and Accountancy (CIPFA), and London Councils, and that Croydon had partnered with culture change experts Beyond Business School (BBS) on the culture change work. The draft People and Cultural Transformation Strategy had been shared with London Councils and received input from its regional secretary who critiqued the strategy and fed into its development.

The Committee requested future reporting on the implementation of action plan, governance and benchmarking of people and workforce.

18/22

Annual Treasury Management Report 2022-23

Matthew Hallett, Pension Fund Investment Manager introduced the report to the Committee. The report was based on the Treasury Management strategy set in March 2022. The Treasury Management aim was to ensure cash availability for ongoing expenditure and investment of excess balances. The report confirmed there had been no liquidity events and where investments had been made these complied with counter-party limits. On the capital programme the borrowing figure at 2022/23 year end was £1.73 billion with external borrowing at £1.345 billion, resulting in an under-borrowed position and internal borrowing (use of reserves) of £380 million. This was within the limits set by the 2022 strategy, the authorised borrowing limit was £1.674 billion and the council had averaged £1.385 billion with a maximum £1.435 billion over the year. There had been £87 million of external borrowing repaid and the effective interest rate 2.8% had been under the target set for interest payable by approximately £5 million.

The Committee queried whether there was risk attached to internal borrowing's use of reserves particularly if the council needed large expenditure in a situation such as Covid. Officers advised the Committee that the council maintained a cash balance of approximately £100 million, the council's monthly working capital was £40-50 million monthly and anything above £100 million was utilised to repay borrowing, leaving a £50 million cushion.

The Committee RESOLVED to: note the contents of the annual report on the treasury management activity for 2022/23.

19/22

Annual Head of Internal Audit Report

Dave Phillips, Head of Internal Audit introduced the annual report to the Committee, noting the report was an annual requirement in line with the Public Sector Internal Audit Standards. The report gave the council an overall Limited Assurance level, and highlighted the key issues based on the work undertaken by Internal Audit. Some were recurring issues and the challenge was to progress these. An update on those outstanding issues would be included in the Annual Governance Statement update report due to come to the Committee in October. Updates on the implementation of Internal Audit recommendations were also included in the report and the council had made some good progress on actioning recommendations.

The Committee noted the limited assurance level had not been a surprise in previous years but queried the higher level of nil assurance reports, indicating a downturn during the reporting period, and what this implied about the improvement environment generally.

Officers noted there were areas of improvement; for example, corporate governance had been upgraded from unsatisfactory to satisfactory. It was found while top level governance had improved, the lower levels still required improvement. Many of the previous year's reports were working through the backlog of historic recommendations which had taken some time, due to issues such as staff turnover or recommendations requiring systems change work to be completed. The Limited Assurance level had been expected due to the issues unearthed during the opening the books exercise in 2022/23 and the Section 24 recommendations and interim reports by the external auditors. Improvements in engagement with the Annual Governance Statement (AGS) process had been made across the organisation. Engagement with internal audit reports had generally improved compared with the previous year and CMT was monitoring this closely. A session with Mazars was planned to improve the process. Officers noted plans to bring the AGS to Committee before the summer in 2024 and hoped it would show assurance improvements but noted there were still areas requiring improvements such as financial and HR systems. Audit reports also tended to be backward looking, due to the nature of gathering evidence, so were not as reflective of recent improvements.

The Committee raised concerns around limited/non-engagement by teams and queried if this was due to capacity or cultural issues. The Committee asked for an approximate breakdown of slow engagement versus complete non-engagement. The Committee also queried the report citing 'further strengthening of financial internal controls have taken place' despite the assurance being down in comparison with the previous year.

Officers advised that of 80 Internal Audit reports planned there were 2 or 3 where non-engagement had been an issue. This had been raised at the CMT focus group. Staff were reluctant to engage due to capacity and a culture of teams working in silos, which was something the organisation was working to improve. Internal Audit planned to implement a calendar of audits for the year to provide greater notice to management. There was work to be done to change organisational perception of audit to something that was useful and positive. The planned workshop with CMT on engagement improvement and building relationship between Mazars and managers would support this. The Committee agreed showcasing improvements and how engagement with internal audit could be an effective tool would be useful to take forward. Officers confirmed any non-engagement was reported to CMT, which was ultimately reported to Audit and Governance Committee, which could then invite the officers to attend meetings. The Committee requested the issues raised be included in future reporting.

The Committee RESOLVED to: note the Head of Internal Audit Report 2022/23 (Appendix 1) and the overall Limited level of assurance of the Council's systems of internal control.

Dedicated Schools Grant (DSG) Deficit Management Plan

Shelley Davies, Director of Education introduced the report to the committee and explained the expectation on local authorities setting a deficit budget in relation to the dedicated schools grant to have a management plan in place, to set out the pay down of the cumulative deficit and reduce in-year spend. Croydon's overspend had been reduced from £5.4 million to £2.05 million over the past two years. Croydon's position as part of the safety valve programme required liaison with the Department for Education (DfE) and signing of a safety valve agreement which outlined how the council would reduce its in year overspend to zero and subsequently receive grant funding from central government over 3 years to pay off the culminative overspend. Croydon had received the first two tranches of payment and was working to meet the Key Performance Indicators (KPIs). Officers assured the committee the council was monitoring against the KPIs regularly and noted the balance of focussing both on finance and ensuring it was meeting the needs of children and young people with Special Educational Needs and Disabilities (SEND).

Charles Quaye, Principal Accountant highlighted the success within the service of meeting the non-financial targets and noted the good performance of the deficit management plan. Last year's balance had been £15.384 million and this was expected to be £12.749 million by the end of this financial year. By 2026/27 a surplus was expected.

The Committee advised it was pleased to see the progress being made and queried whether the safety valve agreement was particular to Croydon. Officers advised a number of local authorities were part of the programme, Croydon did not have the highest deficit level in relation to its population. All safety valve agreements were bespoke and contextual to individual local authorities. The main basis for savings in Croydon was through educating children locally by ensuring enough in-borough provision was available, including post-16 years and post-19 years.

The Committee raised concerns about how unforeseen expenditure on capital or other issues would be mitigated. Officers advised any capital expenditure sat elsewhere in the budget and SEND provision was ringfenced.

The Committee queried how SEND provision for children in mainstream school settings was being managed to ensure their needs were met. Officers noted the importance of this issue and explained Croydon's implementation of Croydon Locality SEND Support (CLSS). CLSS provided specific funding for mainstream schools to provide early intervention support for children, particularly during transition from nursery to reception. This did not impact Education Health and Care Plan (EHCP) assessments which were a statutory requirement and ongoing. The CLSS initiative was for early intervention to provide support when needed more quickly. It had started in 2 locations and was now rolled out across borough, and the provision was widening to include maintained nursery

classes. Implementation and areas for improvement were being monitored and the council was working in partnership with schools and encouraging peer to peer support between schools.

The Committee asked how the services were evaluated as offering best value for money for Croydon residents, and, once in place, how the provision was reviewed during a child's education. Officers advised the council was continuously monitoring progress against the safety valve agreement plan and reporting to the Department of Education against the KPIs. Strong internal governance was in place for SEND, overseen by the SEND Board which was chaired by the Director of Children's Services with membership from families, Croydon Active Voices, Headteachers and Health and Care colleagues. The SEND Board set the strategic direction and provided challenge to safety valve KPI reporting and the internal dashboard reporting. There was also a SEND forum and delivery groups. The importance of families and children and young people's voices being heard was noted.

The Committee requested clarification on the requirement of increased capacity cited in the report. Officers advised whilst there were children known to the authority, it was not possible to predict, for example, children who would come into the borough or receive a SEND diagnosis later. There was a balance required to predict these changes in demand to ensure the support needed was made available and this risk was always highlighted to the DfE. There was budget contingency set aside for unexpected cases to mitigate this.

The Committee asked if the deficit recovery funding was taken from the general fund. Officers advised the DfE safety valve grant funding was paying off the cumulative deficit and the in-year overspend reductions were achieved through Croydon's strategic changes to provision set out in its strategy, including the increases to in-borough and post-16 SEND provision.

The Committee RESOLVED to: note

- a) The key performance targets set under the DfE Safety Valve agreement.
- b) The overall performance of the Deficit Recovery Plan against the target and challenges and risks of delivery.
- c) The impact on the accounting treatment of the DSG deficit as provided for in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146, as amended by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2022.

Dave Philips, Head of Internal Audit advised the committee of the amendment to the tenure of the appointment which had been changed to a 1 year appointment initially with a further 3 years following a review of performance.

The Committee queried the inclusion of 'audit only functions' in relation to the independent member's appointment and whether as an Audit and Governance Committee this was appropriate. Officers explained the independent member would be non-voting and the recommendation was for appointment to the Audit and Governance Committee.

Committee RESOLVED to:

- a) Support the recommendation of the recruitment panel for the preferred candidate David Clarke to be appointed as an independent co-opted non-voting member of the Committee; and
- b) Recommend to Full Council that David Clarke be appointed as an independent co-opted non-voting member of the Audit and Governance Committee for an initial period of 1 year, to be extended thereafter for another 3 years and that said appointment be subject to standards of conduct which encompass the Nolan Principles.

The Chair thanked Officers for their support in the appointment process. Officers confirmed the next step was for the Audit and Governance Committee to recommend the appointment in a report to Full Council.

The Chair thanked Members for their engagement and attendance at the meeting.

The meeting ended at 8.27pm

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Audit & Governance Committee

Meeting of held on Thursday, 19 October 2023 at 6.30 pm in Council Chamber, Town Hall,
Katherine Street, Croydon, CR0 1NX

MINUTES

- Present:** Dr Olu Olasode (Independent Chair)
- Councillor Simon Brew, Endri Llabuti, Enid Mollyneaux,
Nikhil Sherine Thampi and Sean Fitzsimons
- Also Present:** Councillor Jason Cummings
- Apologies:** Councillor Matt Griffiths and Claire Bonham

PART A

22/22 **Disclosure of Interests**

There were none.

23/22 **Minutes of the Previous Meeting**

The Committee noted that the minutes of the previous meeting would be approved by at the 30 November 2023 meeting.

24/22 **Urgent Business (if any)**

There were no items of urgent business.

25/22 **Audit & Governance Committee Action Log**

26/22 **Audit & Governance Committee Work Programme 2023-24**

Dave Phillips, Head of Internal Audit advised the Committee the initial Assurance Mapping of the Committee Work Programme report would be circulated to committee members via the Chair ahead of the 30 November 2023 Committee meeting. It was noted that the Committee members would have ownership of the document.

Officers advised the note included on the Work Programme to 'Update the Committee on Fairfield Halls when information became available' was captured following discussions at a previous Committee meeting, the Kroll report remained with the Police and there was no update at present.

Annual Governance Statement 2022/23 and Action Plan

Stephen Lawrence-Orumwense, Director of Legal and Monitoring Officer gave the Committee a presentation on the Annual Governance Statement 2022/23 (AGS) and Action Plan.

Councillor Jason Cummings, Cabinet Member for Finance noted the complexity of Croydon's Annual Governance Statement (AGS) in comparison with other Local Authorities. The scale of actions from external reports incorporated in the AGS Action Plan reflected the historical issues in Croydon. There had however been significant improvements to the council's governance arrangements, these were acknowledged in the Improvement and Assurance Panel (IAP) Exit Strategy report.

Officers noted the Committee had received reporting on the issues included in the AGS throughout the year and similarly the council's internal control board continuously reviewed the various areas of improvement. The IAP utilised the AGS Action Plan and tracker to evidence the progress and embeddedness of improvements within the council. The future aim was to make the AGS a more accessible document once the legacy issues had been resolved. The AGS provided a useful overview of the council's governance arrangements.

The Committee commented on the comprehensive reporting of the council's governance arrangements, the helpful inclusion of colour coding, actions and impacts. It was suggested that future AGS reporting should include action's prioritisation and risks to highlight areas which may undermine the work being done. Also where actions were in progress, some narrative of the steps needed for completion would be useful.

In response to questions from the Committee officers advised the AGS gave the Monitoring Officers opinion on the effectiveness of the council's governance arrangements, it was for the Committee to decide whether to accept or reject this judgement.

Officers advised Corporate Directors and Heads of Service were engaged to account for progress on actions and to complete the document. Cllr Cummings commented that the process of capturing all the improvement actions together provided assurance that nothing would be missed.

The Committee queried amber (ongoing) actions where the completion deadline had passed and if plans were in place to progress these swiftly. Officers advised the Committee would receive regular updates on AGS Action plan, with the next update scheduled for the February 2024 meeting.

In response to questions, Officers advised the three key areas of higher risk were Housing, Finance and general transformational activities across

the council. Many of the resolved initial recommendations had prompted subsequent actions requiring ongoing completion.

The Committee raised concerns regarding improvements to Information Governance where the Freedom of Information (FOI) and Subject Access Request (SAR) targets were not being met, this was an area which had not been prioritised for many years. Officers advised the Information Management Internal Control Board met regularly and had oversight of all ongoing work to ensure compliance in this area. The risks attached to Information Management were noted with the Council current in receipt of an enforcement notice from the Information Commissioners Office. The retrospective nature of the document was noted and officers agreed to update the information management work and illustrate the culture change which had taken place in the next AGS update report. Internal Audits on Information Management areas including GDPR were expected to take place in 6-9 months.

The Committee raised concerns regarding the member enquiry case work programme's implementation. Officers advised the backlog of enquiries and implementation issues were areas of focus for the Corporate Management Team and an update on this would be included in the February AGS Update report. Councillor Cummings advised members of the enquiries feedback panel where members could raise issues via their party representatives.

The Committee requested for the Information Management actions to be updated in the 22/23 Action Plan and for any past dated deadlines to be updated.

Officers advised work to identify overlap between the AGS Action Plan and the IAP Exit Strategy actions would be undertaken and confirmed IAP Exit Strategy actions would be included in future AGS Action Plan update reports.

