East Suffolk House, Riduna Park, Station Road, Melton, Woodbridge, IP12 1RT

Audit and Governance Committee

Members:
Councillor Geoff Lynch (Chairman)
Councillor Edward Back (Vice-Chairman)
Councillor Judy Cloke
Councillor Tony Cooper
Councillor Linda Coulam
Councillor Tess Gandy
Councillor Chris Mapey
Councillor Rachel Smith-Lyte
Councillor Ed Thompson

Members are invited to a **Meeting of the Audit and Governance Committee** to be held on **Monday, 14 December 2020** at **6.30pm**

This meeting will be conducted remotely, pursuant to the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

The meeting will be facilitated using the Zoom video conferencing system and broadcast via the East Suffolk Council YouTube channel at https://youtu.be/rKrcY55QlQw

An Agenda is set out below.

Part One – Open to the Public

Pages

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1 Apologies for Absence and Substitutions

Part Two – Exempt/Confidential

Pages

13 Exempt Minutes

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

14 Internal Audit: Status of Actions

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

15 Internal Audit Reports Recently Issued

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Close

Stephen Baker, Chief Executive

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Councillor Development Charter

Charter Plus+

The national Charter and Charter Plus Awards for Elected Member Development
East Suffolk Council is committed to achieving excellence in elected member development
www.local.gov.uk/Community-Leadership

Unconfirmed

Agenda Item 3

Minutes of a Meeting of the **Audit and Governance Committee** held remotely via the Zoom Video Conferencing System on **Tuesday, 22 September 2020** at **6.30pm**

Members of the Committee present:

Councillor Edward Back, Councillor Judy Cloke, Councillor Linda Coulam, Councillor Tess Gandy, Councillor Geoff Lynch, Councillor Rachel Smith-Lyte, Councillor Ed Thompson

Other Members present:
Councillor Peter Byatt, Councillor Maurice Cook

Officers present:
Katherine Abbott (Democratic Services Officer), Sarah Davis (Democratic Services Officer), Siobhan Martin (Head of Internal Audit), Marie McKissock (Finance Manager Compliance), Brian Mew (Finance Consultant), Lorraine Rogers (Deputy Chief Finance Officer) and Julian Sturman (Senior Accountant)

Others present:
Debbie Hansen and Tony Poynton (Ernst & Young)

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1 Apologies for Absence and Substitutions

Apologies for absence were received from Councillor Cooper and Mrs L Fuller, Audit Manager.

2 Declarations of Interest

There were no declarations of interest.

3 Minutes

RESOLVED

That the Minutes of the Meeting held on 29 June 2020 be agreed as a correct record and signed by the Chairman.

4 Item for Information - Rent Arrears

Further to the information shared at the meeting on 2 March 2020, the Committee received, for information only, another update in relation to rent arrears and the impact of Covid-19.

5 Treasury Management Outturn 2019/20 and Mid Year Report 2020/21

In accordance with the requirements of the Treasury Management Policy Statement for 2019/20, the Committee received the report of the Cabinet Member with responsibility for Resources which reviewed the performance of the Treasury Management function, including prudential indicators for 2019/20, and incorporated a mid-year review of 2020/21. It was noted that in 2019/20:

- Investments totalled £109.68m as at 31st March 2020, which was made up of £84m of short-term investments, £18.68m of long-term investments and £7m of liquidity investments.
- Interest received during the year totalled £1.46m which exceeded the planned budget of £750k
- Borrowing totalled £77.41m as at 31st March 2020 of which £71.17m related to the Housing Revenue Account and £6.24m related to the General Fund.

In relation to 2020/21 to date:

- Investments totalled £160.28m as at 31st August 2020, which was made up of £68.6m of short-term investments, £24.86m of long-term investments and £68m of liquidity investments.
- Interest received to 31st August 2019 totalled £330k.
- The Council received £101.5m of Covid19 grant money from MHCLG in April 2020 for distribution to eligible employers.

The Cabinet Member concluded that the Council had operated its Treasury Management function within the prescribed Treasury Management Policy and Prudential Indicators for 2019/20 and for the first half of 2020/21.

The Chairman stated that it was fantastic that the income forecast had actually nearly doubled and he queried if these were secure investments. The Cabinet Member reassured the Committee that all the investments made had been in accordance with the Council's approved lists and within prescribed parameters.

Reference was made to the return of the remaining discretionary grant funding to MHCLG and it was queried whether there had been sufficient promotion to businesses that the grants were available. The Cabinet Member responded that, whilst the Government had given £101.5m, the Council had estimated that only approximately £74m was needed for the Small Business Grants and Retail, Hospitality and Leisure Grants as it had soon become apparent that a number of business were not eligible for them eg those that shared accommodation ie Adastral Park, or small businesses that were not liable for business rates. He reassured the Committee that the funding had been very well advertised and efforts had been made to contact those that were thought to be eligible. The Finance Consultant stated that the report contained information on the return of the funding to MHCLG. He added that a very large amount of the original grant allocation related to properties that were not eligible within the scheme eg beach huts, which amounted to £15m. Approximately £10m related to businesses that were national chains such as larger retail premises which were ineligible due to State Aid rules. The discretionary grant element of the allocation of £3.8m had been completely utilised and paid out.

The Chairman referred to the counterparty limits being increased from £20m to £25m and the Senior Accountant confirmed that this was being done following guidance from the Council's external treasury advisers and CIPFA guidance to ensure that if the Council received any further grant money in the future, there was scope to be able to securely invest them without any risk to the monies. He confirmed that this was within the limits set down by the Government.

On the proposition of Councillor Back, seconded by Councillor Coulam, it was

RESOLVED

1. That the Annual Report on the Council's Treasury Management activity for 2019/20 incorporating the Mid-Year review for 2020/21 be noted.

2. That the Prudential Indicators Outturn position for 2019/20 in Appendix A be noted.

3. That the revised Counterparty limits for 2020/21 in Appendix B be approved

Councillor Cloke and the Head of Internal Audit joined the meeting at 6.55pm.

6 Suffolk Coastal District Council and Waveney District Council Concluding Annual Governance Statement Letter 2018/19

The Committee received the report of the Cabinet Member with responsibility for Resources which presented the Concluding Annual Governance Statement Letter 2018/19. Members were reminded that the Annual Governance Statements for Suffolk Coastal District Council and Waveney District Council relating to the period 1 April 2018 to 31 January 2019 had been approved by the authorities' Audit and Governance Committees on 12 March 2019 and 15 March 2019 respectively. The Cabinet Member explained that this Concluding Letter provided an assurance that there had been no movement on the wording and assurance levels stated in the 2018/19 Annual Governance Statements for Suffolk Coastal District Council and Waveney District Council in respect of the period from 1 February 2019 to 31 March 2019.

On the proposition of Councillor Coulam, seconded by Councillor Back, it was

RESOLVED

That the Concluding Annual Governance Statement Letter for the year ended 31 March 2019 in respect of Suffolk Coastal District Council and Waveney District Council be noted.

7 Suffolk Coastal District Council Audit Results Report 2018/19

The Committee received the report of the Cabinet Member with responsibility for Resources and the Cabinet Member explained that the Council's external auditor, Ernst and Young (EY), were required to produce an Audit Results Report on the work they had carried out to discharge their statutory audit responsibilities together with any governance issues identified. It was noted that EY were expected to issue an unqualified audit opinion, however, due to continuing work regarding an objection to the accounts, EY had not yet issued their opinion as to whether Suffolk Coastal District Council made appropriate arrangements to ensure economy, efficiency and effectiveness in the use of resources.

Debbie Hanson, Associate Partner, presented the Audit Results Report to the Committee, explaining that EY was required to do so before issuing the final Audit Letter. She highlighted the challenges faced by EY whilst conducting the audit including Covid-19 and staff resourcing. She added that there were a number of outstanding matters listed within their report particularly around the objection to the accounts from a member of the public but she stressed that she did not feel this would impact on their final conclusion. Attention was drawn to a number of disclosures made by the Council regarding Covid-19 and cash flow projection which EY were currently working through but Debbie stated that there was nothing of concern. She asked Members to consider whether a paragraph should be included regarding the impact of Covid-19 as an "emphasis of matter". Debbie referred in particular to page 38 of the report and it was noted that EY had decided not to include the audit differences identified as the amounts involved were not felt to be material and there was no impact on the General Fund. Reference was then made to Section 2 of the report which detailed Areas of Audit Focus including significant risks, the procedures undertaken and the conclusions reached. It was noted that no significant value for money risks had been identified in the Provisional Audit Plan, however, work needed to be concluded on the objection before a final conclusion was reached. Members also noted the Audit fees for 2018/19 on page 64 which included an additional fee for considering the objection to the accounts and the impact of Covid-19.

In the absence of any questions from the Committee, the Chairman queried why EY had increased the fees due to the impact of Covid-19 given the audit was for the 2018/19 accounts and had only been delayed into 2020 due to EY's issues with staff resources. Debbie acknowledged that this was a point well made and stated that she would consider the issue further. Clarification was sought on how much of the additional £10K fee had been added due to the impact of Covid-19, however, Debbie responded that she was not able to provide a split for the figure.

Councillor Byatt, observer, joined the meeting at 7.14pm.

On the proposition of Councillor Coulam, seconded by Councillor Cloke, it was:

RESOLVED

That the findings within the Audit Results report in respect of Suffolk Coastal District Council for 2018/19 be noted and, as promised, EY look again at the proposed fees for 2018/19.

8 Suffolk Coastal District Council Audited Statement of Accounts 2018/19

The Committee received the report of the Cabinet Member with responsibility for Resources and it was noted that, as outlined by EY in their Audit Results Report, the delayed audit work had now been concluded, and EY were finalising their Partner review before issuing an unqualified audit opinion on the Suffolk Coastal 2018/19 Statement of Accounts. The issue of the Value for Money opinion for the year had been delayed as a result of an objection to the accounts which was yet to be concluded. The Committee was informed that this report presented the Suffolk Coastal Adjusted for Audit Statement of Accounts for approval.

On the proposition of Councillor Cloke, seconded by Councillor Coulam, it was

RESOLVED

1. That, having reviewed the Suffolk Coastal District Council Audited Statement of Accounts for 2018/19, it be approved.

2. That, should any further minor amendments be required, the Chief Finance Officer, in consultation with the Chairman of the Audit and Governance Committee, be given delegated authority to make these changes.

9 Waveney District Council Audit Results Report 2018/19

The Committee received the report of the Cabinet Member with responsibility for Resources who explained that, as before, the EY representatives would take the Committee through the report. He added that EY had been expected to issue an unqualified audit opinion and conclude that Waveney District Council made appropriate arrangements to secure economy, efficiency, and effectiveness in the use of resources. However, the audit had identified a number of adjusted and unadjusted differences, which were detailed within Section 4 of Appendix A. EY had requested that these uncorrected misstatements be corrected or a rationale as to why they were not corrected be considered and approved by the Committee and provided within the Letter of Representation. The Audit Results Report noted that Management have determined not to amend the statements for these audit differences as they were individually and cumulatively immaterial. Having consulted further with Finance Officers, they remained of this opinion and, in addition, were acutely aware of the need for a final Statement of Accounts to be presented to this Committee, given that it was now nearly eighteen months after the relevant year end. Members were also asked to note a number of points regarding the individual items referred to as unadjusted misstatements:

- EY previously agreed that the Past Service Cost item would not be adjusted;
- There was a difference of view between Management and EY regarding the "Surplus on available for sale financial assets" item;
- The bad debt provision item had obviously been superseded by the review of, and an increase in, this provision in the 2019/20 East Suffolk Council Statement of Accounts.

Consequently, the Cabinet Member proposed that these unadjusted misstatements not be corrected and that this rationale be approved by the Committee and provided within the Letter of Representation.

Debbie Hanson, Associate Partner, explained that Waveney's Audit Results Report was similar to Suffolk Coastal's except for the Statement of Audit and the differences identified, and the objection which related to Coastal not Waveney. Debbie highlighted in particular Section 2 of the report which contained the key risks, management over-ride, valuation of land and buildings which included community assets that had a different value. Errors in the disclosure of grants and Officer's remuneration which were potentially sensitive but not found to be material were also drawn to Members' attention.

The Chairman thanked Debbie for her report but pointed out that, again, these were historic accounts so he did not see why there should be an increase in the fees because if they had been completed on time, they would have been dealt with prior to the pandemic occurring. He reiterated his request for EY to review their fees.

On the proposition of Councillor Back, seconded by Councillor Cloke, it was

RESOLVED

1. That the findings within the Audit Results report in respect of Waveney District Council for 2018/19 be noted.

2. That the Cabinet Member's suggested response to the uncorrected misstatements referred to in paragraph 2.2 and Section 4 of Appendix A be endorsed and they not be corrected.

3. That EY review their position in relation to the proposed increase in fees.

Tony Poynton, EY, left the meeting at this point.

The Committee adjourned for a comfort break at 7.32pm and returned at 7.37pm.

10 Waveney District Council Audited Statement of Accounts 2018/19

The Committee received the report of the Cabinet Member with responsibility for Resources and it was noted that, as outlined by EY in their Audit Results Report, the delayed audit work had now been concluded and EY were finalising their Partner review before issuing an unqualified audit opinion on the Waveney 2018/19 Statement of Accounts. Members noted that this report presented the Waveney Adjusted for Audit Statement of Accounts for approval.

On the proposition of Councillor Coulam, seconded by Councillor Back, it was

RESOLVED

1. That, having reviewed the Waveney DC Audited Statement of Accounts for 2018/19, they be approved.

2. That, should any further minor amendments be required the Chief Finance Officer, in consultation with the Chairman of the Audit and Governance Committee, be given delegated authority to make these changes.

11 External Audit Plan 2019/20

The Committee received the report of the Cabinet Member with responsibility for Resources and it was noted that EY's external audit plan summarised their assessment of the key risks driving the development of an effective audit for the Council; outlined their planned audit strategy in response to those risks; proposed timescales and indicative audit fees. The Cabinet Member invited the EY representatives to take the Committee through their proposed plan.

Debbie stated that she wanted to ensure that the Committee understood the risks identified and the reality that the External Audit Team were working to, and also give Members a chance to challenge any of the risks or flag up any assurance not identified in the planning process. She drew Members' attention to Section 1 of the Plan which was an overview of their 2019/20 audit strategy and it was noted that EY had identified again the two risks that had just been reported in the Audit Results Report for the predecessor Authorities, namely the mistakes due to fraud and error and the incorrect capitalisation of revenue expenditure, both of which had been identified as potential fraud risks so the same procedures would be undertaken as for the previous years. Debbie went through the areas of focus within the report that had been deemed to have a higher inherent risk, namely land and building valuations and investment property valuations and the impact from Covid-19; the Pension Liability Evaluation due to the formal valuation of the whole fund required every three years; the establishment of East Suffolk Council and determining opening balances; the going concern assessment and disclosures; and the impact of Covid-19. In addition, she highlighted that materiality had been set at £2.86million which represented 2% of the gross expenditure on provision of services in the draft 2019/20 accounts; performance materiality had been set at £1.43million which was at 50% to reflect the fact that 2019/20 was the first year of existence of East Suffolk; and that audit differences would be reported over £143K. Debbie went through the remainder of the Plan, including the audit risks, value for money risks, audit materiality, scope of the audit, the EY team, audit timeline and independence. She highlighted in particular that consideration would need to be given to the impact of Covid-19 on the valuation of land and buildings. She concluded that it was intended that the 2019/20 accounts would be completed by the end of December 2020.

In relation to the fee, Debbie stated that EY was discussing with the PSAA that the scale of fees was insufficient to address the risk in Local Authority accounts. She added that they had already submitted an appropriate scale fee of £69,964, however, representations had also been made to PSAA that this was too low. It was noted that the PSAA were still considering this issue.

The Chairman referred to page 365 in relation to the fees and expressed the concern at the large increase for a Council of this size, given it was over a 50% increase. Debbie explained that the base scale fees needed to be increased given the greater expectation from the regulators and challenges especially around Pensions etc. She stated that external audit was there for public assurance too. Debbie added that staff recruitment and retention was not just an EY issue and she pointed out how fundamental external audit was to the role of this Committee. The point was made that it was difficult to accept having a 50% increase to a fee given the Council had had to wait 15 months for EY to audit the accounts. Debbie responded the deadline for the 2019/20 accounts had been the end of August 2020 which had been delayed due to Covid-19 but was not a significant delay. She also clarified that EY had asked for the fees to be increased but the PSAA had not yet responded. Clarification was sought on whether EY were recommended accountants for local authorities and Debbie responded that EY was approved. She added that the Council had adopted the PSAA route rather than contracting external auditors themselves.

The Chairman queried if the audit of the 2019/20 accounts would be ready for the next Committee meeting on 14 December 2020 and Debbie responded that this was the date they were working towards and she would give an update to Officers in the interim. The Interim Finance Manager reported that the Chief Finance Officers for Suffolk as a whole had made representations to the PSAA regarding fee levels.

On the proposition of Councillor Gandy, seconded by Councillor Cloke, it was

RESOLVED

That, having considered the 2019/20 External Audit Plan, it be noted and EY be asked to consider all the Committee's comments made on the contents of the report.

Debbie Hanson, EY, and the Finance Officers left the meeting at 8.05pm.

12 Internal Audit: Annual Internal Audit Plan 2020-21

The Committee received the report of the Cabinet Member with responsibility for Resources on the proposed Internal Audit Plan for East Suffolk Council 2020-21 as agreed with Corporate Management Team in February 2020 and again with relevant Heads of Service in September 2020. It was noted that presentation of the Plan to the Audit and Governance Committee had been deferred due to the coronavirus pandemic. The development of the Plan involved many factors and drivers and the greatest weight had been given to the current risks facing the Council, and a diagram was incorporated within the report, which illustrated the overall methodology. The point was made that coronavirus had resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact was also changing as the situation developed. Internal Audit had and would continue to carry out work to assess whether there had been any changes to the Council’s key activities where workarounds to normal business practices had occurred in response to Covid-19. Examples included democratic decisions, statutory responsibilities, financial systems / processes, and procurement practices. It was noted that, where needed, Internal Audit had been proactive in providing input, advice, and assurance to services on any proposed changes.

The Cabinet Member stated that it was not possible at this date to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control. This plan had been developed to consider these impacts and to present the work that Internal Audit intended to undertake during 2020-21. It was stressed that this plan might have to be reviewed and adjusted in response to any changes to risk or business need during these unprecedented times.

The Committee was informed that this report was being presented in accordance with their terms of reference which stipulated that the Committee was to *'approve, (but not direct) internal audit's work plan*.' Also '*to* promote *the value of the audit process.'* Members were reminded that Internal Audit Services acted in accordance with the Accounts and Audit Regulations (2015) and followed the Public Sector Internal Audit Standards (2017) (PSIAS) and Local Government Application Note (2019). The Cabinet Member concluded that the report had been prepared in accordance with the Council's Audit Charter.

The Head of Internal Audit reported that the Committee should be reassured that, whilst she had a small finite team, the compliance plan being put in place could be undertaken with the resources available and it incorporated everything that had been deferred. She reminded Members that the Service had been externally inspected and was PSIAS compliant. She added that Senior Managers had been consulted in preparing the plan and the timing allowed them to tie in to the Annual Governance Statement. She concluded that an update on the plan would be provided at the next meeting.