The Committee RESOLVED, to approve:

- a) the draft Annual Government Statement 2022/23 and Action Plan;
- b) the Local Code of Corporate Governance; and
- c) the Governance Framework.

28/22

Corporate Risk Register

Malcolm Davies, Head of Insurance, Anti-Fraud & Risk introduced the Corporate Risk Register report to the Committee.

The Committee requested assurance on the processes in place to reduce red risks through the introduction of new control actions if required. Officers noted improvements were needed to ensure deadlines for future control actions were met. Improvements under the new risk management

system had been implemented to address this, a control measure target deadline was now a mandatory field for completion by risk owners and could be used by Corporate Directors to hold risk owners accountable.

The Committee raised concerns around risks within the report where control measure target dates were in the past and queried if this was due to a lack of engagement by officers. Officers advised improvements to ensure the correct risks were on the register with the appropriate rating had been completed but work was ongoing to support capacity and cultural prioritisation of risk issues by officers.

Members asked whether the risks regarding temporary and exempt accommodation providers were captured on the risk register, noting these risks could affect some of the borough's most vulnerable residents and had potential financial impacts for the council. Officers advised exempt accommodation had been area of focus in 2022/23 as it had caused a financial overspend. A project had been initiated in 2022 to address the issues regarding support exempt accommodation, this had included information sharing with Birmingham council. At present the project was on track to deliver £1.6 million in savings this financial year. The council was working with all exempt accommodation providers in the borough to change the financial model. This would achieve compliance with both support expectations and housing benefit regulations, enabling the council to claim the Department of Work and Pensions (DWP) grant. The team was working with neighbouring local authorities to ensure consistency in their approach where service providers were delivering in multiple boroughs.

The Committee queried the speed of change in likelihood ratings within the register and questioned how objective owners had been in assessing likelihood of risks previously. Officers advised the risk framework guide was intended to clarify the rating levels for risk owners. The Risk Team challenged where high levels were not appropriate, encouraging use of the guidance which was more empirical.

On procurement risks, the Committee queried the scope, value and financial implications of the contracts in question. Officers advised contracts remained a challenge, work had been undertaken to complete the council's contract register which demonstrated a larger number of upcoming renewals. There was now transparency on what needed to be done over the next three years however there could be financial implications on budgets where contracts had not been renewed.

The Committee heard a Deputy Cabinet Member for Contract Management had been appointed for this area of focus. Work was ongoing to embed the timely processes required for procurement and cultural understanding of this within the council. Cabinet was receiving quarterly updates as part of the new procurement process, this reporting provided greater visibility and a deep dive into this area by the Committee would be welcomed.

In response to questions Officers advised risks were reviewed quarterly and confirmed the next Committee report would be updated with future control measure target dates.

Members queried the likelihood of progress for the Whitgift Centre. Officers advised this was static due its control measures being far in advance and other factors including wider regeneration and the U.K retail landscape.

The Committee raised concerns around the adequacy of the controls in place for the gas safety contract mobilisation risk. Officers suggested the Committee may wish to conduct a deep dive in this area and advised this issue had been prioritised and recently escalated to a red risk.

The Committee discussed topics for the risk deep dive report due at the November committee meeting. Members suggested contract management and procurement risks due to the potential financial and legal implications, noting this was a key component of best value. Members also suggested the gas safety contract mobilisation, as this would provide a practical example of how the new procurement process and how the Housing Team were managing the ongoing risks. Support was expressed for this due to timeliness of the potential issues.

It was agreed that the risk deep dive report would focus on procurement with repairs servicing and gas safety servicing to be included as examples.

The Committee RESOLVED, to:

Note the contents of the corporate risk register as at October 2023.

29/22

Update on Oracle Improvements Programme

Mark Moody, My Resources Programme Lead delivered a presentation to the Committee providing an update on the Oracle Improvements Programme.

The Committee requested for organisational culture change to be included in the improvement programme's guiding principles.

Members noted the issues which had taken place at Birmingham Council regarding Oracle change implementation and cost.

The Committee raised previous challenges to adopt software effectively in Croydon and queried whether there had been work undertaken to ascertain risks to all software across the council. Officers agreed software adoption was a difficult risk to manage within local authorities. The importance of culture change was embedded in the project, it had been in development for a year with 70 staff engaged via workshops at the early stages. Lead officer appointments for the project were individuals with

track records in systems and culture change and the staff Change Management Network was being re-established. Other software systems required further work to assess usage and engagement by staff. The need for senior leaders to champion Oracle use to teams was noted.

The Committee requested assurance on the Value for Money and effective use all major software systems utilised to deliver internal and external services.

Officers agreed to include the user and culture issues in future Oracle Improvement Programme updates.

The Committee requested a review of the other software systems within the council, to be brought to Committee in the future.

In response to questions officers advised 4 lead posts had been appointed for the scoping stage of the project, with technical support resourcing included in the budget for the later stages. The 4 work stream leads had experience of implementing Oracle in other organisations and were supported by Croydon's oracle support team and Mastek for technical support.

The Committee queried the Licensing costs of further Oracle implementation and if any finance or risk implications were anticipated. Existing unused licenses were being removed and other functionalities of Oracle would be utilised. Officers advised risks and financial implications would be identified during the scoping of the business case and included in the report to Cabinet in 2024.

Management adoption had been implemented in budget monitoring processes, but further improvements would support full adoption of the software as the project progressed.

The report to Cabinet was expected in March 2024 and the next update to the committee would coincide with this.

Cllr Cummings noted the improvements which had been made, and the expected further improvements once the project was completed.

The Committee RESOLVED, to:

Note the presentation and update.

30/22

Anti-Fraud Report

Malcolm Davies, Head of Insurance, Anti-Fraud & Risk introduced the 6 Month Anti-Fraud Update report to the Committee.

The Committee was pleased to see the inclusion of prevention and benchmarking in the report, areas of reporting previously requested by the committee. The challenge in evaluating the cost benefit of prevention work was noted.

Members were supportive of the focus on guardianship of Croydon's social housing stock and queried whether Registered Social Landlords (RSL) were also supported. Officers confirmed engagement work with RSLs was on the team's work programme, they faced the same issues as the council did under the HRA but had less anti-fraud resourcing available. Officers agreed to include an update on this work in the next Anti-Fraud Update report.

The Committee RESOLVED, to:

Note the Anti-fraud activity of the Corporate Anti-Fraud Team for the period 1 April 2023 – 30 September 2023.

The meeting ended at 8.55 pm

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Audit and Governance Committee Action Log

Date of meeting	Action	Minute ref.	Deadline	Progress
19 January 2023	Benchmarking data on Whistleblowing incidences at other Councils to be included in future reporting.	29/22	February meeting	No significant Whistleblowing disclosures within the Council. Therefore, update deferred to February 2024 meeting.
02 February 2023	Formal aspirational timeline target to achieve the 90% completion of Internal Audit recommendations to be considered in 23/24 IA Service Plan.	33/22	November meeting	Included in Internal Update Report on November Agenda.
02 February 2023	Previously shared dashboard style reporting illustrating the movement of risks to be brought to Committee.	34/22	By next report	Updated Risk Management software being launched 19/10/23. This will enable dashboard reporting to be included in next risk report.
02 March 2023	Prioritisation of recommendations to be included in future opening the books reporting and action tracker.	40/22	March meeting	Prioritisation to undertaken and included in next report.
02 March 2023	Covid funding including Sales, fees and charges grants reconciliation to be completed.	40/22	November meeting	Report on November Agenda.
02 March 2023	Committee to receive quarterly MTFS tracker to monitor budget variances.	41/22	Quarterly	Link to future Financial Performance Reports to be included in the Committee Action Log. 23-24 Period 5 Financial Performance Reports
02 March 2023	Development of process to involve the Cabinet Member for Finance in resolving recurrent internal audit actions whilst ensuring visibility to the Committee.	42/22	Ongoing	Amending audit protocol to include escalation to KK for lack of responses to reports and to later be expanded to include

				follow ups. Once in place further escalations are being considered.
20 April 2023	Report on 15% Council Tax VFM increase to External Auditor	49/22	June 2024	Draft to Committee to confirm format, expected at February 2024 Committee meeting.
20 April 2023	Interim Auditors Reports Recommendations AGS reporting to include a breakdown of target setting and progress.	52/22	February meeting	To be included in next AGS update in February 2024.
20 April 2023	Risk Management Reporting to include risk movement and time spent as red. Ensure future control dates are not in the past.	53/22	By next report	Updated Risk Management software launched 19/10/23. This will enable dashboard reporting to be included in next risk report (April 2024).
20 July 2023	Future Energy Recharges reporting to include monetary values.	7/22	March meeting	
21 September 2023	Update on Cultural Transformation Programme: The Committee requested future reporting on implementation of the action plan, governance and benchmarking of the people and workforce.	17/22	March meeting	Included in Committee Work Programme for March 2024 meeting.
19 October 2023	AGS: The Committee requested for the Information Management actions to be updated in the 22/23 Action Plan and for any past dated deadlines to be updated.	27/22	February meeting	
19 October 2023	AGS: Work to identify overlap between the AGS Action Plan and the IAP Exit Strategy actions would be undertaken. IAP Exit Strategy actions will be included in future AGS Action Plan update reports.	27/22	February meeting	
19 October 2023	Risk Reporting: Next risk report to have all control measure targets updated to future dates.	28/22	April meeting	

19 October 2023	Risk deep dive report due at November 2023 meeting to focus on procurement and gas safe contract mobilisation risks.	28/22	November meeting	Included on November Committee Agenda.
19 October 2023	Oracle Improvement Programme: Future reporting to include user and cultural adoption issues and any licensing costs and/or risk implications.	29/22	March meeting	Added to work programme to coincide with Cabinet report.
19 October 2023	Oracle Improvement Programme: The Committee requested a review of implementation of all other software systems within the council, to provide assurance on the Value for Money and effective use all major software systems utilised to deliver internal and external services.	29/22	Ongoing	Plan for review of software systems added to February agenda. First system review on March agenda.
19 October 2023	Anti-Fraud Update: The Committee requested updates on Anti-Fraud engagement with Registered Social Landlords.	30/22	April meeting	

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LONDON BOROUGH OF CROYDON

REPORT:	Audit and Governance Committee	
DATE OF DECISION	30 November 2023	
REPORT TITLE:	Committee Assurance Mapping	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources and S151 Officer	
LEAD OFFICER:	Dave Phillips, Head of Internal Audit Dave.Phillips@croydon.gov.uk	
LEAD MEMBER:	Cllr Jason Cummings	
KEY DECISION? [Insert Ref. Number if a Key Decision]	No	REASON: N/a
CONTAINS EXEMPT INFORMATION?	No	Public
WARDS AFFECTED:	N/a	

1. SUMMARY OF REPORT

- 1.1 This report details the results of the mapping of the Committee's terms of reference to the different sources of assurance that it receives.

2. RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to:

- Note results of the mapping of the Committee's terms of reference to the different sources of assurance that it receives and to use this to inform the Committee's forward plan.
- Agree that going forward, the assurance mapping document be reviewed at each Committee meeting alongside the forward plan.

3. REASONS FOR RECOMMENDATION

- 3.1 The Council's constitution, Part 3 Responsibility for Functions, includes the terms of reference for the Audit and Governance Committee. This defines the purpose of the Committee. In order for the Committee to properly discharge its purpose

it needs to obtain relevant assurances. The assurance mapping conducted will help the Committee detect any gaps in the assurances it is obtaining.

4. BACKGROUND AND DETAILS

- 4.1** Appendix 1 is the Committee's terms of reference, extracted from the Councils Constitution as approved 31st August 2023, mapped against the different sources of assurance that the Committee receives.
- 4.2** The initial mapping was conducted by the Head of Internal Audit, before being shared with the respective Committee members for their comments and input.
- 4.3** It is intended that the document be the Committee's own document and for that purpose members should feel comfortable with the document and its contents and are encouraged to challenge and add to it.
- 4.4** In order to keep the mapping current, it will need to be regularly reviewed and it is proposed that this occurs at each Committee meeting alongside the forward plan.

4.5 FINANCE IMPLICATIONS

- 4.5.1** The fixed price for the Internal Audit Contract is £0.365m for 2023/24 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.
- 4.5.2** 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.
- 4.5.3** Comments approved by Lesley Shields, Head of Finance for Assistant Chief Executive and Resources on behalf of the Director of Finance. 15/11/23

4.6 LEGAL IMPLICATIONS

- 4.6.1** 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.
- 4.6.2** 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.

4.6.3 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.

4.6.4 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.

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

4.6.6 The contents of this report, and of the Internal Audit Report 1st April 2023 to 31 October 2023 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.

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

4.7 HUMAN RESOURCES IMPLICATIONS

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

4.7.2 Approved by Gillian Bevan, Head of HR Resources and Assistant Chief Executives on behalf of the Chief People Officer (09/02/2023)

4.8 EQUALITIES IMPLICATIONS

4.8.1 The Council is required to comply with the Public Sector Equality Duty [PSED], as set out in the Equality Act 2010. The PSED requires the Council to have due regard to the need to:

eliminate discrimination,

equality of opportunity and

good relations between different people when carrying out their activities.

Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

4.8.2 When Internal Audit is progressing 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.

4.8.3 Comments approved by Naseer Ahmad on behalf of the Equalities Manager. (Date 15/11/2023)

5. APPENDICES

5.1 Appendix 1 – Committee Assurance Mapping.

6. BACKGROUND DOCUMENTS

6.1 None

7. URGENCY

7.1 There is none.

Audit and Governance Committee

(Membership 9: one independent, suitably qualified Chair who may not be a Member or officer of the Council and one independent, suitably qualified co-optee)

Purpose

The Audit and Governance Committee provides an independent and high level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The Committee's purpose is to:

1. provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment;
2. oversee internal and external audit, helping to ensure that efficient and effective assurance arrangements are in place;
3. provide independent review of the Council's governance, risk management and control frameworks
4. oversee the financial reporting and annual governance processes and
5. provide independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment.