The Chairman commented that it was understandable that it might not be so easy to do audits during the pandemic so the plan needed to be fluid.

The Head of Internal Audit was thanked for her report and work.

On the proposition of Councillor Coulam, seconded by Councillor Cloke, it was

RESOLVED

That, having commented on the Annual Internal Audit Plan 2020-21, it be approved and noted that any further changes would be reported to the Committee in December 2020.

13 Whistleblowing Policy

The Committee received the report of the Cabinet Member with responsibility for Resources who explained that the Chartered Institute of Public Finance and Accountancy (CIPFA) suggested a regular review of the organisation's Whistleblowing Policy. Members were reminded that the Council had a legal obligation to adhere to the Public Interest Disclosure Act, commonly known as Whistleblowing. The Council's Whistleblowing Policy had last been reviewed in January 2019. The main content of the Policy remained compliant with expected good practices with minor changes made to the structure and length of the Policy following a training session delivered by Protect, formerly known as Public Concern at Work, which was a leading independent whistleblowing charity in the UK. The Committee was informed that there was a key change in emphasis to "whistleblowing in the public interest" from "whistleblowing in good faith". It was also noted that the Policy had been revised in line with the EU Whistleblowing Directive April 2019. The Cabinet Member concluded that the report enabled the Committee to fulfil its terms of reference "To review the Council's Whistleblowing Policy".

The Head of Internal Audit stated that it was felt that whistleblowers should be able to speak to others not just internally and under the EU Directive there was a requirement to list "prescribed people and bodies" such as MPs, Ombudsman etc that they could speak to. She explained that, although the previous Policy had listed those people and bodies, it had not used the terminology in the Directive so this had been changed. The Policy had also been "plain englished" and gave details of who could blow the whistle. She concluded that she felt the changes enhanced the Policy.

The Chairman acknowledged that it was important for the Committee to review this Policy on a regular basis.

On the proposition of Councillor Back, seconded by Councillor Coulam, it was

RESOLVED

That, having commented on the refreshed Whistleblowing Policy, it be approved.

14 Audit and Governance Committee's Forward Work Programme

The Audit and Governance Committee reviewed and agreed the Work Programme for the remainder of the 2020/21 Municipal Year.

15 Exempt/Confidential Items

RESOLVED

That, under Section 100A(4) of the Local Government Act 1972 (as amended), the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

16 Exempt Minutes

17 Internal Audit: Status of Actions

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

18 Internal Audit Reports Recently Issued

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

The meeting concluded at 8.40pm.

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Chairman

Agenda Item 4

ES/0599

EASTSUFFOLK COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday 14 December 2020

STANDARDS MATTERS, DECLARATIONS OF GIFTS/HOSPITALITY RECEIVED BY MEMBERS AND OFFICERS AND REVIEW OF COMPLAINTS

EXECUTIVE SUMMARY

To consider an update report on standards related matters and offers of gifts/hospitality received by Members and Officers.

Is the report Open or Exempt?	Open

Wards Affected:	All

Cabinet Member:	Councillor Steve Gallant Leader of the Council

Supporting Officer:	Hilary Slater Head of Legal & Democratic Services 01394 444336 Hilary.slater@eastsuffolk.gov.uk

1. BACKGROUND

1.1 This report updates the Committee on declarations of gifts/hospitality received by Members and Officers, and on the number of complaints received under the Suffolk Code of Conduct (the Code).

2. HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?

2.1 The Council has an aim in its Strategic Plan to deliver the highest quality of life possible for everyone who lives in, works in and visits East Suffolk. To achieve this, the Council uses its Strategic Plan as a compass to guide all its decision making. In the compass, there are five key themes which show the direction that the Council will take. All themes are interconnected and complement each other. They are “Growing Our Economy”, “Enabling Our Communities”, “Maintaining Financial Sustainability”, “Delivering Digital Transformation” and “Caring for Our Environment”.

2.2 The Council has a duty to promote and maintain high standards of behaviour, under the Localism Act 2011. The declaration of interests is an element of this duty. It is key to effective governance and compliance. Therefore, the declaration of these interests, and the openness, and transparency associated with this, helps to maintain the standard of the Council’s decision-making. If sound decisions are made, good governance is supported. This leads to public confidence in the Council’s decision making, and in the Council, itself. Sound decision making underpins how the Council operates and sits behind all of the decisions made to achieve the themes of the Council’s Strategic Plan.

3. COMPLAINTS MADE UNDER THE CODE

3.1 The former Councils of Suffolk Coastal and Waveney adopted the Code in July 2012. The Code was adopted district and county wide. Written complaints may be made to the Monitoring Officer (MO) of this Council that a Parish, Town or District Councillor has breached the Code.

3.2 Since the East Suffolk Council (ESC) came into being, on 1 April 2019, and up until the end of December 2019, 21 complaints under the Code were received. All of the complaints related to town or parish councillors. 10 related to councillors from one particular Council and 4 to another. None related to district councillors.

3.3 The process for dealing with the complaints is that each complaint is copied to the subject Member, and they are asked to comment on it. The complaint and the comments from the subject Member are then considered by the MO, in consultation with one of the Council’s Independent Persons (IPs). An initial assessment of the complaint is made. At the initial assessment, no further action may be taken in response to the complaint. Or it may be recommended that some form of local resolution is undertaken, such as training, mediation or that an apology be given. In some cases, it may be decided to refer the complaint for a full investigation. This involves the appointment by the MO of an independent investigator who will look at the facts, interview the subject Member and the complainant, together with any witnesses, and make findings. Relevant documents will be examined as part of the investigation and a report written as a result, setting out those findings. If it is found that the Code has been breached, the investigatory report will be referred to the IP, and if he agrees with the findings, further referred to this Committee for determination.

3.4 None of the 21 complaints received between April and December 2019 were investigated. They were dealt with by either no further action, or, in several cases, training was recommended for the whole Council, or an apology requested from the subject Member.

3.5 In 2020, to date, 19 complaints have been received. With the exception of 2, they all relate to town or parish councillors. All have been resolved either by no further action, or some form of local resolution, such as training, or an apology being required. None have been referred for investigation, although it is likely that one will be, shortly.

4. REGISTER OF GIFTS AND HOSPITALITY AND DECLARATIONS OF INTEREST

4.1 The Code requires that Councillors declare gifts and hospitality which they have received that are worth at least £25. Under the previous regime, such declarations formed part of the Members' Register of Interests forms and were, therefore, available for public inspection. In order to make such receipts of gifts and hospitality transparent, the Code also requires that the person from whom the Councillor receives the gift or hospitality worth at least £25 be declared as a Local Non-Pecuniary Interest (LNPI).

4.2 The declarations of gifts and hospitality received are set out in each Councillor's online Register of Interests. Members are asked to up-date their Register of Interests on an annual basis, and any changes to it that occur should be made to the form, within 28 days of the change taking place.

4.3 In addition, Officers are required by the Joint Officer Code of Conduct to declare all gifts and hospitality that they have been offered, declined or accepted which are worth £10 or more. Those relevant to the East Suffolk Council which have been declared since the last report on this subject, on 29 July 2019 (Report ES/0087 refers) are set out in the table at Appendix A of this report.

4.4 Please note that on the advice of the Council's internal Audit team, any personal or sensitive data has been removed from the information contained in Appendix A to this report.

5. REGISTER OF INTERESTS

5.1 Under s29 of the Localism Act 2011 (the Act), the MO of a relevant authority must establish and maintain a register of interests of members and co-opted members of the authority. It is for a relevant authority to determine what is to be entered in the authority's register. The Register of Interests for Members across Suffolk requires them to declare, in Part 1 of the form, certain DPIs. DPIs are prescribed in the Local Authorities (Disclosable Pecuniary Interests) (England) Regulations which were made in 2012. Also, in Part 2 of the form, to declare LNPIs which are required by the Code. These are such things as membership of outside bodies, charities and groups established to influence policy etc.

5.2 In the case of a parish council, references to the MO are to the MO of the district council for the authority's area.

5.3 The MO must ensure that a copy of the district council's register is available for inspection at a place in the authority's area at all reasonable hours, and that the register is published on the authority's website.

5.4 The MO must also ensure that a copy of the parish council's register is available for inspection at a place in the district council's area at all reasonable hours, and secure that the register is published on the district council's website. A parish council must, if it has a website, secure that its register is published on its website.

5.5 Under s30(1) of the Act, Members of the ESC, and newly elected Members of town and parish councils, have 28 days from the day of taking office in which to notify the MO of any DPIs and to complete a register of interests form.

5.6 Members were elected on 2 May 2019 and took up office on the fourth day after that, which, because of the Bank Holiday, was on Tuesday 7 May 2019. Therefore, they had until midnight on 3 June in which to complete their register form. As part of the new CMIS system introduced by the East Suffolk Council, the software provider developed an online, electronic form, similar to the one which the Council previously had developed, in 2012. The previous form and the electronic system used by each of the East Suffolk Council's predecessors was no longer available. Therefore, we were very pleased to have had this electronic system developed by CMIS, as it is more modern, efficient and saves on storage, to have an electronic, rather than paper, system.

5.7 Under s34 of the Act, it is a criminal offence if a member, without reasonable excuse, fails to comply with the requirement in s30(1) to notify the MO of their DPIs.

5.8 It was reported in July of last year (Report ES/0087 refers) that all Members of the district council had completed their register of interests form.

5.9 There were 1209 seats on town and parish councils in the district. Of these, 157 were unfilled. Therefore, we had 1052 (1209-157) elected town and parish councillors in the East Suffolk district area. Out of the 1052, 928 had returned their register of interest forms. by the end of last July. 124 had not. This represented a return rate of 88% and a non-return rate of 12%.

5.10 A further up-date on the return rate was provided at Agenda Item 4 of the meeting of this Committee held on 18 November 2019. At that point in time, there were 1077 Councillors on town and parish councillors in the East Suffolk district area. The number varies according to resignations, elections and co-options throughout the four-year period of any administration. Out of the 1077, 1061 had returned their register of interest forms. 16 had not. This represented a return rate of 99% and a non-return rate of 1%.

5.11 As of this month, we have 12 register forms that have not been completed as yet, and we are contacting the various Parish Clerks and Members to receive their forms.

RECOMMENDATION

Members are asked to comment on the contents of this report.

APPENDICES	
Appendix A	List of gifts and hospitality declared by Officers since 1.8.19 to end November 2020

BACKGROUND PAPERS: None

Appendix A

Date	Job Title	Declared	Hospitality/Gift to declare	Interested Parties	Value (£)	Additional Info	Declined/ Accepted?
30/12/20	Delivery Manager	Gift	2 x bottles of wine	Pearce and Kemp Ltd, IP16 8QJ	£15	Officer never dealt with the electrical contractor directly. Donated to charity for a raffle.	Accepted
07/02/20	Planning Services Support Manager	Gift	2 x Hotel Chocolat gift boxes	Unknown	£100	Could not be declined due to not knowing who the sender was. Donated to charity for a raffle.	Accepted
13/02/20	Active Communities Officer	Gift	2019 Women's tour jacket	Sweetspot (organisers of Women's tour)	Unknown	Unknown value as these cannot be purchased.	Accepted
17/03/20	Customer Contact Advisor	Gift	Bunch of flowers	Customer, Felixstowe	£20		Accepted
03/08/20	Environmental Health Technical Officer	Gift	Avon products - anti-wrinkle skin cream, lip oil and an eye illuminator.	Customer, Leiston	£15	Officer refused profusely but customer became very emotional. Officer was not able to assist with enquiry so passed details to another team.	Accepted

Agenda Item 5

ES/0589

EAST SUFFOLK COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Monday, 14 December 2020

CORPORATE RISK MANAGEMENT UPDATE

EXECUTIVE SUMMARY

1. This report provides an overview and update on how the Council's strategic and operational risks are managed.

2. Members are asked to note and make comment on the corporate strategic risks from the Council's current Corporate Risk Register (CRR) which had been maintained and governed by the Corporate Risk Management Group (CRMG). From 1st April 2020, under the new governance framework for the East Suffolk Strategic Plan, strategic risks are monitored and governed by Corporate Governance Group (CGG) and have been incorporated as part of the monitoring process for delivering the East Suffolk Strategic Plan with risks being reported at each strategic plan theme delivery team.

3. Members are asked to review the key risks on the register at regular intervals and consider corporate risk management when they are planning any future work programmes.

Is the report Open or Exempt?	Open

Wards Affected:	All Wards within the District

Cabinet Member:	Councillor Maurice Cook Cabinet Member with responsibility for Resources

Supporting Officer:	Brian Mew Interim Chief Finance Officer and Section 151 Officer (01394) 444571 Brian.Mew@eastsuffolk.gov.uk Lorraine Rogers Deputy Chief Finance Officer (01502) 523667 Lorraine.rogers@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 The Audit and Governance Committee has responsibility for overseeing risk management for East Suffolk Council. Corporate risk management is the processes and structures by which the business and affairs of the Council are directed and managed. This is in order to improve long-term stakeholder confidence by enhancing corporate performance and accountability. An annual update on Corporate Risk Management was reported to the Audit and Governance Committees of the former councils (Suffolk Coastal District Council on 12th March 2019 and Waveney District Council on 7th March 2019).

1.2 Corporate risk management is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. Risk management also covers opportunity management.

1.3 For the purposes of effectively managing risk, and in accordance with best practice, the Council manages risk within five categories:

- **Corporate (also known as 'Strategic')** risks which affect our ability to achieve long-term Council objectives, such as those in the East Suffolk Strategic Plan. These are recorded in the Corporate Risk Register (CRR) and reviewed by Corporate Management Team and monitored by Corporate Governance Group (CGG)
- **Service Level** risks are those that affect the ability to deliver each theme and its priorities within the East Suffolk Strategic Plan. Risks are identified, monitored and regularly reviewed as part of the framework to deliver objectives and corporate risks relevant to each theme are also reviewed.
- **Operational** risks are those that affect the day to day business of a service; for example, staff absence and its impact on service delivery. These are recorded, identified and managed by service areas. Heads of Service are expected to report high level risks within their service area to CGG and where relevant these would be escalated to the CRR.
- **Health and Safety** includes health and safety of service users as well as staff and councillors. This is overseen by Environmental Services and Port Health. Information, policies and risk assessments are available on the Council's intranet (FRED).
- **Emergency Planning and Business Continuity** are the responsibility of the Head of Environmental Services and Port Health. Emergency Planning and internal Business Continuity Services for the Council are provided by one District Emergency Planning Officer and one Emergency Planning Officer, employed by the Suffolk Joint Emergency Planning Unit. This enables the Council to react effectively to infrequent Major Emergencies, in partnership with other agencies, as required by the Civil Contingencies Act 2004. Further information is available on the Council's Intranet, while general information on the multi-agency response to Major Emergencies, together with plans available for public scrutiny are available at www.suffolkresilience.com

RISK MANAGEMENT

1.4 This report provides an update on how strategic risk continues to be monitored and managed. Details are set out in the East Suffolk Corporate Risk Management Strategy.

1.5 The Council's approach to corporate risk management is to embed risk management across the Council so that it is the responsibility of all managers and teams rather than side-lined to be managed by one team. This approach had been approved by the former Councils' Audit and Governance Committees and continues to be working practice to date.

1.6 The Chief Finance Officer has overall responsibility for Risk Management along with Financial Services and Corporate Performance which includes providing risk management advice and support to all officers. Heads of Service ensure that risks within their area are recorded and managed appropriately, in line with the risk management framework. It is the responsibility of CGG to regularly review and monitor the approach to risk management.

1.7 The Risk Management Toolkit (developed with Zurich) is used to assess and manage corporate, operational, project and partnership risks.

1.8 Risk registers form part of performance reporting and are designed to be living documents, updated regularly. Details of risks are included in document templates for projects and business case appraisals (BCAs). The CRR covers risks which affect our ability to achieve long-term Council objectives. Risks can be escalated from service areas up to the CGG for inclusion in the CRR – or moved down as required. Risks within the CRR state the cause, event and effect. For example, "as a result of bad weather, there is a risk that staff will not be able to get to the office and undertake their work which will result in unhappy service users and increased complaints."

1.9 Proposed governance arrangements for the new East Suffolk Strategic Plan will ensure that newly developed service plans continue to monitor and manage risks effectively in all service areas, and that reporting on high level risks continues across the Council.

1.10 An overview of the Council's corporate strategic risks had been included in the quarterly East Suffolk Performance Reports. The format of current performance reporting will be reviewed and aligned to meet deliverables within the East Suffolk Strategic Plan.

1.11 The Council's intranet has a dedicated Risk Management page which contains documents and links including the East Suffolk Corporate Risk Management Strategy guidance, training presentations and documents, Corporate Risk Registers and CGG Terms of Reference. As the Council moves to its intranet to SharePoint this information will continue to be available within the governance section.

East Suffolk Risk Management Strategy

1.12 Significant changes to the East Suffolk Risk Management Strategy will be reported at future meetings of the Audit and Governance Committee. Risks and opportunities will continue to be monitored at CGG and at Corporate Management Team (CMT) and Senior Management Team (SMT) meetings, to ensure they are being effectively identified and managed.

Project Risks

1.13 Project risks are managed according to the general risk management toolkit (Appendix A). Links to the relevant documents are included in the Project Management Framework. Each significant project should have its own risk register so that the Project Manager may actively manage risks and the Project Board can monitor those risks.

2 HOW DOES THIS RELATE TO THE EAST SUFFOLK STRATEGIC PLAN?

2.1 Risk management supports and delivers the good governance required to deliver the East Suffolk Strategic Plan, ensuring that risks are managed effectively and contributes to efficient governance procedures.

3 DEVELOPMENT AND PROGRESS IN MANAGING RISK

Risk Management E-learning Module

3.1 The Risk Management e-learning module was reviewed and updated in April 2019 in line with SCDC and WDC becoming East Suffolk Council. It continues to form part of the induction process and it is mandatory for all new staff to undertake the training within one month of employment. Further training or guidance on risk management is available.

Risk Management Training Programme

3.2 As part of the Risk Management Training Programme the Council's insurance providers and advisors, Zurich Insurance Group, delivered risk management training to members on 23rd October 2019. The event was delivered to increase knowledge and understanding on risk management (including reporting and responsibilities). A further session is scheduled to be held on 13th January 2021 and all members are invited to attend as part of member development training.

3.3 Risk management training was also delivered to 18 officers on 24th October 2019. The session was tailored on the Council's risk management procedures and aimed to increase understanding and knowledge of how risks are managed. Attendees included existing and new officers to the Council. The training needs for officers continues to be undertaken and training will be made available as required.