Governance, risk and control

1. To monitor the effective development and operation of the Council's risk management arrangements, the control environment and associated anti-fraud, whistleblowing and anti-corruption, strategies, actions and resources. To consider a quarterly report on whistleblowing activity in the Council..

Sources of Assurance:

Risk:- Regular risk updates. *The Committee should be able to sense check these updates using deep dives, the Annual Governance Statement, Internal Audit reports and their own knowledge of the Council and economy.*

Anti-Fraud: Regular anti-fraud updates and approval of the annual anti-fraud proactive plan.

Whistleblowing: The quarterly report on whistleblowing.

2. To monitor progress in addressing risk-related issues reported to the committee. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

Sources of Assurance:

Risk:- Regular risk updates. *The Committee should be able to compare successive reports and the actual and proposed controls to monitor progress.*

Internal Control effectiveness: Regular Internal Audit updates. *The results of audit work will provide the Committee assurance over this, as Internal Audits seeks assurance over the design and effectiveness of controls, as well as compliance.*

3. To consider the Council's framework of assurance, including the Statement on Internal Control, and ensure that it adequately addresses the risks and priorities of the Council. To review the Council's corporate governance arrangements against the good governance framework and consider the local code of governance. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances.

Sources of Assurance:

Framework of Assurance: Provided as part of the preparatory documents for the Annual Governance Statement process. *These documents include the governance framework, Code of Governance and Director Assurance Statements.*

Statement of Internal Control: Annual Governance Statement review. *The AGS superseded the SIC. The Committee will compare the AGS against the annual HoIA (Head of Internal Audit) report and knowledge which they have gleaned from risk and anti-fraud updates.*

4. To review the governance and assurance arrangements for significant partnerships or collaborations. To ensure appropriate arrangements are in place in relation to any subsidiary bodies controlled by the Council.

Sources of Assurance:

Significant partnerships/collaborations/subsidiary *The Committee can gain assurance from a variety of sources, including risk register reviews, deep dives, Internal Audit work, External Audit reports and the Annual Governance Statement, but there is no one document/report to the Committee on this.*

Plus Scrutiny Committee minutes.

5. To consider the effectiveness of the Council's policies, standards and processes for transparency, ensuring that they meet Government requirements and take into account best practice.

Sources of Assurance:

Council policies, standards and processes for transparency: I am not aware of any *specific document/report to the Committee on this, although some audits will include this as a focus. There is also the Committee's work with Scrutiny.*

Plus Scrutiny Committee minutes

Internal audit

6. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

Sources of Assurance:

Value for Money: Both Internal and External Audit reports. *The Committee will gain assurance from audit reports, where vfm issues are not reported, as well as the external auditors vfm opinion.*

Additional reports on culture and achieving best value

7. To approve the internal audit charter.

Sources of Assurance:

Internal Audit charter: This is presented to the Committee Annually, usually in March every year.

8. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To periodically review safeguards to limit such impairments.

Sources of Assurance:

Appointment of external providers: This is not due, but will be reported when due.

Independence: Internal Audit strategy, Internal Audit Charter and the Head of Internal Audit Annual report. *The Committee will agree the Strategy and Charter looking forwards and gain assurance looking backwards from the annual Head of Internal Audit report, which is required to report any conflicts etc.*

9. To review (but not direct) internal audit's risk-based strategy, plan and resource requirements, the approach to using other sources of assurance and any work required to place reliance on those other sources. To approve significant interim changes to the risk-based internal audit plan and resource requirements.

Sources of Assurance:

Audit Plan: This is presented to the Committee Annually, usually in March every year. *The Committee will be able to assess the coverage of the annual plan, the accompanying resource requirements and the approach to using other sources of assurance. Any significant changes (which would include a significant reduction in days or other significant changes rather than the addition, deferment or omission of some audits) to the plan should be brought to the Committee, and the Annual Head of Internal Audit report will report on changes to the plan that may have occurred.*

10. 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.

Sources of Assurance:

Internal Audit reports : Quarterly Internal Audit updates and the Annual Head of Internal Audit report. *Based on these reports, the Committee should ask management for assurance that key risks / issues are being dealt with. This should partly be reflected in the progress of action plans being cleared and partly with risks and accompanying actions on the risk register. The Council's Annual Governance Statement will also help inform action/s being taken.*

11. To receive the annual report of the Head of Internal Audit and make recommendations as appropriate to management, Cabinet and/or Full Council. To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services and make recommendations as appropriate to management, Cabinet and/or Full Council.

Sources of Assurance:

Internal Audit reports : Quarterly Internal Audit updates and the Annual Head of Internal Audit report.

12. To advise and recommend on effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.

Sources of Assurance:

Relationships between Internal, External Audit and other bodies: No specific papers.

The Committee should consider and, where appropriate, seek these assurances verbally when presentations are made by these respective parties.

13. To contribute to the Quality Assurance Improvement Programme and in particular to the external quality assessment of internal audit.

Sources of Assurance:

External quality Assessment: Presentation of the completed EQA.

This is a process that should occur every 5 years. The Committee (and in particular the Chair) will be asked to contribute towards this.

14. To provide free and unfettered access to the Committee Chair for the head of internal audit, including the opportunity for a private meeting with the Committee.

Sources of Assurance:

Unfettered access: Bi-weekly meetings with the Chair and the Head of Internal Audit.

External audit

15. To consider the external auditor's annual assessment of its independence and review any issues raised by Public Sector Audit Appointments Ltd.

Sources of Assurance:

External Audit independence: External Audit Fee updates, interim and year end reports. Ad hoc reports by PSAA, if any.

16. To make recommendations to Council relating to the appointment of the external auditor.

Sources of Assurance:

External Audit appointment: Report recommending use of PSAA for External Audit appointment, which is every 5 years.

17. To consider the reports of external audit and inspection agencies and make recommendations as appropriate to management, Cabinet and/or Full Council. To review the external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.

Sources of Assurance:

External Audit Reports: External Audit interim, year end and other ad hoc (such as RIPI) reports

Other inspection reports: Ombudsmen reports.

I am not aware of any automatic sharing of Ofsted and other inspection agency reports.

To comment on the scope and depth of external audit work and ensure it gives value for money.

Sources of Assurance:

Depth External Audit Work: External Audit interim and year end reports.

The Committee should (in particular) review the external Auditors' best value opinion and the work to achieve this. The audit of the accounts is strongly governed by statute and external audit is subject to inspections on the quality of this work. The best value opinion is more subjective.

The Committee should seek to also gain assurance via the Council's S151 Officer and its Finance function.

Financial reporting

18. To review the annual statement of accounts and specifically to consider whether appropriate accounting policies and the CIPFA Financial Management Code have been followed, and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

Sources of Assurance:

Annual Accounts: External Audit interim, year end and ad hoc reports, the Draft Annual Accounts.

The Committee should seek to also gain assurance via the Council's S151 Officer and its Finance function.

Accountability and escalation

19. To report to the full Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
20. To make an annual report to the full Council on the Committee's performance in relation to its terms of reference and the effectiveness of the Committee in meeting its purpose.

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Agenda Item 9

REPORT TO:	AUDIT & GOVERNANCE COMMITTEE
DATE OF DECISION:	30 November 2023
REPORT TITLE:	Risk Register Entries 'Deep Dive'
CORPORATE DIRECTOR/DIRECTOR:	Jane West Corporate Director Resources & S151 Officer
LEAD OFFICER:	Malcolm Davies Head of Anti-Fraud, Risk & Insurance Malcolm.davies@croydon.gov.uk.
LEAD MEMBER:	Councillor Jason Cummings, Cabinet Member for Finance
AUTHORITY TO TAKE DECISION:	The Committee's terms of reference include monitoring the Council's risk management arrangements and providing independent assurance as to their adequacy.
KEY DECISION:	N/A
CONTAINS EXEMPT INFORMATION?	NO Public In line with the Council's commitment to openness and transparency, the corporate risk 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).
WARDS AFFECTED:	All

1 SUMMARY OF REPORT

- 1.1 The presentations update the Audit & Governance Committee Members on progress against selected entries from the corporate risk register (the register).

2 RECOMMENDATIONS

The Committee is asked to:

2.1 Note the contents of the risk presentations attached in Appendix 1

3 REASONS FOR RECOMMENDATIONS

- 3.1 Members at the 19th October meeting of the committee reviewed the corporate risk register, those risks recorded as 'high rated' or RED on the register.
- 3.2 Members have the ability to 'call in' risks for a deep dive and the committee elected to concentrate on four red risks for a risk 'deep dive' at its 30 November meeting.
- 3.3 To assist the Council in meeting its best value duty.

4. BACKGROUND AND DETAILS

Risk 'Deep Dives'

- 4.1 Members have elected to concentrate on the following risks for a risk 'deep dive' presentation at the meeting of the committee.
 - CIC0029: 'Adherence to procurement regulations and planning'
 - CIC0012: 'Contract management and contract inflationary pressures'
 - CIC0008: 'Cost pressures in relation to contracts specifically focusing on utility and gas'
 - HSI0035: 'Fail to manage and deliver improvements on new Gas Safety & Heating Contractor in Year 1 - following mobilization in August 2023'
- 4.2 These presentation is attached at Appendix 1.
- 4.3 In line with the Council's commitment to openness and transparency, the risk register presentations 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).
- 4.10 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.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 Not applicable

6 CONSULTATION

6.1 Not applicable

7 CONTRIBUTION TO COUNCIL PRIORITIES

7.1 To assist the Council in meeting its best value duty.

8 IMPLICATIONS

8.1 None other than those identified in the body of the report.

9.1 FINANCIAL CONSIDERATIONS

9.1.1 There are no direct financial implications arising from this report.

9.1.2 The Council's financial reporting and medium-term financial strategy takes account of the risk management framework and considers the potential financial implications of risks.

9.1.3 Comments approved by Lesley Shields, Head of Finance for Assistant Chief Executive and Resources on behalf of the Director of Finance. 06/11/23

9.2 LEGAL CONSIDERATIONS

9.2.1 The Audit and Governance Committee is required by its terms of reference to monitor the effective development and operation of the Council's risk management arrangements, to monitor progress in addressing risk-related issues reported to the Committee, and to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment. Therefore, the consideration of risk "deep dive" reports assists Members in discharging these responsibilities.

9.2.2 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' (Section 3 Local Government Act (LGA) 1999). The best value duty applies to all functions of the Council. The Council is currently the subject of Directions from the Secretary of State requiring service improvement and transformation. Specifically, under Directions dated 20 July 2023, issued by the Secretary of State under Section 15(5) of the Local Government Act 1999, the Council must, amongst other things "secure as soon as practicable that all the Authority's functions are

exercised in conformity with the best value duty, thereby delivering improvements in services and outcomes for the people of Croydon". 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.

- 9.2.3 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. This report also seeks to demonstrate compliance with these legal duties.

(Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Legal Services and Monitoring Officer Stephen Lawrence-Orumwense 17/11/2023)

9.3 EQUALITIES IMPLICATIONS

- 9.3.1 None

OTHER IMPLICATIONS

9.4 HUMAN RESOURCES IMPACT

- 9.4.1 There are no immediate human resource considerations arising from this report. Any impacts arising will be managed under the Council's HR policies and procedures.

Comments approved by: Gillian Bevan, Head of HR – Resources and Assistant Chief Executives directorates on behalf of Dean Shoemith, Chief People Officer.

9.5 ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS

- 9.5.1 None

9.6 RISK IMPLICATIONS

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

9.7 DATA PROTECTION IMPLICATIONS

- 9.7.1. **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 Corporate Risk Register.

9.7.2. 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 Corporate Risk Register

10. APPENDICES

Appendix 1 Risk Presentation.

11. BACKGROUND DOCUMENTS: None

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Procurement Risk Deep Dive: Audit and Governance Committee

Background - scope

Relevant risks on the register

- 1. Contract Management and Supply Chain risk**, including inflationary pressures, facing council. Implications for revenue and capital programme.
- 2. Reprocurement of contracts left until very late**, close to or passed contract expiry
- 3. Wholesale gas, electricity and utility costs increasing** and risk of continual increases placing unsustainable financial burden on the council, in addition that school energy recharges are recovered with that process having started in January 2023.

Proportionate approach required to address these risks effectively

Proposed actions form part of our Procurement Improvement Plan and support the outputs agreed with the Improvement Panel as part of their Exit Strategy for Croydon.

Categories of risk

Supplier Performance & Failure risks

Ethical risks e.g. Modern Slavery

Forecasting/Planning risks

Economic risks e.g. inflation

Fraud and Collusion risks

People risks (skills & capacity)

Demand risks

A Proportionate approach to risk management

		Platinum	Gold	Silver	Bronze
Contract scope, value and risk		<i>Strategic contracts or relationships that are considered high value and high risk. These are likely to be statutory services but can also include contracts that are a mix of statutory and non-statutory compliance services.</i>	<i>Major contracts, limited alternative providers that may impact on performance. These contracts may be long or medium term and support the delivery of the Council's priorities or its operations.</i>	<i>Lower value and less strategically important in the short-term but often critical to manage due to one or more of the elements of value, risk or complexity.</i>	<i>Low value, low risk contracts. Usually transactional in nature, loss of service easily restored or replaced. While there may be some interruption in supply arising from failure it would have minimal impact.</i>
Performance Management	Review KPIs and agree improvement plans. Apply contract remedies where required.	✓ Monthly	✓ Min. Quarterly	✓	✗
	Monitor delivery of social value commitments	✓ Monthly	✓ Min. Quarterly	✓	✗
	Certify acceptance of deliverables at key stages/ milestones	✓	✓	✓	✗
	Undertake Value for Money/Contract Benefit review	✓	✓	✗	✗
Risk Management	Actively identify risks and actions to manage them	✓	✓	✗	✗
	Monitor risks, issues and opportunities via a register. Manage early warnings (NEC)	✓	✓	✓	✗
	Manage ongoing assessment of the financial health of suppliers	✓ Min. Quarterly	✓ Min. Annually	✗	✗
	Assess the robustness of supplier business continuity arrangements	✓ Min. Annually	✓ where appropriate	✗	✗
	Draft supplier contingency plan and keep updated	✓	✓ where appropriate	✗	✗

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- All contracts are assessed as platinum, gold, silver, bronze based on complexity, spend, risks, reputational impact, ease of switch etc.
- The table on this slide is an extract from a framework that will support a proportionate, consistent approach to contract management (it is being tested prior to embedding across contract managers)
- Allows resource to be focused where it matters.
- Similarly, the Procurement function's proposed new operating model (see next slide) will see a greater focus on strategic activity, **earlier engagement and commercial support for contract managers.**

Broadening Procurement's Offer



Pre-Procurement Support

- Actively manage procurement/contract pipeline & its internal/external communication via Business Partners
- Provide market intelligence where required to inform requirements & viability (option appraisals)
- Provide commercial expertise to support specifications, risk management, pricing models etc.
- Provide improved management reporting of performance data

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Strategic Sourcing

- Identify appropriate routes to market to best meet project objectives.
- Ensure process is compliant with Regulations/Legislation
- Ensure supports the Mayor's Priorities: delivering value for money; social value and; sustainability
- Track forecast and delivered benefits (savings, social value and other benefits).