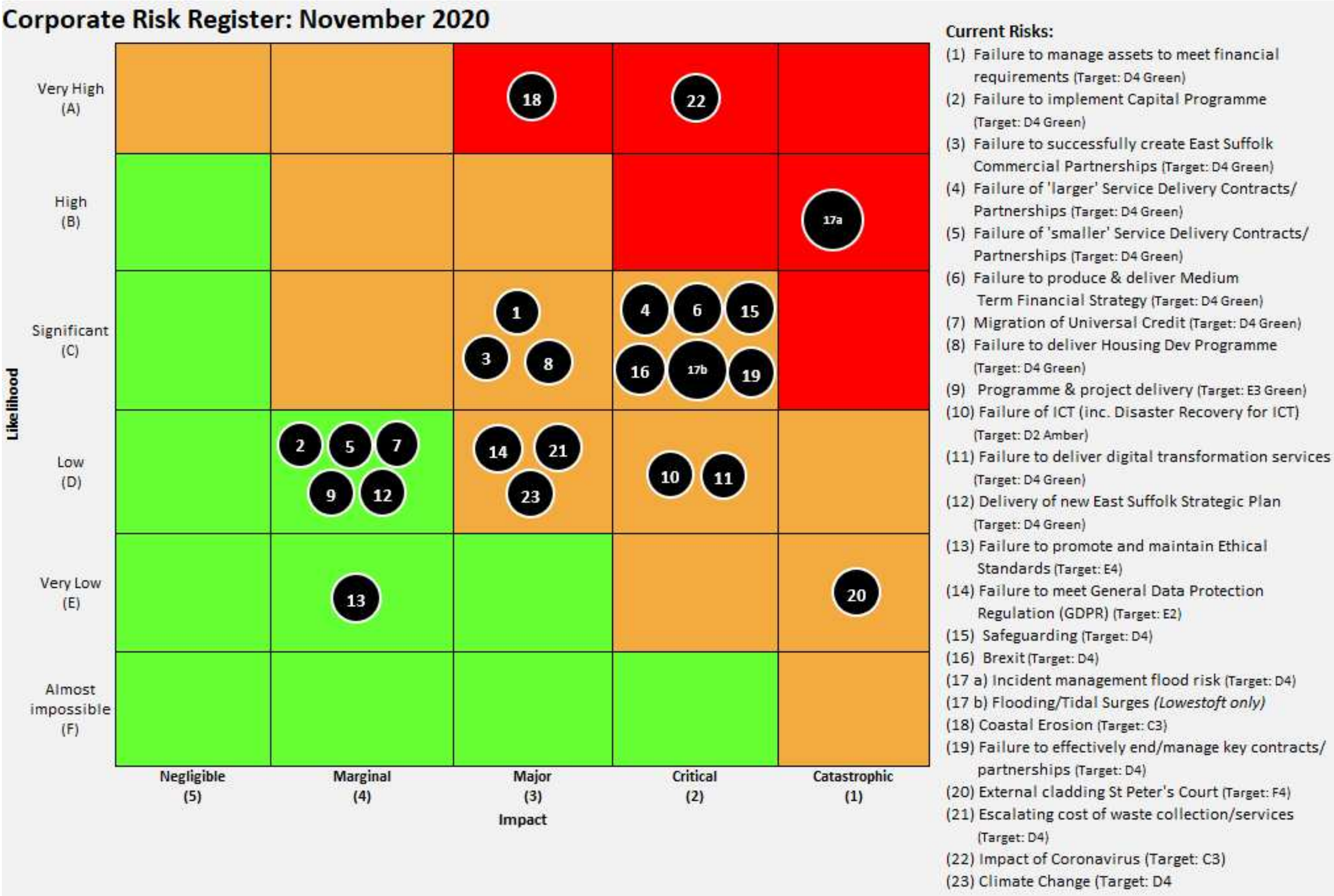
3.4 Horizon Scanning and Corporate Risk Challenge sessions have been built into the programme delivered by Zurich. These sessions have proved valuable and beneficial in ensuring processes are effective and risks are managed and monitored effectively. The sessions include a review of existing risk register, identifies potential risks not included at corporate level and a mechanism to challenge risks.

3.5 On 9th November 2020, Zurich Insurance Group facilitated the 'Horizon Scanning and Corporate Risk Challenge' session for CMT and nominated senior officers which focused on the impact that Covid-19 has had on the Council and included discussions of new and emerging risks and how risks upon the Council may have changed since the pandemic. Overall, it was evident that the risk register was reflective of its impact and a survey by senior officers, carried out prior to the session, was positive on how the Council had met challenges. The threat of cyber-attacks was identified as a high-risk area which is included in the ICT Business Continuity risk.

3.6 A further risk session with CMT to be delivered by Zurich is likely to be held in the first part of 2021 to review the CRR (see Section 4 for all risk updates).

4 CORORATE RISKS

4.1 This section provides details on progress being undertaken to achieve specific targets, meet risk scores of existing corporate risks and includes details of new risks. There are currently 24 risks on the Corporate Risk Register (3 red risks, 15 amber risks and 6 green risks). Below is a diagram of the risk matrix identifying current corporate risks.



Red Risks:

Coronavirus (Red A2, very high likelihood, critical impact)

4.2 The impact of the Coronavirus, which has been classified as a World Pandemic, is a significant risk to the delivery of services by the Council. Business continuity plans are in place and are under constant review to ensure that services continued to operate effectively particularly to support the most vulnerable in the community to access essential services and cover staff absences. The Communities Team worked with the Customer Services Team to implement Home But Not Alone (HBNA) in East Suffolk which supported vulnerable people in our communities struggling with the impact of the Coronavirus to access food, prescriptions and support with loneliness. This was paused in August due to the end of shielding on 31st July and subsequent low demand, however following the second lockdown HBNA was re-established on 4th November. The focus during phase 2 is on helping people to access sustainable, ongoing sources of food, including priority slots with supermarkets. The Council has introduced innovative projects like the Grandpads and East Boxes to help combat isolation and loneliness in our communities. Procedures are also in place for homeworking and meetings were held remotely to ensure the Council operated efficiently. Support to businesses will be continually reviewed in line with national policy. The Council successfully delivered business grants to those eligible and established robust systems which allowed for further grants to be made.

High profile or major coastal erosion or coastal incident (Red A3, very high likelihood, major impact)

4.3 There is a high possibility for major erosion, slip or a tidal surge incident along the East Suffolk coastline which could be catastrophic to life or loss of public or private assets. Monitoring of weather and surge reports is undertaken with appropriate engagement with civil contingencies team, East Anglia and Suffolk and Norfolk Resilience Forums. An emergency event plan is to be developed in conjunction with other relevant service areas and external partners, e.g. Coastguard, utilities, Police, and implemented in key erosion locations. Target risk score of C3 (amber) will be reviewed.

Coastal Management – Incident management – flood risk (Red B1, high likelihood, catastrophic impact)

4.4 Potential of flooding and tidal surges in the short-term and the long-term remains high, particularly as the Council has a large coastline and the impact this would have on properties, communities and businesses. There is also a possibility of more frequent flooding and tidal surges due to the impact of climate change. ESC is part of Suffolk Resilience Forum and continues to work with other agencies. Targeted actions include Coastal Partnership East producing an incident response protocol and incident response with Building Control teams in local authorities and others depending on flood risk sources. Target score is D4 (green) and will be reviewed regularly.

Amber Risks:

Failure to produce and deliver a sustainable Medium-Term Financial Strategy (MTFS) including delivery of balanced Annual Budget (Amber C2, significant likelihood, critical impact)

4.5 This risk rating continues to reflect uncertainty around national Government initiatives and their potential financial impact, delivery of key projects, the impact of the Covid-19 pandemic, and economic outlook. Recent government announcements on Covid-19 and other financial support measures to local authorities will contribute significantly to mitigating the impacts of the pandemic.

4.6 The new East Suffolk Strategic Plan has 'Financial Sustainability' as one of its key themes, and the group overseeing this them will focus on savings and income generation projects. The annual budget is approved by Full Council annually and the MTFS position is reviewed continuously. CMT works with Cabinet to develop and implement plans to deliver a sustainable balanced position. This risk also incorporates the delivery of a balanced annual budget and financial governance. Work continues to identify savings and income generation, and delivery and monitoring of key projects to achieve and maintain financial sustainability. Ongoing update of MTFS assumptions and variances.

4.7 Target score is D4 green (low likelihood and marginal impact).

Failure to plan and prepare for the consequences of Brexit (Amber C2, significant likelihood, critical impact)

4.8 Due uncertainty on the impact of Brexit it remains a significant risk on the Corporate Risk Register. Brexit took place on 31st January 2020 and there has been an 11-month transition period which is due to end 31st December 2020. There will be new rules for businesses and citizens in place from 1st January 2021 which will include importing and exporting of goods, travelling and living and working in the EU. ESC is continuing to support its businesses, and Brexit trade advisors had been appointed to work with businesses to support their trading activities during the EU transition. ESC also assisted people to sign-up to the EU Settlement Scheme. The target risk is green D4, which will be reviewed in the new year.

Failure of Large/Significant Service Delivery Contracts/Partnerships (Amber C2, significant likelihood, critical impact)

4.9 Work continues to ensure that Contract Management Procedures and documentation fully meet the needs of managing contracts effectively. The Constitution (which includes Contract Procedure Rules) for ESC was approved by the Shadow Council on 28th January 2019. New procurement rules require officers to play a more proactive role in understanding and monitoring contract performance, and that the procurement process will be the point at which KPIs are set. To this end, the Council carried out an extensive review of leisure contracts in 2019 and 2020, leading to a full procurement for a new leisure contractor. In addition, a leisure development contract was terminated, and the main functions rolled into the core leisure contract. Work started in 2020 on a full review of the Norse contract, and the production of an options appraisal.

4.10 The risk score for large contracts/partnerships remained at C2 amber. Current work is providing assurance around the robustness of contractors and, where necessary, is taking action to identify alternative providers.

Safeguarding – Failure to protect the most vulnerable and ensure they receive appropriate help from other authorities/organisations (Amber C2, significant likelihood, critical impact)

4.11 Significant risk that those requiring assistance are unable to receive help due to not meeting threshold criteria of other authorities/organisations despite being clearly vulnerable and in need of safeguarding. Important to influence the wider system to develop and implement preventative and early intervention measures to stop people from becoming vulnerable and in need of safeguarding. ESC is continuing to liaise with other authorities to address this gap in terms of referral processes and thresholds. A Services for All Group has been established to provide oversight of both safeguarding and Equality and Diversity, and training has been held to ensure compliance with policy and legislation. The target score is green D4 (low likelihood, marginal impact) and the risk will be reviewed following progress and outcomes to procedures by other authorities.

Failure to protect lives and properties against from flooding/tidal surges (Lowestoft) (Amber C2, significant likelihood, critical impact)

4.12 Due to ESC having a large coastline the threat of flooding and tidal surges is a risk for the Council. National flood warnings and measures are in place, including procedures to warn people to vacate properties. Overall risk is relatively low, however, Lowestoft remains a higher risk. At present, there is a temporary barrier in Lowestoft, regularly tested and deployed in significant tidal surges to protect Lowestoft central, but a permanent barrier is needed. Work is underway to build new tidal defences and a barrier by 2026.

Failure to effectively end/manage key contracts/partnerships and realise financial benefits to the Council (Amber C2, significant likelihood, critical impact)

4.13 Risk relates to concern that contracts may not be managed effectively or used to full potential (e.g. not achieving financial benefits for the Council). Mitigating actions include review of existing significant contacts prior to contract termination and inclusion of exit clauses in future major contracts. Work currently being taken to review the contract currently held by Norse, where a break clause can be triggered in 2023. Full procurement has been carried out to identify a new leisure contractor for the North of the district, with a decision due in December.

Failure of assets to meet financial requirements (Amber C3, significant likelihood, major impact)

4.14 Risk updated to include assets being used to full potential. Significant work had been undertaken to review asset management including the completion of the Asset Management Strategy which sets out the management of assets in a way that will ensure maximum value is derived from the existing portfolio, from acquisitions and from disposals. A single electronic Asset Register had also been created for East Suffolk Council. Controls are in place to monitor assets including regular meetings of the Asset Management Group which examines use and disposal of assets. An Asset Management Strategy has been approved by Cabinet and its principles are guiding new acquisitions.

4.15 The target score is D4 green (low likelihood, marginal impact) and the current risk score is likely to be re-categorised following completion of the work identified above.

Failure to successfully create East Suffolk Commercial Partnerships (Amber C3, significant likelihood, major impact)

4.16 This risk relates to uncertainty as to whether the Council will be able to deliver the requirements within the Commercial Strategy, including implementation of LATCOs and in-house commercial opportunities, and will therefore be able to generate new income streams. Business cases and proposals for commercial investment and trading were reported to Cabinet in February 2019. Delegated authority was granted to officers to incorporate the LATCOs. The companies set out in the report cannot commence trading without prior Cabinet approval of a Full Business Case for their commercial activity. Consultants are being used to provide legal and expert advice and supporting the incorporation of the LATCO and governance arrangements. The target score for this risk is D4 green (low likelihood, marginal impact).

Failure to deliver Housing Development Programme (Amber C3, significant likelihood, major impact)

4.17 A significant amount of work has been undertaken including the production of an HRA Business Plan, and implementation of the Housing Strategy. The Development Strategy and Enabling Strategy have been adopted (reported to Cabinet in March 2020).

4.18 The target score is green D4 (low likelihood, marginal impact), progress to meet this target should be achievable once the relevant strategies have been fully implemented.

Failure of ICT (including Disaster Recovery for ICT) (Amber D2, low likelihood, critical impact)

4.19 ICT resilience remains a key priority with ongoing review and updating of infrastructure, systems and processes to mitigate against evolving ICT risks. Specific measures are in place to address cyber security risks and development of Cloud facilities solutions which will provide additional resilience in the future. Target score D2 amber (low likelihood and critical impact) is being achieved.

Failure to deliver Digital Transformational Services (Amber D2, low likelihood, critical impact)

4.20 This risk remained unchanged; however, significant progress has been achieved and continues to improve services. Digital transformation is one of the key themes in the East Suffolk Strategic Plan (which states the Council's key priorities and objectives) and will ensure it is integral to the core functionality of the organisation. Target score D4 green (low likelihood and marginal impact), near to being met.

Failure to meet General Data Protection Regulation (GDPR)/Data Protection Act 2018 and Data Governance (Amber D3, low likelihood, major impact)

4.21 The General Data Protection Regulations came into force on 1st May 2018 along with the UK Data Protection Act 2018. The Council has statutory data governance processes and procedure in operation. Mandatory data protection training has been introduced and refreshed in 2020 for Officers and Councillors. An appropriate Data Protection Officer and Deputy are in post.

4.22 Target score of D4 green (low likelihood and marginal impact).

Failure to effectively manage and monitor Climate Change (Amber D3, low likelihood, major impact)

4.23 Climate change is recognised as a high-level priority for the Council and is specifically identified within the Environment Theme in the East Suffolk Strategic Plan. The Climate Change Action Plan includes milestones to work towards the Council becoming carbon neutral by 2030. ESC is part of the Suffolk Climate Change Partnership and is working towards the aspiration of making Suffolk carbon neutral by 2030 with SCC and other partners across the county and region, including LEP and Public Sector Leaders. ESC continues to work with Government to deliver its 25-year Environmental Plan and increase the powers and resources available to local authorities in order to make the 2030 target achievable. It is also measuring renewable energy generated on the Council's own estate. The target score is green D4 which will continue to be monitored as work progresses on the delivery of the Climate Change Action Plan.

Failure to control escalating cost of waste collection/services (Amber D3, low likelihood, major impact)

4.24 There is some uncertainty on how waste services will continue to be managed effectively due to increased recycling charges, staff costs and disposal of materials which may result in significant costs to the Council. If costs escalate the Council may need to make radical decisions to remodel the service (for example, moving to less frequent black bin collections). The target score is green D4.

Fire risk to exterior cladding at tower block St Peter's Court (Amber E1, very low likelihood, catastrophic impact)

4.25 Risk relates to external cladding at St Peter's Court tower block. Whilst it is considered a minimal at present, due to non-compliance with manufacturer's installation requirements, it has been agreed to procure the complete replacement of the exterior cladding. Following a procurement exercise in accordance with Contract Procedure Rules, Council approved to procure the external cladding. The target score is F4 green which expected to be achieved following work to replace the external cladding.

Green Risks:

Impact of Migration to Universal Credit (Green D4, low likelihood, marginal impact)

4.26 Risk updated to reflect impact of full migration to Universal Credit on the Council and its residents (e.g. debt, rent arrears). Controls and actions are in place including predictive analytics software (Rentsense) which resulted in a reduced caseload for Rent Officers allowing them to focus on those cases needing to be contacted and the Housing Team had seen a reduction in arrears. Managed migration will also be supported by the recruitment of a Financial Inclusion Officer who will work with tenants on housing benefit (to not only maximise their income but also to get agreements to get them a month ahead on their rent).

Failure of Other (smaller) Service Delivery Contracts/Partnerships (Green D4, low likelihood, marginal impact)

4.27 The current risk relating to the impact of smaller service delivery contracts/partnerships remained at green D4 (low likelihood and marginal impact). Work continues to ensure these are effectively managed. The target risk is being achieved.

Failure of Programme and Project Delivery (Green D4, low likelihood, marginal impact)

4.28 Risk improved to D4 green (previously amber C2, significant likelihood, critical impact) which was due to considerable amount of work to deliver previous East Suffolk Business Plan and production of the new East Suffolk Strategic Plan (implemented on 1st April 2020). Governance arrangements for delivering the new Strategic Plan ensures effective management of corporate projects. Opportunities will continue to be developed to improve consistency and application of project management.

4.29 The target score is E3 green (very low likelihood, major impact) and will be reviewed once the new governance arrangements for the East Suffolk Strategic Plan have been fully established and the first year of delivery has been reached.

Failure to implement Capital Programme (Green D4, low likelihood, marginal impact)

4.30 Risk updated to ensure it relates to other projects including asset management and captures the implementation of revenue generation. A Capital Strategy is in place and reported annually to Cabinet. The East Suffolk Asset Management Strategy had been approved by the Council. Asset Management Investment Strategy is being implemented and used to inform decision making processes. For example, the recent purchase of a business park in Beccles was informed by the investment criteria set out in the Asset Management Strategy. The Strategy codifies and rationalises the basis for the Council's asset management decisions in a single adopted document. The target score is green D4 (low likelihood and marginal impact).

Failure to deliver East Suffolk Strategic Plan (Green D4, low likelihood, marginal impact)

4.31 Following significant work by members and officers a new East Suffolk Strategic Plan was produced, presented to Cabinet on 4th February and approved at Full Council on 26th February 2020. The East Suffolk Strategic Plan is a strategic-level document showing aims and objectives of the Council at a high level, to steer the organisation's decision-making and day to day management of services. There are five themes, which are overarching principles for the way in which the authority will work as a whole, rather than being in isolation, the plan aims to present the themes and priorities as the ethos under which decisions are made and the direction the authority travels over the next four years. A comprehensive reporting framework has been established to ensure deliverables are achieved and the Strategic Plan Delivery Board meets six times a year, five of the meetings focus on one theme and an end of year overview/report on the Strategic Plan will be delivered in April. Review of ES Strategic Plan will also be reviewed to ensure it captures any implications due to Covid-19. Target risk score (green) was being achieved.