Streamlined, appropriate Governance

- Procurement will not source low value procurements unless requested to due to complexity/high risk but will provide support (training and systems) and assurance (to ensure ongoing compliance with CSOs)

Contract and Supplier Management Support

- Support effective contract management through helping to develop necessary skills.
- Work with contract managers to identify and delivery savings and improvements.
- Support contract managers on key contracts in managing risks (including development of contingency plans)

Procurement function adds little value in sourcing low value items and adding more parties can lengthen procurement timeline. Removing the requirement to engage with Procurement for these items will allow a broader more strategic

Plan to move incrementally to a position where procurement team manages all procurements >£180k*

Summary

A missing or incomplete forward plan means:

- the market is not sighted on future requirements and cannot build necessary capacity to respond to key procurements effectively.
- Internally it risks suitable resource not being identified and allocated
- It hampers early commercial engagement so reducing value for money

An incomplete contract repository:

- risks contracts expiring without the necessary procurements to replace them being undertaken. This may mean having to direct award to existing suppliers causing both legal and value for money issues



In Place or under development

- Monthly line by line review of Contracts Register and Forward Plan, reported to DMT's
- Developing *achievable* Council procurement forward plan, by Directorate
- Procurement systems review with development of procurement dashboards



Planned Future Developments

- Provide a series of market events sharing pipeline information with specific sectors to allow them to plan their engagement with the council.
- Development of system controls that prevent orders being raised without contracts in place.
- Spend analysis to identify any further contracts missing from register and compare spend vs contract value (to mitigate risk of overruns)
- Implement accessible Contract repository to contain copies of all signed contracts

Subsequent slides in this Presentation will detail a mix of actions in place/underway to address the risks and also planned as part of the Procurement Improvement Plan

Late Re-procurements of Contracts

Summary

Failing by the Originator to engage the right stakeholders at the right time across the business in the development of requirements/specifications can lead to hurried procurements, reduced competition, future contract variations and unnecessary costs



In Place or under development

Revising procurement gateway templates

- As part of this commercial strategies built into the business case stage that take account of appropriate risk allocation, payment mechanisms, KPIs, contract management requirements, benefit realisation.



Planned Future Developments

- As a minimum Procurement team to input into options appraisals for all key procurements as part of business case
- Define all stakeholder roles and responsibilities in the end to end procurement process and communicate across the council.
- Identify skill gaps that prevent successful input into the procurement process & deliver training (e.g. specification development)
- Develop template schedules for end-to-end procurement timescales (including governance) to inform pipeline
- Report RAG status of pipeline entries (against procurement schedule) as part of Directorates dashboard reporting

Summary

A lack of contract management training risks inconsistent and poor practices in place within contract administration, performance, risk and relationship management. This inconsistency is reinforced where common processes and documentation are absent



In Place or under development

- Development of contract management improvement initiative based on review of platinum and gold contracts.
 - c.88% of total contract value covered by Platinum/Gold contracts
 - Contract register indicates these are managed by a community of 42 Contract Managers – process underway to ensure we have an up to date list of contract managers and identify any gaps.
- Contract Management Assurance Board recently set up
- Development of contract management framework covering suite of tools, templates etc. for contract managers to use



Planned Future Developments

- Implement training programme where all contract managers required to undertake Government Commercial Function (GCF) Foundation training as a minimum.
- Develop/commission training to cover key gaps in skills for Gold & Platinum contract managers. As part of this review applicability for GCF Practitioner & Expert training for gold/platinum contract managers

Summary

A lack of attention to the performance of key suppliers, including appropriate plans to manage any failures risks delivery and reputational issues for the council



In Place or under development

- Segmentation tool already in place to identify high risk suppliers (where deterioration of contract performance may have a significant impact on the Council)
- Review of appropriate Contract management system underway that captures & reports on performance vs KPIs.
 - Rollout to focus on Platinum and Gold contracts (and all contracts >£5m).
- Contract management improvement initiative will provide an annual health check to ensure that key suppliers have up to date business continuity plans and risk registers are in place.



Planned Future Developments

- Implement market intelligence tool to help identify & mitigate financial and reputation risk
- Develop contingency plan template & work with contract managers to ensure contingency plans in place for all Platinum contracts
- Define approach for monitoring benefit realisation from key contracts (based on those identified at contract award stage and including social value) and identification of additional benefits over and above this. Support contract managers to measure these.
- Ensure key suppliers undertake periodic review of their supply chains to assess risk within and have

Summary

The inappropriate use of inflationary indices can lead to contract costs diverging from actual cost increases incurred by suppliers leading to them either gaining excess profits or the opposite, resulting in a degradation in performance.



In Place or under development

- Shorter term contracts tend to use fixed rates.
- Current contract template terms include indexation provisions that use CPI as the backstop but flexibility to negotiate based on actual changes to contractor costs
- CPI is recognized as a more robust general index than RPI and typically tracks lower (e.g Sept 2023 CPI was 6.7% vs RPI at 8.9%)
- Inclusion of indexation clauses to be justified as part of Commercial section in revised business case template under development



Planned Future Developments

- Development of guidance on appropriate sector specific indices to use in contracts – so any increases better reflect the pressures on the supplier e.g. use of Average Weekly Earnings (AWE) index for contracts with high labour content.
- Use of indices to support extension decisions in key contracts e.g. use of BCIS ROADCON tender price index (measures the movement of prices in accepted tenders for road contracts in England, Scotland and Wales).

Summary

Failure to categorise Modern Slavery risk in our procurement and contracts means we risk not focusing attention in the right areas and the suppliers do not undertake the necessary measures to mitigate risk in their supply chains



In Place or under development

As part of the tender exercise (the 'Selection' stage) bidders who are subject to Section 54 of the Modern Slavery Act are required to provide a modern slavery statement that outlines the steps they have taken during the financial year to ensure that slavery and human trafficking is not taking place in any of their supply chains, and in any part of their own business.



Planned Future Developments

Ensure Modern Slavery risk of procurements is categorised upfront using a modern slavery assessment tool and build in appropriate clauses into contracts.

Invite high risk suppliers to complete the UK Modern Slavery Assessment Tool (MSAT) and develop an improvement plan based on MSAT recommendations

Ensure procurement and contract management staff receive MS training (e.g Supply Chain Sustainability School's Modern Slavery Learning Pathway)

Work with contract managers to audit sample of high risk contracts (using MSAT question set as basis)

Summary

A lack of awareness and necessary controls to address conflicts of interest, fraud and collusion risks reputational damage, increased costs, legal challenge and market disengagement.



In Place or under development

Bidders can be excluded from participation in the tender where they have been involved in distortion of competition or have a conflict of interest

Bidders are required to complete a non-collusion declaration as part of the tender.

Evaluators are required to sign a declaration confirming they do not have a conflict of interest before accessing bid documents.



Planned Future Developments

Ensure staff are trained on conflicts of interest, fraud and collusion in procurement, recognise the 'red flags' and are clear on what actions to take.

Ensure that key suppliers have appropriate measures in place to identify and act on corruption within their supply chains.

Increasing wholesale gas, electricity and utility costs

Summary

Managing the volatility risk of wholesale energy markets. Conflict in Ukraine has driven a step-change increase in wholesale energy prices.



In Place

Gas and electricity contracts both frameworks let by LASER (Kent Commercial Services).

Council's energy volumes aggregated with other public sector customers to enable LASER to purchase directly from wholesale markets.

Strategy is to purchase different amounts of forward annual demand at different times according to markets

Approach spreads purchases and avoids fixing forward demand at a retrospective market peak



Planned Future Developments

Current strategy is to fix forward price before each annual supply period April – March.

Council could opt for more flexible strategy, e.g purchases continue during supply period (but unit pricing would change over the year)

Collaborative (London Councils) project exploring Power Purchase Agreements (PPA) with renewable generator. Requires long term, circa 10 year contract.

PPA can provide long term price certainty – but risk if wholesale prices subsequently fall

When will we deliver these actions?

- A detailed breakdown of deliverables by year from 23-26 will be included in the Improvement plan under development and we will report on progress against this.
- A number of them also support the required actions in the Improvement Panel's exit report for Croydon. They will also be delivered in line with the timescales in the report.

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LONDON BOROUGH OF CROYDON

REPORT:	AUDIT AND GOVERNANCE COMMITTEE	
DATE OF DECISION	30th November 2023	
REPORT TITLE:	Sales, Fees and Charges Compensation Scheme 2020-21 and 2021-22	
CORPORATE DIRECTOR	Jane West Corporate Director of Resources (Section 151 Officer)	
LEAD OFFICER:	Allister Bannin, Director of Finance (Deputy S151)	
LEAD MEMBER:	Cllr Jason Cummings, Cabinet Member for Finance	
KEY DECISION?	No	
CONTAINS EXEMPT INFORMATION?	No	Public Grounds for the exemption: N/A
WARDS AFFECTED:	All	

1 SUMMARY OF REPORT

- 1.1 This report provides details of the compensation received as a result of COVID-19 for Sales fees and charges. Covid impacted local authorities' ability to generate revenues in several service areas as a result of lockdown, government restrictions and social distancing measures, related to the pandemic. A one-off income loss scheme was set up to compensate for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services, in the financial year 2020-21 and the first 3 months of 2021-22 financial year (the extended scheme).
- 1.2 The scheme was set up whereby authorities will absorb losses up to 5% of their planned 2020-21 sales, fees and charges income, with government compensating them for 75p in every pound of relevant loss thereafter.

2 RECOMMENDATIONS

- 2.1 To note the details of the compensation received from the Sales, fees and charges scheme for the financial year 2020-21 and the first quarter of 2021-22.
- 2.2 To note that a reconciliation was carried out and the income received is in line with the losses incurred and claimable and that the grant for these losses has been received.

3 REASONS FOR RECOMMENDATIONS

- 3.1 To confirm the Councils position in relation to the receipt of any sales fees and charges income and losses arising from this.

4 BACKGROUND AND DETAILS

- 4.1 The sales fees and charges scheme was set up to compensate authorities for eligible losses of income from sales, fees and charges which they had forecast to collect through the usual delivery of local services in 2020-21. This scheme was then extended to cover losses for the first 3 months of 2021-22.
- 4.2 At the request of the Committee the officers were tasked with confirming the position on Sales Fees and charges compensation scheme and provide an update on if this had been reconciled and all losses where applicable and recoverable had been recovered.

Table 1 below gives details of the submission made for financial year 2020-21 and the first 3 months of 2021 -22 (extended scheme).

Table 1 – Budgeted Income and Losses

	Budget (£,000's) 2020-21	Total Income Lost (£,000's) 2020-21	Budget (£,000's) 2021-22	Total Income Lost (£,000's) 2021-22
Off-Street Parking Services	-	-	558	313
On-Street Parking Services	20,822	6,335	4,647	1,345
Traffic Management and Road Safety	1,456	99		-
Culture and Heritage	51	51	13	13
Recreation and Sport	-	-	50	26
Adult Social Care	-	-	50	10
Regulatory Services	856	272	404	149
Community Safety	530	337		-
Building Control	1,358	596	335	136
Development Control	3,872	396		-
Trade Waste	-	-	198	193
Central Services	4,089	1,437	133	-
Education Services	-	-		81
TOTAL	33,034	9,523	6,388	2,266

As per table 1 the total income loss over the period was £11.789m (£9.523 for 2020-21 and £2.266m for the first quarter of 2021-22). Based on the criteria by which compensation was granted table 2 below gives details of this and the amount claimed. Croydon had to as per the scheme absorb the first 5% loss and then claim 75p in every pound. The total loss absorbed by Croydon was £4.426m.

Table 2 – Details of Irrecoverable loss and Compensation

	2020-21 (£,000's)	2021-22 (£,000's)
Budget (As per table 1)	33,034	6,388
Income lost (As per Table 1)	9,523	2,266
Less 5% of Budget Non-reclaimable	(1,652)	(319)
Less 25% of Income Losses Non-reclaimable	(1,968)	(487)
Total Compensation Claimed	5,903	1,460

The reconciliations were completed and certified and signed off in March 2023 and the income for 2020-21 and the first quarter of 2021/22 was received.

3 ALTERNATIVE OPTIONS CONSIDERED

- a. None.

4 CONSULTATION

- a. None.

7. CONTRIBUTION TO COUNCIL PRIORITIES

8. IMPLICATIONS

8.1 FINANCIAL IMPLICATIONS

- 8.1.1 Finance comments have been provided throughout this report.

Comments approved by Allister Bannin, Director of Finance (Deputy s151 Officer), (07/11/2023).

8.2 LEGAL IMPLICATIONS

- 8.2.1 Payments to local authorities under the Sales, fees and charges income compensation scheme were made by way of grant payments under Section 31 of the Local Government Act 2003, in accordance with determinations by the Minister under Section 31(3) in relation to the amount of the grant and the manner of payment.