Failure to promote and maintain Ethical Standards (Green E4, very low likelihood, marginal impact)

4.32 Due to the importance of maintaining and promoting Ethical Standards this risk remains a corporate risk. The Council's Audit and Governance Committee has a statutory duty to promote and maintain high standards of behaviour. Regular reports are made to the Committee about Standards. Declarations of interests, gifts and hospitality are made and monitored. The target score of E4 green continues to be achieved.

Overview of Risk Ratings:

4.33 A summary of the current and target risk scores along with the projected direction of travel is detailed below:

Corporate Risk	Current rating	Target rating	Projected Direction to meet target
Coronavirus	Red	Amber	⬆
Coastal Management – Incident Management – Flood Risk	Red	Green	⬆
Coastal Erosion or coastal incident	Red	Amber	⬆
Medium-Term Financial Strategy (MTFS) including delivery of balanced Annual Budget	Amber	Green	➡
Brexit	Amber	Green	➡
Service Delivery Contracts / Partnerships (large)	Amber	Green	➡
Safeguard – protecting most vulnerable ensuring they receive appropriate help from others	Amber	Green	➡
Flood/tidal surges (Lowestoft)	Amber	Green	⬆
Effectively end/manage key contracts/partnerships	Amber	Green	➡
Failure of assets to meet financial requirements	Amber	Green	⬆
East Suffolk Commercial Partnerships	Amber	Green	⬆
Housing Development Programme	Amber	Green	⬆
ICT (including Disaster Recovery for ICT)	Amber	Amber	➡
Digital Transformational Services	Amber	Green	⬆
General Data Protection Regulation and Data Governance	Amber	Green	⬆
Climate Change	Amber	Green	⬆
Escalating cost of waste collection/services	Amber	Green	⬆
Fire risk to exterior cladding at tower block St Peter's Court	Amber	Green	⬆
Migration of Universal Credit	Green	Green	➡
Service Delivery Contracts / Partnerships (other/small)	Green	Green	➡
Programme and Project Delivery	Green	Green	➡
Capital Programme	Green	Green	⬆
East Suffolk Strategic Plan	Green	Green	⬆
Ethical Standards	Green	Green	➡
Closed Risks:			
Creation of East Suffolk Council			
Safeguarding Policies and Procedures			
Service Planning			

COMPLETED / CLOSED Risk:

Failure to have appropriate Safeguarding policies and procedures in place and to embed these in the practice of both staff and councillors

4.34 Risk 'completed'. Council has strategies and policies in place relating to safeguarding which are regularly reviewed and updated. Training sessions had been held for councillors which included emerging issues such as County Lines and Child Sexual Exploitation. An on-line training module forms part of the requirements for licensing taxi drivers. It was also agreed that a revised safeguarding risk be added relating to ensuring safeguarding is in place for the most vulnerable and the importance that they received appropriate help from other authorities and organisations (see paragraph 4.26).

Failure to successfully dissolve the two Councils and become 'East Suffolk Council'

4.35 East Suffolk Council was successfully established on 1^{st} April 2019.

Failure of Service Planning (Green D4, low likelihood and marginal impact)

4.36 Service planning is no longer a strategic risk and would be monitored within service areas where appropriate. Service plans form part of reporting framework for the East Suffolk Strategic Plan.

5 FINANCIAL AND GOVERNANCE IMPLICATIONS

5.1 The Council's focus on risk management provides a robust mechanism for governance and considers a wide number of areas, including financial.

6 CONSULTATION

6.1 Work on Corporate Risk Management has been shaped by consultation with the relevant committees at each Council, with Zurich Municipal, other councils and Internal Audit.

7 RECOMMENDATION

7.1 To build on effective corporate risk management across the Council, it is recommended that the Committee reviews current risk reporting to ensure the reports continue to be useful and in an effective format.

RECOMMENDATION
That the Committee make comment on the current key risks and corporate risk appetite and note the latest update.

APPENDICES	
Appendix A	Corporate Risk Management Process and Toolkit

BACKGROUND PAPERS – none

Risk – and opportunity - management process and toolkit

EASTSUFFOLK

Step 5 - Monitor

Review the Register with colleagues (for example, as part of your Service Plan) at least quarterly

- What has changed?
- New risks or opportunities?
- Need to report or escalate risks?
- Have rankings changed?

Step 4 – Mitigate

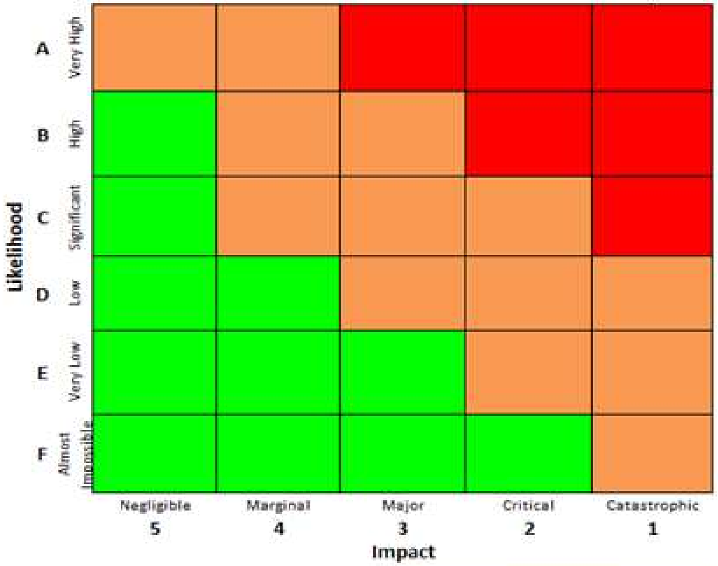
- Assess current actions and controls: Are they adequate or more needed?

Treat – Accept -Stop - Transfer

- Within your Service Plan - develop specific SMART actions that will either reduce the likelihood of the risk, or minimise the impact – or maximize an opportunity and increase its likelihood.
- What should score be after taken action taken?
- Should this risk be escalated?

Step 3 – Prioritise using the matrix below

- How likely is this? How soon might it happen?
- How big an impact will it have?



Likelihood		%	Description	Proximity/ Timing
A	Very High	90%	Event is very likely to occur.	Within current financial year
B	High	60% - 90%	Strong possibility the event will occur.	Will occur at least once per year
C	Significant	30% - 60%	Will probably occur in most circumstances	Will occur within next 4 years
D	Low	15% - 30%	Risk event likely to occur at some time.	Likely to occur once in 4 to 6 yrs
E	Very Low	5% - 15%	Risk event could occur at some time.	Likely to occur within 6 to 10 yrs
F	Almost Impossible	0% – 5%	May occur only in exceptional circumstances. Extremely unlikely or virtually impossible.	May occur once within 10 to 50 yrs

	Impact	Service / Operational	Project or programme	Strategic	Financial	Opportunity
1	**Catastrophic**	Service suspended long-term or taken over. Statutory duties not delivered.	Milestones missed, key deliverables not achieved.	Corporate objectives not met . Mass staff leaving/unable to attract staff. Remembered for years, mentioned in Parliament.	In excess of each authorities available balances, finances/ reserves wiped out.	Significant performance improvement, savings or income of 70%, service transferred.
2	**Critical**	Service suspended medium-term or taken over temporarily. Key objectives missed.	Project reduced/suspended in the medium-term. Major milestones & KPIs missed (red)	Statutory requirements not met. Industrial action, adverse national publicity.	£5m and above	Service transferred, savings/income 50%-70%
3	**Major**	Service reduced / suspended short-term / taken over for a minimal period. Key objectives or KPIs missed (annual - red) within one team/ service, or more than one service affected.	Project delayed / suspended short-term. Some major milestone, or KPIs missed (red).	Industrial action, adverse local and national publicity.	Over £1m less than £5m	Part of service transferred, savings/income 30%-50%.
4	**Marginal**	Service slightly reduced Within one team/service some objectives or KPIs missed (amber annual, red quarter).	Project slightly delayed Some objectives or KPIs missed (amber).	Adverse local media, impact on an external inspection (s), some hostile relationships and minor non-co operation.	Over £½m less than £1m	Positive local media, Financial impact 10%-30%, all PIs met, some partnership working.
5	**Negligible**	No impact on annual service, performance or team objectives.	No impact on: final project due date, performance or objectives.	No effect on morale No effect on reputation or partnership. No media attention.	Less than £½ m	No impact on team objectives or performance. Financial impact below 10%.

For information on risk management, performance & policy, contact Stacey.ransby@eastsuffolk.gov.uk 01394 444232, Financial Services, Corporate Performance & Risk Mngt

Risk – and opportunity - management process and toolkit

This process is used to manage corporate, service, project, business case, and partnership risks and opportunities.

Roles
All members and officers have a responsibility to manage risk in their work. There are also specific responsibilities:

Cabinet	Consider risk when making decisions. Review key risks
Audit & Governance	Review strategy
CMT/SMT	Manage corporate risks. Escalate risks to CRR. Move corporate risks into team or service registers. Raise risks at meetings.
Team Leaders	Manage own risks. Update senior managers Escalate risks

Step 1: Identify
Do this at least once a year

- Look at the business plans, especially priorities. What might stop your team delivering the Councils' priorities – or delivering your service plan?
- Consider the types of risk
- Brainstorm with colleagues
- Examine trends
- Analyse last year's problems
- Review information from other councils / situations
- Be aware of new initiatives / agendas and regulations
- What opportunities are there?