Comments approved by Sandra Herbert, Head of Litigation & Corporate Law, on behalf of the Director of Legal Services, and Monitoring Officer (7/11/2023).

8.3 HUMAN RESOURCES IMPLICATIONS

8.3.1 There are no immediate workforce or human resource management issues arising from this report and its recommendations.

Approved by Dean Shoesmith, Chief People Officer, 6/11/2023.

8.4 EQUALITIES IMPLICATIONS

8.4.1 The Council has a statutory duty to comply with the provisions set out in the Equality Act 2010. In summary, the Council must in the exercise of all its functions, “have due regard to” the need to comply with the three arms or aims of the general equality duty. These are to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

8.4.2 Having due regard means to consider the three aims of the Equality Duty as part of the process of decision-making. This means that decision makers must be able to evidence that they have taken into account any impact of the proposals under consideration on people who share the protected characteristics before decisions are taken.

8.4.3 There are no equality implications arising from the contents of this report.

8.4.4 Comments approved by Naseer Ahmad for Equalities Programme Manager (Date 08/11/2023)

9. APPENDICES

9.1 None.

10. BACKGROUND DOCUMENTS

10.1 None.

LONDON BOROUGH OF CROYDON

REPORT:	Audit and Governance Committee	
DATE OF DECISION	30 November 2023	
REPORT TITLE:	Internal Audit Update Report	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources and S151 Officer	
LEAD OFFICER:	Dave Phillips, Head of Internal Audit Dave.Phillips@croydon.gov.uk	
LEAD MEMBER:	Cllr Jason Cummings	
KEY DECISION? [Insert Ref. Number if a Key Decision]	No	REASON: N/a
CONTAINS EXEMPT INFORMATION?	No	Public
WARDS AFFECTED:	N/a	

1. SUMMARY OF REPORT

- 1.1 This report details the work completed by Internal Audit so far during 2023/24 and the progress made by the Council in resolving findings identified from audits.

2. RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to note the work completed by Internal Audit so far during 2023/24 and the progress made by the Council in resolving findings arising from audits.

3. REASONS FOR RECOMMENDATION

- 3.1 In line with the Sector Internal Audit Standards, the Head of Internal Audit must regularly communicate the internal audit activity's progress against the annual audit plan and in following up findings arising from audits to senior management and the Audit and Governance Committee for review.

4. BACKGROUND AND DETAILS

- 4.1 The Internal Audit report (Appendix 1) includes the following:

- a list of all audits completed so far in 2023/24, 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 findings implemented.

4.2 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.

PROGRESS AGAINST THE AUDIT PLAN

- 4.3** By 31 October 2022 35% (33% last year) of the 2023/24 planned audit days had been delivered and 11% (10% last year) of the draft audit reports due for the year had been issued. Internal Audit is on target to complete the 2023/24 Internal Audit Plan on time, with all remaining internal audits scheduled in.
- 4.4** Of the two Internal Audit 2023/24 reports finalised since the Head of Internal Audit Report, both (100%) are limited assurance.

FINALISED INTERNAL AUDIT REPORTS

4.5 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>

4.6 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 2023, these have been included here as the Committee would not have seen the breakdown of the priority 1 and 2 issues for these.)

4.7

Agency Use and IR35 (Limited Assurance)
<p>Priority 1 Issues</p> <ul style="list-style-type: none"> • Sample testing found that IR35 panel approval was not evident or applied for eight of the 15 suppliers subject to IR35 assessment before being set up in MyResources.

- Status Determination Statements (SDS) were not being produced to inform the IR35 determination.
- A check was not in place to confirm if Adecco has an appropriate arrangement for agency workers in accordance with IR35 legislation

4.8

Azure Cloud Usage (Substantial Assurance)
<p>Priority 2 Issues</p> <ul style="list-style-type: none"> • The Azure landing zone and architecture documentation was not up to date and remained in Capita branding. A recent significant technical change had also not been reflected in the technical documentation. IT outages caused by reliance on out-dated technical documentation could result in an impact to front line Council services and / or reputational damage to the Council. • Separate from the usual IT Administration accounts for the day to day managing of Azure services, there was only a single emergency access 'break glass' account. Should this account be required and found to be compromised, there would be no other means of gaining access to the Azure platform without Microsoft's intervention. This could result in significant delays in recovering the Council's Azure platform resulting in extended IT outages potentially impacting front line Council services and / or reputational damage to Croydon.

4.9

Capital Spend Projections and Monitoring (Substantial Assurance)
<p>Priority 2 Issues</p> <ul style="list-style-type: none"> • The Council's Financial Regulations (and underlying procedure notes) do not set out capital monitoring and reporting requirements across directorates nor the need to perform capital project spend reconciliations. • There is a need to improve the capital monitoring process at a directorate level to enhance consistency across the various capital projects. This is borne from the findings in the report, such as capital project reconciliations being done annually rather than monthly and project managers not having access to the finance system, 'My Resource', for project spending reconciliations.

4.10

Journals: Impact on Budget Management (No Assurance)
<p>Priority 1 Issues</p> <ul style="list-style-type: none"> • No journals policy or procedures. • Requirements for approval of journals are undefined. • Purpose and frequency of journals is undefined

Priority 2 Issues

- Oracle does not record approval of journals.
- Working papers not uploaded to Oracle.
- Cost-centre variances not investigated or documented.

4.11**Member / Officer Protocol – Staff Training (Substantial Assurance)****Priority 2 Issues**

- There was no clear programme of training in place for staff in relation to the Member Officer Protocol.
- Not all members had completed the mandatory training relating to the Member Officer Protocol.

4.12**Mental health / Staff Well Being Processes and Procedures (Full Assurance)****No Priority 1 or 2 Issues****4.13****SGO Allowances (Limited Assurance)****Priority 1 Issues**

- Testing a sample of 15 cases identified three cases where discretionary payments were not recorded on the child's support plan or were used when financial resources documentation was not provided by the SG and were not evidenced as appropriately approved.
- There was no evidence that the Department for Education (DfE) means testing calculator was used in determining the financial status of all the beneficiaries of Special Guardianship (SG) allowances.
- Sample testing of 15 cases identified seven children under the SG arrangement without a support plan and a further six cases where the support plans were not signed by all the relevant parties.

Priority 2 Issues

- The London Borough of Croydon Special Guardianship, Child Arrangements Order and Adoption Order Allowances Policy (SG Allowances Policy), dated October 2020, needs to be reviewed and updated, and monitoring procedures across directorates need to be documented to reflect current practice and legislation.

- Testing identified the Council did not issue an initial SG allowance acceptance letter, which contained the support T&C to all SG carers and not all SG signed the acceptance letter.
- Testing identified that not all the SG's sampled had sent annual statements to the Council and the Council did not follow up on the outstanding annual statements.
- The Children's Payment Team (CPT) send weekly payment schedule reports to the Business Support Officer (BSO) F&F. It was noted that BSO did not always respond to the CPT to evidence that the reconciliations were carried out.
- The audit sample showed that the Council had not conducted all the due SG support plan annual reviews.
- Review of the SG Allowance Policy noted that oversight and reporting responsibilities to the directorates were not defined.

4.14

CALAT Finance Planning (Substantial Assurance)
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • Examination of the course calculator spreadsheet for five cost centres suggested total negative balances of £133,595 indicating adverse financial sustainability for the delivery of the courses.

4.15

Food Safety – FSA Reporting (Substantial Assurance)
<p>Priority 2 Issue</p> <ul style="list-style-type: none"> • Newly registered businesses were not sufficiently triaged for inspection. • Inspections were not being carried out in a timely manner and childminders had not been inspected at all. • Insufficient resources were available to undertake inspections due to the impact of the Council's budget gap on Food Safety team expenditure

4.16

SLWP Income Collection and Payment of Funds (Limited Assurance)
<p>Priority 1 Issues</p> <ul style="list-style-type: none"> • Invoices were raised on behalf of the Council by Veolia, meaning that the invoice was presented on Croydon head paper and contained the Croydon VAT number, so in effect the Council was paying itself VAT. Also, only one supplier was set up on the Accounts Payable system for Veolia. As a

consequence, there were several unpaid invoices relating to the service. This issue was also raised in 2021/22.

- Review of the Customer Statements issued to the Royal Borough of Kingston upon Thames and London Boroughs of Merton and Sutton (on 1 November 2022), found that a total of £5,656,743.46 in recharges remained outstanding.

4.17

HMO Licensing (Limited Assurance)

Priority 1 Issues

- Upon application for an HMO license, inspection notes are expected to be completed as part of the assessment of the application, however, inspection notes were not provided for nine out of ten sample licenses
- According to the Council's Application Form for HMO Licenses, under section 15, all applicants must provide an up-to-date Fire Risk Assessment (FRA) and Gas Safety Certificate as part of their application. However, testing of a sample of ten licenses found that three did not have up to date fire risk assessments and one did not have a valid gas

Priority 2 Issue

- The Council did not maintain a report of all properties that required remedial action/s

4.18

Crosfield Nursery School and Children's Centre (Limited Assurance)

Priority 1 Recommendations

- The Centre should review the Financial Deep Dive Report set by the Council to develop an appropriate budget plan and strategy. This should be reviewed and approved by the Full Governing Body (FGB) and implemented prior to the financial year that it relates to.
- The Centre should review the current DBS register for Governors and ensure that a DBS check is in place for each. Where a check has been initiated, the Centre should ensure that this is followed up with the Disclosure and Barring Service and safeguards implemented until clearance has been received. The School should ensure that all DBS checks are applied for within 21 days of appointment of a new Governor, with this documented to evidence compliance.
- Where costs relating to transactions can be identified in advance, an official Purchase Order should be raised by the Centre Business Manager (CBM) and authorised by the Head Teacher prior to placing the order with the supplier in accordance with the Scheme of Delegation.

- The School should ensure that a Goods/Services Received Check is completed by an officer separate to the approval of invoices.
- The School should ensure that all invoices are authorised prior to payment being made, in line with the Scheme of Delegation.
- The Centre should work with the Data Protection Officer (DPO) and Governors to develop a comprehensive strategy for information governance. This should include, but not be limited to, the reviewing and approving of the following: - Retention Policy, the Information Governance Policy; and appropriate GDPR training for Governors and Staff members that will occur on a periodic basis. The Centre should ensure that Governors are reminded of the need to review their LGF email accounts and decline to issue restricted information to personal accounts.
- The Centre should ensure that two written references are obtained for candidates prior to the commencement of employment. The date the references were obtained and checked should be documented clearly

Priority 2 Recommendations

- The Centre should review its Financial Procedures and ensure that these are in line with the Scheme of Delegation. This includes authorisation limits of staff members tasked with financial responsibilities. The Centre should ensure that the Financial Procedures are ratified by the FGB annually, with this formally documented within meeting minutes.
- The Centre should ensure that the School's Financial Value Standard (SFVS) has been completed, reviewed and approved by the FGB. This should be documented within meeting minutes and submitted to the Local Authority by the 31st March each year.
- The Centre should ensure that a monthly Budget Monitoring report is reviewed by the CBM and the Head Teacher at least monthly, with evidence of the review maintained. Evidence can be in the form of a signature or email confirmation.
- The Centre should ensure that the draft Pay Policy is formally reviewed and approved by the Governing Body at its next meeting. Subsequent review and approval of the policy should be completed annually, with this formally documented in meeting minutes.
- The Centre should ensure annual benchmarking reports are updated, reviewed and approved by the FGB.
- Contracts should be reviewed on a regular basis against comparative quotations to ensure that value for money is being maintained and should not be rolled over on a continuous basis. The review and approval of the contracts by the FGB should be clearly documented in the meeting minutes.

4.19

All Saints' C of E Primary School (Limited Assurance)

Priority 1 Recommendation

- The School should confirm the tax status of individuals prior to making payments. This can be achieved through School completing the CREST Toolkit provided by HMRC.

Priority 2 Recommendations

- The School should ensure that funds used in relation to the purchase identified during testing are refunded to the School. The School should conduct a review of transactions conducted in the last year to ensure that all funds have been used for bona fide School expenditure, any transactions identified which have not been for the use of the School should be paid back. Going forward the School should ensure that funds are used for bona fide School expenditure.
- The School should ensure that the Terms of Reference for the Resource Committee is approved by the FGB at the next meeting. Subsequent reviews should then be completed annually, with approval formally documented in meeting minutes to evidence compliance.
- The School should ensure that the register of interest for Governors is uploaded to the School's website for public review.
- The School should ensure that Pecuniary and Personal Interest forms evidence a countersign.
- The School should review the current Scheme of Delegation and update it to ensure that committee delegations limits are lower than the FGB limits.
- The School should ensure that the Pay Policy is approved by the FGB at the next meeting. Subsequent reviews should then be completed annually, with approval formally documented in meeting minutes to evidence compliance.
- The School should ensure that the data used for benchmarking is up to date and makes adequate reference to the benchmarking of the senior leadership team.
- The School should then ensure that the report is then issued to the Governing Body for review and discussion, with this formally documented within meeting minutes.
- The School should ensure that two written references should be obtained for candidates prior to their commencement of employment. The date the references were obtained and checked should be documented clearly.
- The School ensure that staff receive adequate safeguarding training when joining and during their time at the School.
- The School should ensure that members of staff who are no longer at the School are removed from the bank mandate, in a timely manner

4.20

Coulsdon C of E School (Substantial Assurance)
Priority 2 Recommendation <ul style="list-style-type: none">• There was no privacy notice in place for the School's governors.

4.21

Heavers Farm Primary School (Substantial Assurance)
Priority 2 Recommendation <ul style="list-style-type: none">• The School was unable to evidence that fire emergency plans were exercised once per term.

4.22

Thomas Moore Catholic School (Limited Assurance)
Priority 1 Recommendation <ul style="list-style-type: none">• Sample checking found an employee on the April 2022 Salary Report not on the School's Single Central Record. There was therefore a lack of evidence of recruitment and safeguarding checks for this employee.
Priority 2 Recommendations <ul style="list-style-type: none">• The School had not formally assessed the skills and competencies for staff with financial responsibilities.• A review of goods received checks found that there were no signatures to demonstrate a separation of duties used when goods were received and just a stamp being used to mark goods as received.• The School could not evidence that quotes were received for two high value purchases (over £10k) and a further two purchases did not include the purchase order number.• An examination of monthly bank reconciliations found that the reconciliations are not signed by the staff members completing and also those reviewing the document.

4.23

Coloma Convent Girls School (Limited Assurance)
Priority 1 Recommendations <ul style="list-style-type: none">• A review of the School's Governance Constitution found that six new governors had been appointed in the last 12 months. For four of these governors, DBS checks were not applied for within 21 days following the appointment of each respective governor as required by regulations.

Examination of the School's Single Central Record established that the DBS checks for two Governors were more than three years old and were last issued on 11 March 2016 and 21 November 2018.

- An Information Asset Register was requested from the School Business Manager (SBM) but was not made available for the purpose of this audit.
- Prior to the audit fieldwork, the School were provided a Health and Safety checklist that was to be completed prior to the ending of the review. The School did not provide a copy of the completed Health and Safety Checklist over the course of the audit period. Internal Audit was therefore not able to confirm whether Health and Safety checks had been undertaken by the School and that these were up to date.

Priority 2 Recommendations

- While a quarterly budget monitoring report is generated and presented to the Governing Body, Internal Audit was not provided evidence to confirm that monthly budget monitoring reports were being reviewed (and signed) by the Headteacher each month.
- Internal Audit was informed by the School Business manager (SBM) that the School Pay Policy, which is required to be annually reviewed and approved by regulations, was due for approval by the full Governing Body on 11 July 2022; however, evidence was not provided to confirm whether this had been reviewed and approved by the full Governing Body on 11 July 2022.
- A review of right to work documentation provided for five staff members commencing employment with the School during 2021/22 found that, in two cases where both staff members were teachers, right to work documentation was not signed and dated as required by UK Borders Agency guidance.
- Internal Audit was not provided evidence of a Staff Induction Pack. As such, Internal Audit could not confirm that the Child Protection Policy, Staff Behaviour Policy and role of the Designated Safeguarding Lead was being provided to all staff as part of the induction process.
- Examination of the documentation relating to a sample of 15 purchases selected from the school's Bank Account History report dated from 1 April 2021 to 24 June 2022 found that for five purchases, the purchase orders were raised after the corresponding invoices had been received.
- Internal Audit requested evidence of a Cashflow Forecasting report from the SBM but this was not made available.
- Internal Audit was informed by the Headteacher and SBM that a HR Policies and Procedures Manual was not in place.
- Examination of the School's GDPR Data Protection Policy found that this policy was last reviewed by the full Governing Body on 5 December 2019. Further to this, the consequences of any breaches, such as written warnings, were not identified within the GDPR Data Protection Policy.

- A review of the IRMS Toolkit for Schools Data Retention Policy found that this policy was published and approved by the Governing Body in 2019. The SBM asserted that the IRMS Toolkit for Schools Policy was last reviewed on 5 August 2021 by the Clerk and Governors. However, this could not be evidenced
- Examination of documentation relating to five letting arrangements in place between the school and the hirer found that for all five lets, signed Hirer Agreements were not retained on file. Further to this, authorisation of these five lets by the Headteacher was not evidenced to Internal Audit.

FOLLOW-UP REVIEWS

4.24 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 Findings

	Target	2018/19	2019/20	2020/21	2021/22	2022/23
Implementation of priority one recommendations at follow-up	90%	100%	99%	74%	70%	50%
Implementation of all recommendations at follow-up	80%	80%	93%	84%	89%	71%

4.25 It was also agreed, following the Audit and Governance Committee meeting in January 2023, that the Council should set a target to complete all historic follow ups in a timely manner. In this regard, the Council has made good progress in clearing the 2018/19 and 2019/20 follow ups, with only one remaining in 2018/19 and three remaining in 2019/20.

4.26 FINANCE IMPLICATIONS

4.26.1 The fixed price for the Internal Audit Contract is £0.365m for 2023/24 and there is provision within the budget to meet this expense.

4.26.2 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.

4.26.3 Comments approved by Lesley Shields, Head of Finance for Assistant Chief Executive and Resources on behalf of the Director of Finance. (15/11/2023)

4.27 LEGAL IMPLICATIONS

4.27.1 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.

4.27.2 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.

4.27.3 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. In addition, under Directions dated 20 July 2023, issued by the Secretary of State under Section 15(5) of the Local Government Act 1999, the Council must, amongst other things "secure as soon as practicable that all the Authority's functions are exercised in conformity with the best value duty, thereby delivering improvements in services and outcomes for the people of Croydon".

4.27.4 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.
- To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services and make recommendations as appropriate to management, Cabinet and/or Full Council.

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

4.27.6 The contents of this report, and of the Internal Audit Report 1st April 2023 to 31 October 2023 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.

4.27.7 Approved by: Sandra Herbert, Head of Litigation & Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer (17/11/2023).

4.28 HUMAN RESOURCES IMPLICATIONS

4.28.1 The HR impacts arising from this report for Council employees or staff are identified in the body of the report. This is particularly in relation to the requirement for adequate staff training and robust employment eligibility checks, which the Council / relevant school must ensure are in place. Any issues arising, will be managed through the Council's relevant HR policies and procedures.

4.28.2 Approve by Gillian Bevan, Head of HR Resources and Assistant Chief Executives on behalf of the Chief People Officer (15/11/2023)

4.29 EQUALITIES IMPLICATIONS

4.29.1 The Council is required to comply with the Public Sector Equality Duty [PSED], as set out in the Equality Act 2010. The PSED requires the Council to have due regard to the need to:

- eliminate discrimination,
- equality of opportunity and
- good relations between different people when carrying out their activities.

Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

4.29.2 When Internal Audit is progressing 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.

4.29.3 Comments approved by Naseer Ahmad on behalf of the Equalities Manager. (Date 15/11/2023)

5. APPENDICES

5.1 Appendix 1 – Internal Audit report for the period to April to 31 October 2023.

6. BACKGROUND DOCUMENTS

6.1 None

7. URGENCY

7.1 There is none.

London Borough of Croydon

Internal Audit Report

1 April 2023 to 31 October 2023

[Confidentiality and Disclosure Clause](#)

This report ("Report") was prepared by the Head of Internal Audit of London Borough of Croydon based on the internal audit work undertaken by Mazars LLP. The matters raised in this Report are only those which came to our attention during the 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.

1. Internal Audit Performance

- 1.1 The 2023/24 internal audit plan was approved by the Audit and Governance Committee on 2 March 2023 and work in delivering the internal audit plan is now well underway.
- 1.2 As reported in the annual Head of Internal Audit report for 2022/23 to the Audit and Governance Committee (at the meeting held on 21 September 2023), although there was a knock-on impact on delivery of the Internal Audit Plan in the previous year, following the Covid-19 lockdown restrictions, internal audit activity caught up during 2022/23. All 2021/22 and 2022/23 year draft internal audit reports are now issued, although work is still ongoing to finalise some of these. Internal Audit is on target to complete the 2023/24 Internal Audit Plan on time, with all remaining internal audits scheduled in.

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 31 October 2023. Some of these reports were also included in the annual Head of Internal Audit Report for 2022/23. 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 2022/23 √ / X
Non-School Internal Audits			
Agency Use and IR35	Limited	2022/23	√ (in draft)
Azure Cloud Usage	Substantial	2022/23	X

Internal Audit Title	Assurance Level	Planned Year	Included in the annual Head of Internal Audit Report 2022/23 √ / X
Capital Spend Projections and Monitoring	Substantial	2022/23	√
Journals: Impact on Budget Management	No	2022/23	√ (in draft)
Member / Officer Protocol – Staff Training	Substantial	2022/23	√ (in draft)
Mental Health / Staff Well Being Processes and Procedures	Full	2022/23	√ (in draft)
SGO Allowances	Limited	2022/23	√ (in draft)
CALAT Finance Planning	Substantial	2022/23	√ (in draft)
Food Safety – FSA Reporting	Substantial	2022/23	√ (in draft)
SEN Transport – Resilience and Demand Management	Substantial	2022/23	X
SLWP – Income Collection and Payment of Funds	Limited	2022/23	X
PMI General building Works Fact Find	N/A	2022/23	√ (in draft)
HMO Licensing	Limited	2023/24	X

School Audits

Crosfield Nursery School and Children's Centre	Limited	2022/23	√ (in draft)
All Saints' C of E Primary School	Limited	2022/23	√ (in draft)
Coulsdon C of E School	Substantial	2022/23	√ (in draft)
Heavers Farm Primary School	Substantial	2022/23	√
Thomas More Catholic School	Limited	2022/23	√
Coloma Convent Girls' School	Limited	2022/23	√

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

- 3.1 During 2023/24 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 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23. There are no follow-up audits yet due for 2023/24.

- 3.2 The implementation of management action plans in this report is predominantly assessed on management responses provided by the service and not on supporting documentary evidence.
- 3.3 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)				
		2018/19	2019/20	2020/21	2021/22	2022/23
Percentage of priority one actions implemented at the time of the follow up audit	90%	100%	99%	74%	70%	50%
Percentage of all actions implemented at the time of the follow up audit	80%	94%	93%	84%	89%	71%

It was also agreed, following the Audit and Governance Committee meeting in January 2023, that the Council should set a target to complete all historic follow ups in a timely manner. In this regard, the Council has made good progress in clearing the 2018/19 and 2019/20 follow ups, with only one remaining in 2018/19 and three remaining in 2019/20.

- 3.4 The results of 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23 audits that have been followed up are included in Appendixes 2, 3, 4, 5 and 6 respectively. (2017/18 follows ups are complete.)
- 3.5 It should be noted that delays in issuing and finalising some 2021/22 and 2022/23 reports has meant that the follow ups of these audits were delayed.
- 3.5 Appendix 3 shows the 2019/20 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 99% 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 (online 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 January 2023:</u></p> <p>We have to collect data around the protected characteristics as set out in the Equality Act 2010 so we can demonstrate we are carrying our Public Sector Equality Duty. So we do need the data, although it is not compulsory for applicants to fill out and is totally optional. In this regard, the application form is currently being revised to reflect this, (i.e. to make sure it is compliant with the UK GDPR and the Data Protection Act 2018.)</p>

3.6 Appendix 4 shows the 2020/21 follow-up audits undertaken to date and the number of recommendations/issues raised and implemented. 84% of the total recommendations/issues were found to have been implemented and 74% 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. 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 dated 8 May 2014. <p><u>Current position:</u></p> <p>The follow up has been reported to the CMT audit focus group and is being addressed through the Oracle HR and Finance project.</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 and SWL CCG.</p> <p><u>Current position:</u></p> <p>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></p>

Audit Title	Assurance Level	Summary of outstanding recommendations/issues arising in priority 1 recommendations/issues
		<p>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>

3.7 Appendix 5 shows the 2021/22 follow-up audits undertaken to date and the number of recommendations/issues raised and implemented. 89% of the total recommendations/issues were found to have been implemented and 70% 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
Service Based Budget Monitoring Across the Organisation	Limited	<p>A priority 1 issue was raised as there is a lack of guidance and training provided to budget holders in relation to budget setting and monitoring processes.</p> <p><u>Current position:</u></p> <p>The response to the follow up detailed that, <i>'First level of training has been provided to all budget holders. CIPFA were commissioned to provide detailed Budget Holder training which was tailored for Croydon.'</i></p> <p>Internal Audit comment: Internal Audit, being included in the staff being trained, can confirm that the training has taken place. However, the issue relating to a lack of guidance is still in progress and therefore this will be followed up further.</p>
HRA Accounting	Limited	<p>A priority 1 issue was raised as 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.</p> <p><u>Current position:</u></p> <p>Update August 2023: _OHMS to GL reconciliation – was carried out monthly until the May 2023 shut down of OHMS. NEC to Oracle reconciliations testing is ongoing & will be activated once NEC goes live with files posted to Oracle.</p>

3.8 Appendix 6 shows the 2022/23 follow-up audits undertaken to date and the number of recommendations/issues raised and implemented. 71% 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 recommendation/issue is detailed below:

Audit Title	Assurance Level	Summary of outstanding recommendations/issues arising in priority 1 recommendations/issues
Housing – Leaseholder Service Charges	Limited	<p>A priority 1 issue was raised as an error was identified in the 2021/22 service charge calculation relating to the repairs and maintenance element of the service charge.</p> <p><u>Current position:</u></p> <p>Update March 2023: The next date for calculations of the Annual service charge accounts in May/June 2023. Data loader costs will be passed to the Head of service for approval and sign off.</p>

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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			
2022/23	Agency Use and IR35	Limited (Three priority 1 issues)	<p>Priority 1 issues were identified as follows:</p> <ul style="list-style-type: none"> Sample testing found that IR35 panel approval was not evident or applied for eight of the 15 suppliers subject to IR35 assessment before being set up in MyResources. Status Determination Statements (SDS) were not being produced to inform the IR35 determination. A check was not in place to confirm if Adecco has an appropriate arrangement for agency workers in accordance with IR35 legislation
2022/23	Journals: Impact on Budget Management	Limited (Three priority 1 and three priority 2 issues)	<p>Priority 1 issues were identified as follows:</p> <ul style="list-style-type: none"> No journals policy or procedures. Requirements for approval of journals are undefined. Purpose and frequency of journals is undefined
2022/23	SGO Allowances	Limited (Three priority 1, six priority 2 and one priority three issue)	<p>Priority 1 issues were identified as follows:</p> <ul style="list-style-type: none"> Testing a sample of 15 cases identified three cases where discretionary payments were not recorded on the child's support plan or were used when financial resources documentation was not provided by the SG and were not evidenced as appropriately approved. There was no evidence that the Department for Education (DfE) means testing calculator was used in determining the financial status of all the beneficiaries of Special Guardianship (SG) allowances. Sample testing of 15 cases identified seven children under the SG arrangement without a support plan and a further six cases where the support plans were not signed by all the relevant parties.
2022/23	SLWP Income Collection and Payment of Funds	Limited (Two priority 1 issues)	<p>Priority 1 issues were identified as follows:</p> <ul style="list-style-type: none"> Invoices were raised on behalf of the Council by Veolia, meaning that the invoice was presented on Croydon head paper and contained the Croydon VAT number, so in effect the Council was paying itself VAT. Also, only one supplier was set up on the Accounts Payable system for Veolia. As a consequence, there were several unpaid invoices relating to the service. This issue was also raised in 2021/22. Review of the Customer Statements issued to the Royal Borough of Kingston upon Thames and London Boroughs of Merton and Sutton (on 1 November 2022), found that a total of £5,656,743.46 in recharges remained outstanding.
2023/24	HMO Licensing	Limited (Two priority 1 and one priority 2 issue)	<p>Priority 1 issues were identified as follows:</p> <ul style="list-style-type: none"> Upon application for an HMO license, inspection notes are expected to be completed as part of the assessment of the application, however, inspection notes were not provided for nine out of ten sample licenses. According to the Council's Application Form for HMO Licenses, under section 15, all applicants must provide an up-to-date Fire Risk Assessment (FRA) and Gas Safety Certificate as part of their application. However, testing of a sample of ten licenses found that three did not have up to date fire risk assessments and one did not have a valid gas safety certificate stored on file.

Internal Audit Report April 2022 to October 2022

Year	Internal Audit Title	Assurance Level & Number of Issues	Summary of Key Priority 1 Issues Raised
2022/23	Crosfield Nursery School and Children's Centre	Limited (Seven priority 1, six priority 2 and five priority 3 recommendations)	<p>Priority 1 recommendations were raised as follows:</p> <ul style="list-style-type: none"> The Centre should review the Financial Deep Dive Report set by the Council to develop an appropriate budget plan and strategy. This should be reviewed and approved by the Full Governing Body (FGB) and implemented prior to the financial year that it relates to. The Centre should review the current DBS register for Governors and ensure that a DBS check is in place for each. Where a check has been initiated, the Centre should ensure that this is followed up with the Disclosure and Barring Service and safeguards implemented until clearance has been received. The School should ensure that all DBS checks are applied for within 21 days of appointment of a new Governor, with this documented to evidence compliance. Where costs relating to transactions can be identified in advance, an official Purchase Order should be raised by the Centre Business Manager (CBM) and authorised by the Head Teacher prior to placing the order with the supplier in accordance with the Scheme of Delegation. The School should ensure that a Goods/Services Received Check is completed by an officer separate to the approval of invoices. The School should ensure that all invoices are authorised prior to payment being made, in line with the Scheme of Delegation. The Centre should work with the Data Protection Officer (DPO) and Governors to develop a comprehensive strategy for information governance. This should include, but not be limited to, the reviewing and approving of the following: - Retention Policy, the Information Governance Policy; and appropriate GDPR training for Governors and Staff members that will occur on a periodic basis. The Centre should ensure that Governors are reminded of the need to review their LGF email accounts and decline to issue restricted information to personal accounts. The Centre should ensure that two written references are obtained for candidates prior to the commencement of employment. The date the references were obtained and checked should be documented clearly.
2022/23	All Saints' C of E Primary School	Limited (One priority 1, nine priority 2 and nine priority 3 recommendations)	<p>A priority 1 recommendation was raised as follows:</p> <ul style="list-style-type: none"> The School should confirm the tax status of individuals prior to making payments. This can be achieved through School completing the CREST Toolkit provided by HMRC.
2022/23	Thomas More Catholic School	Limited (One priority 1, four priority 2 and two priority 3 recommendations)	<p>A priority 1 recommendation was raised as follows:</p> <ul style="list-style-type: none"> Sample checking found an employee on the April 2022 Salary Report not on the School's Single Central Record. There was therefore a lack of evidence of recruitment and safeguarding checks for this employee.
2022/23	Coloma Convent Girls' School (Academy status 1 st September 2022)	Limited (Three priority 1, nine priority 2 and two priority 2 recommendations)	<p>Priority 1 recommendations were raised as follows:</p> <ul style="list-style-type: none"> A review of the School's Governance Constitution found that six new governors had been appointed in the last 12 months. For four of these governors, DBS checks were not applied for within 21 days following the appointment of each respective governor as required by regulations. Examination of the School's Single Central Record established that the DBS checks for two Governors were more than three years old and were last issued on 11 March 2016 and 21 November 2018. An Information Asset Register was requested from the School Business Manager (SBM) but was not made available for the purpose of this audit. Prior to the audit fieldwork, the School were provided a Health and Safety checklist that was to be completed prior to the ending of the

Year	Internal Audit Title	Assurance Level & Number of Issues	Summary of Key Priority 1 Issues Raised
			<p>review. The School did not provide a copy of the completed Health and Safety Checklist over the course of the audit period. Internal Audit was therefore not able to confirm whether Health and Safety checks had been undertaken by the School and that these were up to date.</p>

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Appendix 2 - 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	Air Quality Strategy, Implementation and Review	SCRER	Limited (6 th follow up in progress)	8	6	75%
				One priority 1 issue not yet resolved		
Issues and resolution from internal audits that have had responses				364	342	94%
Priority 1 Issues from internal audits that have had responses				51	51	100%

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Appendix 3 - 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 (5 th follow up in progress)	4	2	50%
2019/20	IT Policies Review	ACE	Substantial (4 th follow up in progress)	5	1	20%
Issues/Recommendations and resolution/implementation from internal audits that have had responses				334	311	93%
Priority 1 Issues/Recommendations from internal audits that have had responses				68	67	99%

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Appendix 4 - Follow-up of 2020/21 audits (incomplete follow ups only)

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	Procurement Card Expenditure	Resources	No (1 st follow up in progress)	8	-	-
2020/21	Out of Borough Placements	ASC&H	Limited (1 st follow up in progress)	5	-	-
2020/21	Clinical Governance	ASC&H	Limited (4 th follow up in progress)	6	3	50%
				One priority 1 issue not yet resolved		
2020/21	Temporary Accommodation – Standards in Private Sector	Housing	Limited (4 th follow up in progress)	6	1	17%
				2 priority 1 issues not yet resolved		
2020/21	End to End Placements – Children with Disabilities	CF&E	Substantial (1 st follow up in progress)	3	-	-
2020/21	Corporate Estate: Building Compliance	Resources	Substantial (6 th follow up in progress)	6	4	67%
Issues/Recommendations and resolution/ implementation from internal audits that have had responses				167	140	84%
Priority 1 Issues/Recommendations from internal audits that have had responses				27	20	74%

Appendix 5 - Follow-up of 2021/22 audits (incomplete follow ups only)

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	1 (imp at final report)	25%
2021/22	Service Based Monitoring – Across the Organisation	Resources	Limited (2 nd follow up in progress)	5	2	40%
				One priority 1 issue not yet resolved		
2021/22	Information Management	ACE	Limited (3 rd follow up in progress)	3	0	0%
				One priority 1 issue not yet resolved		
2021/22	HRA Accounting	Housing	Limited (2 nd follow up in progress)	5	2	40%
				One priority 1 issue not yet resolved		
2021/22	Business Rates and Business Grants	Resources	Substantial (1 st follow up in progress)	1	-	-
2021/22	Sundry Expenditure Compliance Checks	Resources	Substantial (1 st follow up in progress)	1	-	-
2021/22	Early Help and Parenting	CYP&E	Substantial (1 st follow up in progress)	3	1 (imp at final report)	33%
2021/22	Traffic Management	SCRER	Substantial (1 st follow up in progress)	2	-	-
2021/22	IT Asset Management	ACE	Substantial (1 st follow up in progress)	2	-	-
Non-School Internal Audits Sub Total: Issues and resolution from internal audits that have had responses				31	24	77%
Non-School Internal Audits Sub Total: Priority 1 Issues from internal audits that have had responses				7	4	57%
School Internal Audits						
Financial Year	Audit Followed up	Department	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2021/22	Rockmount Primary School	CYP&E	Substantial (1 st follow up in progress)	2	-	-
School Internal Audits Sub Total: Recommendations and implementation from internal audits that have had responses				39	38	97%
School Internal Audits Sub Total: Priority 1 Recommendations from internal audits that have had responses				3	3	100%
Issues/Recommendations and resolution/ implementation from internal audits that have had responses				70	62	89%
Priority 1 Issues/Recommendations from internal audits that have had responses				7-10	4-7	70%

Appendix 6 - Follow-up of 2022/23 audits

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
Non School Internal Audits						
2022/23	Safeguarding – LADO and Partnerships	CYP&E	Limited (3 rd follow up in progress)	9	7	78%
2022/23	Housing – Leaseholder Service Charges	Housing	Limited (2 nd follow up in progress)	7	3	43%
				One priority 1 not yet resolved		
2022/23	DBS Renewals	ACE	Substantial (2 nd follow up in progress)	4	0	0
2022/23	Appointeeships and Deputyships	ASC&H	Substantial (1 st follow up in progress)	3	-	-
2022/23	Performance Management Data Quality – Children’s Services	CYP&E	Substantial (1 st follow up in progress)	3	-	-
2022/23	Fostering – Governance over Foster Carers	CYP&E	Substantial (1 st follow up in progress)	2	-	-
2022/23	Tenant Service Charge	Housing	Substantial (2 nd follow up in progress)	1	0	0
Non-School Internal Audits Sub Total: Issues and resolution from internal audits that have had responses				21	10	48%
Non-School Internal Audits Sub Total: Priority 1 Issues from internal audits that have had responses				1	0	0%
School Internal Audits						
Financial Year	Audit Followed up	Department	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2022/23	Crosfield Nursery School and Children’s Centre		Limited (1 st follow up in progress)	18	-	-
2022/23	All Saints C of E Primary School		Limited (1 st follow up in progress)	19	-	-
2022/23	Beulah Junior School		Substantial (No further follow up)	6	6	100%
2022/23	Coulsdon C of E School		Substantial (1 st follow up in progress)	4	-	-
2022/23	Heavers Farm Primary School		Substantial (1 st follow up in progress)	6	-	-
2022/23	Winterbourne Junior Girls’ School		Substantial (2 nd follow up in progress)	7	4	57%
2022/23	Priory School	CYP&E	Substantial (No further follow up)	4	4	100%
2022/23	Bensham Manor	CYP&E	Substantial (No further follow up)	3	3	100%
2022/23	Thomas More Catholic School		Limited (No further follow up)	7	7	100%

Internal Audit Report April 2022 to October 2022

Financial Year	Audit Followed-up	Department	Assurance Level & Status	Total Raised	Resolved	
					Total	Percentage
School Internal Audits Sub Total: Recommendations and implementation from internal audits that have had responses				27	24	89%
School Internal Audits Sub Total: Priority 1 Recommendations from internal audits that have had responses				1	1	100%
Issues/Recommendations and resolution/ implementation from internal audits that have had responses				48	34	71%
Priority 1 Issues/Recommendations from internal audits that have had responses				2	1	50%

DRAFT

LONDON BOROUGH OF CROYDON

REPORT:	AUDIT AND GOVERNANCE COMMITTEE	
DATE OF MEETING	30 November 2023	
REPORT TITLE:	Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2023/24	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources and S151 Officer	
LEAD OFFICER:	Matthew Hallett, Acting Head of Treasury and Pensions	
LEAD MEMBER:	Councillor Jason Cummings, Cabinet Member for Finance	
DECISION TAKER:	Not applicable to this report	
AUTHORITY TO TAKE DECISION:	Not applicable to this report	
KEY DECISION?	No	
CONTAINS EXEMPT INFORMATION?	No	Public
WARDS AFFECTED:	All	

1. SUMMARY OF REPORT

1.1 This Report reviews the Council's treasury management activities for the first six months of financial year 2023/24. It 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) and Annual Investment Strategy as agreed by full Council (Budget Council) on 8 March 2023 (Minute 37/21 applies);
- Reviews treasury borrowing and investment activity for the period 1 April 2023 to 30 September 2023; and
- Demonstrates compliance with agreed Treasury and Prudential Indicators and the CIPFA Prudential Code for Capital Finance.

2. RECOMMENDATION

2.1 The Audit and Governance Committee is recommended to note the contents of the mid-year report on the treasury management activity for 2023/24.

3 DETAIL

3.1 Capital Strategy

3.1.1 In December 2021, CIPFA issued revised versions of “The Prudential Code for Capital Finance in Local Authorities.” (“Prudential Code”) and “Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes” (“the Code”). These require 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; and
- the implications for future financial sustainability.

3.2 Treasury management

3.2.1 With Government support 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 with 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 This report has been written in accordance with the Code the primary requirements of which are as follows:

- The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- The creation and maintenance of Treasury Management Practices which set out the way in which the Council will seek to achieve those policies and objectives;
- To provide Council with an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;
- The 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; and
- The 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.

3.3.2 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 2023/24 financial year (Section 3.4);
- A medium-term interest rates forecast (Section 3.5)
- 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 and debt re-scheduling (Section 3.8);
- A review of the Council's investment strategy (Section 3.9);
- A review of compliance with Treasury and Prudential Limits (Section 3.10)

3.4 Economic update

3.4.1 A commentary provided by the Council's independent treasury advisers Link Group (Link) in the first week of October 2023 is included as Appendix A.

3.5 Interest rate forecasts

- 3.5.1 Part of the service provided by Link is to assist the Council to formulate a view on interest rates. Their PWLB rate forecasts in Table 1 below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.
- 3.5.2 Their latest forecast sets out a view that short, medium and long-dated interest rates will be elevated for some while, as the Bank of England seeks to squeeze inflation out of the economy.

Table 1 Interest rates forecast

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

3.6 Treasury Management Strategy Statement and Annual Investment Strategy Update

- 3.6.1 The TMSS and Annual Investment Strategy for 2023/24 were approved by full Council on 8 March 2023 (Minute 37/21 applies). No policy changes are recommended.

3.7 Capital Expenditure 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 8 March 2023 (Minute 37/21 applies), the revised budget agreed by Cabinet on 25 October 2023, the actual spend at 30 September 2023 and the outturn forecast at month six. Explanations of the evolution of the budget are provided in detail in the Cabinet reports.

Table 2 Capital expenditure by service

	Original Budget £m	Revised Budget £m	Actual at 30 September 2023 £m	Outturn Forecast £m
Housing	3.4	5.1	1.0	3.2
Assistant Chief Executive	7.1	8.7	0.4	5.2
Children, Young People and Education	12.0	16.7	3.8	0.3
Sustainable Communities, Regeneration and Economic Recovery	32.9	44.8	5.2	37.3
Resources	6.0	6.4	1.0	17.1
Corporate				
Capitalisation Direction	63.0	63.0	-	63.0
Total General Fund	124.4	144.7	11.4	126.1
HRA	32.6	33.2	3.1	38.9
Total	157.0	177.9	14.5	165.0

3.7.3 The table below details the funding sources of the capital programme and their evolution through the first half of the year. 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

	Original Budget £m	Revised Budget £m	Outturn Forecast £m
Capital receipts	45.0	45.0	84.5
Capital grants and other	24.1	27.2	17.8
Capital reserves	6.1	15.8	15.3
Section 106	1.6	1.2	0.3
Community Infrastructure Levy	1.8	9.7	8.1
HRA Right to Buy Receipts	2.1	2.1	2.1
HRA Reserves	1.1	1.1	6.8
HRA Revenue	13.9	13.9	13.9
HRA Major Repairs Allowance	15.5	16.1	16.1
Total financing	111.2	132.1	165.0
Underlying need to borrow	45.8	45.8	-
Less Minimum Revenue Provision	-28.3	-28.3	-28.3
Borrowing Requirement	17.5	17.5	-28.3

3.7.4 The key controls over treasury management activity to ensure that, over the medium term, borrowing will only be for 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. The table below shows changes in the CFR and borrowing requirements reflecting the actual outturn for 2022-23 and arising from the changes in the capital programme described above.

Table 4 Borrowing and CFR

	Original Budget £m	Outturn Projection £m
Borrowing	1,437.4	1,239.6
Other long term liabilities	66.0	65.7
Total debt	1,503.4	1,305.3
CFR (year end position) - GF	1,415.6	1,385.1
CFR (year end position) - HRA	373.5	363.5
CFR (year end position) - Total	1,789.1	1,748.6

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

	Agreed as per TMSS £m	Outturn Projection £m
Operational Boundary	1,503.4	1,305.3
Authorised Limit	1,553.4	1,355.3

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

3.8 Borrowing Strategy

3.8.1 During 2023/24 the Council has been operating in accordance with the borrowing limits approved by full Council on 8 March 2023. As discussed above, the current limits for the year are:

- Operational Boundary - £1,503.4m
- Authorised Limit - £1,553.4m

3.8.2 The level of the Council's borrowing, which is measured against the limits, was £1,345.5m on 1 April 2023 reduced to £1,305.3m on 30 September 2023. Details are provided in Table 6 below.

Table 6 Borrowing

	1 April 2023 £m	30 September 2023 £m
Temporary – other local authorities	273.0	125.0
Long term – PWLB	860.9	974.6
Long term – UK banks	20.0	20.0
Long term – LEEF	8.6	5.0
Long term – other local authorities	13.0	13.0
Long term – European Investment Bank	102.0	102.0
Other Long Term Liabilities	68.0	65.7
TOTAL	1,345.50	1,305.3

3.8.3 The Council has continued to pay off as much external debt as it is able. During the year to date it has reduced its external debt by £37.9m. During the period £208.0m of temporary loans from other local authorities and £3.6m from the Mayor of London's Energy Efficiency Fund have matured (see table 7). The Council has refinanced £60m with other local authorities and £113.7m with PWLB at an average rate of 5.57%. Refinancing loans at higher interest rates has led to an increase of approximately £5.5m p.a. to the Council's cost of borrowing. The Council will look to further reduce its reliance on external debt as it continues with its asset disposal plan.

Table 7 Loans Maturing 1 April 2023 to 30 September 2023

Counterparty	Principal £	Interest Rate	Maturity Date
GLA - Amber Green LEEF	3,574,591	1.800	13/09/23
North Somerset District Council	6,000,000	1.370	03/04/23
North Yorkshire County Council	10,000,000	4.100	11/04/23
North Yorkshire County Council	10,000,000	4.250	13/04/23
Caerphilly County Borough Council	5,000,000	4.100	18/04/23
Wiltshire Council	10,000,000	4.250	18/04/23
Gloucestershire County Council	5,000,000	4.150	19/04/23
Mid Devon District Council	3,000,000	4.000	24/04/23
Derbyshire County Council	10,000,000	0.450	28/04/23
West Midlands CA	10,000,000	1.000	28/04/23
Somerset CC Rollover	5,000,000	1.150	02/05/23
Mansfield District Council	2,000,000	1.000	02/05/23
Guildford Borough Council	5,000,000	0.450	08/05/23
Somerset County Council Pension Fund	5,000,000	1.250	31/05/23
Somerset County Council	5,000,000	1.250	31/05/23
NEXUS	5,000,000	1.350	05/06/23
Wigan Council	5,000,000	1.750	05/06/23
Tewkesbury Borough Council	2,000,000	1.920	06/06/23
Hertsmere Borough Council	5,000,000	1.400	14/06/23
Islington London Borough Rollover	5,000,000	3.500	19/06/23
East Suffolk Council	5,000,000	1.350	28/06/23

Police & Crime Commissioner For Avon And Somerset	3,000,000	3.200	03/07/23
Somerset County Council	5,000,000	3.200	03/07/23
Horsham District Council	2,000,000	3.200	03/07/23
Guildford Borough Council	5,000,000	0.500	05/07/23
Gloucestershire County Council	5,000,000	0.500	05/07/23
Police and Crime for Avon & Somerset	5,000,000	1.250	05/07/23
Elmbridge Borough Council	5,000,000	1.850	06/07/23
Brighton & Hove City Council	5,000,000	1.850	06/07/23
Islington London Borough	10,000,000	0.500	13/07/23
NEXUS	5,000,000	0.500	14/07/23
South Derbyshire DC	5,000,000	0.500	19/07/23
East Suffolk Council	5,000,000	1.600	26/07/23
West of England Combined Authority	5,000,000	0.600	27/07/23
Somerset CC Pension Fund	5,000,000	1.650	31/07/23
Wealden D.C.	5,000,000	1.600	22/08/23
Renfrewshire Council	5,000,000	2.300	01/09/23
South Ayrshire Council	5,000,000	2.300	04/09/23
South Ayrshire Council	5,000,000	2.300	29/09/23
Total	211,574,591.00		

Table 8 New Loans taken out 1 April 2023 to 30 September 2023

Counterparty	Principal £	Interest Rate	Start Date	Maturity Date
Rugby Borough Council	5,000,000	4.700	06/04/23	04/04/24
West Midlands CA	10,000,000	3.850	28/04/23	26/04/24
Furness Building Society	5,000,000	4.900	10/05/23	08/05/24
Argyll & Bute	5,000,000	5.300	12/06/23	10/06/24
Mole Valley DC	2,000,000	5.300	12/06/23	10/06/24
Test Valley BC	5,000,000	6.000	05/07/23	03/07/24
Test Valley BC	5,000,000	6.000	31/08/23	29/08/24
Vale Of Glamorgan Council	3,000,000	4.650	28/04/23	31/10/23
North Yorkshire	10,000,000	4.600	11/04/23	11/10/23
North Yorkshire	10,000,000	4.600	13/04/23	13/10/23
PWLB	75,100,000	5.990	03/07/23	04/07/25
PWLB	5,000,000	6.160	19/07/23	21/07/25
PWLB	3,575,000	5.670	14/09/23	16/09/25
PWLB	5,000,000	5.400	29/09/23	01/10/25
PWLB	15,000,000	6.170	13/07/23	13/07/26
PWLB	10,000,000	5.670	01/09/23	01/09/26
Total	173,675,000.00			

3.8.4 The Council continues to maintain an under-borrowed position. This means that the underlying capital borrowing need (CFR), is not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow is used as an interim measure.

3.8.5 The Council's effective interest payable on debt currently stands at 3.5%.

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 8 March 2023 (Minute 37/21 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 2023/24 as advised in the current Treasury Management Strategy are detailed in Appendix C. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs.

3.9.6 Investment activity in the first half of the year conformed to the approved strategy with an average monthly balance of £60.4m being maintained in temporary investments. As at 30 September 2023 investments were as follows:

Table 9 Investment Balances at 30 September 2023

Investment	£m
Money Market Funds	58.3
Banks as in approved credit list	-
TOTAL	58.3

In addition the Pension Fund had balances of £45.0m.

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 2023/24.

3.10 Compliance with Treasury and Prudential Limits

3.10.1 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 2023, the Council has operated within the treasury and prudential indicators set out in the TMSS.

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

4. CONSULTATION

4.1 This report has been prepared using advice from the Council's Treasury Adviser, Link.

5. CONTRIBUTION TO COUNCIL PRIORITIES

5.1 Sound financial management: the report asks the Committee to note the contents of the mid-year report on the treasury management activity for 2023/24 as part of the proper financial administration of the Council.

This supports the Council priority of OUTCOME 1 "Balances the books, listens to residents and delivers good, sustainable services."

6. FINANCIAL CONSIDERATIONS

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

Approved by: Allister Bannin on behalf of Jane West, Corporate Director of Resources (S151 Officer), 20/11/2023.

7. HUMAN RESOURCES CONSIDERATIONS

7.1 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, 15/11/2023.

8. LEGAL CONSIDERATIONS

- 8.1 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.
- 8.2 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.
- 8.3 In addition, the Prudential Code and the Treasury Code contain investment guidance which complements the Statutory Guidance mentioned above.
- 8.4 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.
- 8.5 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.
- 8.6 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".
- 8.7 As set out earlier in the report, the Prudential Code requires authorities to prepare a capital strategy.
- 8.8 Under Directions dated 20 July 2023, issued by the Secretary of State under Section 15(5) of the Local Government Act 1999, the Council must, amongst other things "secure as soon as practicable that all the Authority's functions are exercised in conformity with the best value duty, thereby delivering improvements in services and outcomes for the people of Croydon".

Approved by: Sandra Herbert, Head of Litigation & Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer (17/11/2023).

9. EQUALITIES CONSIDERATIONS

- 9.1 The Council has a statutory duty to comply with the provisions set out in the Section 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.

9.2 There are no specific equalities issues set out in this report.

Approved by: Naseer Ahmad for the Equalities Programme Manager. (15/11/2023)

10. OTHER CONSIDERATIONS

10.1 There are no Customer Focus, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report.

11. FREEDOM OF INFORMATION

11.1 This report contains only information that can be publicly disclosed.

12. DATA PROTECTION IMPLICATIONS

12.1 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:

None

APPENDICES:

- A Economic update
- B PWLB rates
- C Investment instruments

APPENDIX A

Economic update (as prepared by Link in the first week of October 2023)

- The first half of 2023/24 saw:
 - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
 - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
 - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
 - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
 - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
 - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

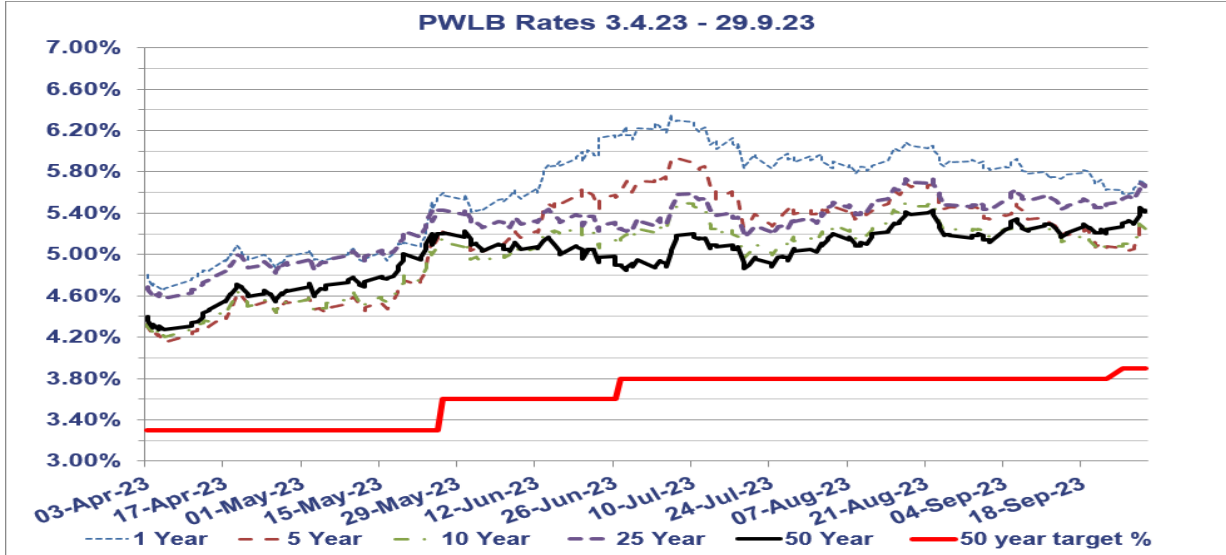
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in

oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- The pound weakened from its cycle high of \$1.30 in the middle of July to \$1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

APPENDIX B



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

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 (GF)** is gilt plus 80 basis points (G+80bps)
- **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
- **PWLB Certainty Rate (HRA)** is gilt plus 40bps (G+40bps)

APPENDIX C

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 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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