Do this frequently

- What might stop you delivering your service?
- Review situation. Brainstorm with team

Step 2: Analyse - Capture the main elements to a risk or opportunity

Cause	If / As a result of…	**As a result of** bad weather
Event	Then / There is a risk that…	**there is a risk that** staff will not be able to get to the office to do their work
Effect	So / Which will result in…	**which will result in** unhappy service users and increased complaints

Step 1: Types of risk / opportunities (with examples): *What if…?*

Political	Change of political control locally or nationally
External	Changes outside our councils and control
Economic & Financial	Interest rate change; recession
Social	Population growth; aging population
Governance	Compliance requirements; controls
Communication & Relationships	Failure of systems; potential new partnerships
Legislative or Regulatory	Fail to meet requirements; law changes
Strategic / operational	Fail to meet business plan or team objectives
Resources (incl. HR, IT, Finance)	Staff illness; succession planning; system failure; new software; budget cut
Legal	Breach of contract; improved terms
Environmental	Extreme weather events; floods; good summer
Roles & Responsibilities	Using staff skills; lack of qualified staff
Stakeholders	Disagreements; changed priorities
Change Management	Low staff morale; improved efficiency

Agenda Item 6

ES/0586

AUDIT AND GOVERNANCE COMMITTEE

Monday, 14 December 2020

TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2021/22 & TREASURY MANAGEMENT INVESTMENT STRATEGY FOR 2021/22

EXECUTIVE SUMMARY

1. This report sets out the Council's Treasury Management Strategy for 2021/22 and the Treasury Management Investment Strategy for 2021/22 and covers:
   - the current treasury position;
   - treasury indicators which limit the treasury risk and activities of the Council;
   - prospects for interest rates;
   - the borrowing strategy; and
   - the investment strategy
2. The report recommends that the Treasury Management Strategy for 2021/22 and the Treasury Management Investment Strategy for 2021/22 be reviewed and commented upon and recommended for approval.

Is the report Open or Exempt?	Open

Wards Affected:	All Wards across East Suffolk

Cabinet Member:	Councillor Maurice Cook Cabinet Member with responsibility for Resources

Supporting Officer:	Brian Mew Interim Chief Finance Officer 01394 444571 brian.mew@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2 TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2021/22

2.1 The strategy for 2021/22 set out in Appendix A covers:

Treasury management issues:

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy; and
- the investment strategy.

3 HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?

3.1 The Treasury Management Strategy Statement is a CIPFA requirement; the report does not link directly to the Vision of the Business Plan, but through ensuring good governance arrangements and security of the Council's investment income this will help to achieve financial self-reliance and the planned actions set out in the Business Plan.

4 FINANCIAL AND GOVERNANCE IMPLICATIONS

4.1 Security of the Council's cash is the over-riding consideration in setting the Treasury Management Strategy Statement. The Council is constantly receiving advice from its external Treasury Advisors, Arlingclose, with regard to the creditworthiness of financial institutions in order to inform investment decisions.

4.2 The Council's banking provider is Lloyds Bank Plc.

5 REASON FOR RECOMMENDATION

5.1 The Local Government Act 2003 requires the Council to set out its Treasury Management Strategy and Investment Strategy in advance of each financial year. These strategies set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

RECOMMENDATION
That the Audit & Governance Committee reviews, comments upon, and recommends the Treasury Management Strategy Statement and the Treasury Management Investment Strategy for 2021/22 to Full Council for approval.

APPENDICES	
Appendix A	Treasury Management Strategy Statement 2021/22
Appendix B	Treasury Management Investment Strategy 2021/22

BACKGROUND PAPERS

Please note that copies of background papers have not been published on the Council's website www.eastsuffolk.gov.uk but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant Council Department.

Date	**Type**	**Available From**
2020	Arlingclose TM Strategy and Investment Strategy templates	Brian Mew brian.mew@eastsuffolk.gov.uk

Treasury Management Strategy Statement 2021/22

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in the Investment Strategy.

External Context

Economic background: The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Councils treasury management strategy for 2020/21.

Credit outlook: After spiking in late March as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, as does the UK not achieving a Brexit deal, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

For the purpose of setting the budget, it has been assumed that new treasury management short term investments will be made at an average rate of 0.10%, and that new long-term loans will be borrowed at an average rate of 2.50%.

Local Context

On 30th November 2020, the Council held £77.25m of borrowing and £179m of investments (including £45m of Covid19 MHCLG business grants funding). This is set out in further detail at Appendix B. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The Council expects to comply with this recommendation during 2021/22 and in the subsequent years.

Borrowing Strategy

The Council currently holds £77.25 million of loans, a decrease of £160k on the previous year which is due to the principal repayment on one of current loans. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £153 million.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has previously raised all of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. A HM Treasury consultation on lowering PWLB rates concluded in July 2020 with the government publishing its response on the 25th November 2020. Although PWLB rates have now been lowered, this response included a requirement than any authority wishing to borrow from the PWLB must now show that it's capital programme does not include any purchase of asset for yield over the coming 3 year period. In light of this outcome, the Council will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs; ensure the delivery of the Capital Programme; and reduce over-reliance on one source of funding in line with the CIPFA Code.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

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

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

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

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

The Council has previously raised all of its long-term borrowing from the PWLB, but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

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

LOBOs: The Council does not hold any LOBO's (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows Council's to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £110.85 million and £245.86 million. These levels compared to previous years are inflated due to the Council receiving £101.5m of Covid19 grant money from MHCLG for distribution in April 2020 of which £65.7m has been distributed with the remaining balance due to be repaid to MHCLG in 2020/21. A further £11m being received for second wave payments on the 13th November 2020.

Objectives: The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2021/22. This is especially the case for the estimated £30m that is available for longer-term investment. The majority of the Council's surplus cash is currently invested in either short-term unsecured bank deposits or Local Authority deposits. This diversification will represent a substantial change in strategy over the coming year.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in table 1 below, subject to the cash limits (per counterparty) and the time limits shown. These limits exclude any interest payments which will be paid to the Council periodically.

Table 1: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£25m	Unlimited
Secured investments *	25 years	£25 m	Unlimited
Banks (unsecured) *	13 months	£25 m	Unlimited
Building societies (unsecured) *	13 months	£15m	£15m
Registered providers (unsecured) *	5 years	£25m	£25m
Money market funds *	n/a	£20m	Unlimited
Strategic pooled funds	n/a	£20m	£50m
Real estate investment trusts	n/a	£10m	£25m
Other investments *	5 years	£5m	£10 m

*This table must be read in conjunction with the notes below.

Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £20m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities, and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower’s assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government, and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities, and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency although they are not a zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by, or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government, and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity, and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts (REIT): Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £20m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit, rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment return to fall but will protect the principal sum invested.

Investment limits: In order that investment balances are not put at too higher risk the maximum that will be lent to any one organisation (other than the UK Government) will be £25 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries, and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 2: Additional Investment limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country

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

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

Treasury Management Indicators

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

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

	2020/21 Q2	Target
Portfolio average credit score	4.32	4

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

	Target
Total cash available within 3 months	£30.00m

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

	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£150,000
Upper limit on one-year revenue impact of a 1% fall in interest rate	£150,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and within 20 year	75%	0%
20 years and above	100%	0%

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

Principal sums invested for periods longer than one year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2021/22	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£20.0m	£15.0m	£15.0m	£5.0m

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement, and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2021/2022 Limit £m	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m
Borrowing	153.00	153.00	153.00	153.00
Total Debt	153.00	153.00	153.00	153.00

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m
Borrowing	155.00	155.00	155.00	155.00
Total Debt	155.00	155.00	155.00	155.00

Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures, and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating derivative exposures. An allowance for credit risk calculated using the methodology on Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive (MiFiD): The Council has opted up to professional client with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2021/22 is £0.65 million, based on an average investment portfolio of £110 million at an average interest rate of 0.59%. The budget for debt interest paid in 2020/21 is £2.53 million, based on an average debt portfolio of £77.25 million at an average interest rate of 3.25%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

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

Other Options Considered

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

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

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

Annex A – Arlingclose Economic & Interest Rate Forecast November 2020

Underlying assumptions:

- The medium-term global economic outlook remains weak. Second waves of COVID-19 cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

- The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic, and social conditions than otherwise.

- Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.

- Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.

- This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.

- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of a vaccine or if the UK leaves the EU without a deal.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.

- Additional monetary loosening through increased financial asset purchases was delivered as we expected. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.

- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.

- Downside risks remain in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.15	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
10yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.30	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.70	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
50yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.60	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80% PWLB HRA Rate = Gilt yield + 0.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B – Existing Investment & Debt Portfolio Position

	Nov-20 Actual Portfolio £m
External borrowing:	
Public Works Loan Board	**77.25**
Local authorities	**0**
Other loans	**0**
Total external borrowing	**77.25**
Other long-term liabilities:	
Leases	6.06
Total other long-term liabilities	
Total gross external debt	**83.31**
Treasury investments:	
The UK Government	
Local Authorities	**70.60**
Other Government entities	
Secured investments	
Banks (unsecured)	**74.00**
Building societies (unsecured)	
Registered providers (unsecured)	
Money Market Funds	**20.00**
Strategic Pooled Funds	**14.26**
Real Estate investment trusts	
Other investments	
Total treasury investments	**178.86**
Net debt	**-95.55**

Notes:

£35m of Treasury investments are Lockdown 1 Covid19 Grants to be repaid to MHCLG

£10m of Treasury investments are Lockdown 2 Covid19 Grants being distributed to businesses

Excluding the Covid19 MHCLG business grants, the Councils total treasury investments would be £133.86m with Net debt of £-50.55m

Annex C – Summary of Existing Debt & Investment Portfolio Position as at November 2020

Debt Portfolio:

Type of Loan	Start Date	Maturity	Principal	Interest Rate	
Maturity Loans					
Fixed	30/11/1995	30/09/2024	2,000,000	8.38%	GF/HRA
Fixed	19/12/1996	31/03/2022	1,000,000	7.88%	GF/HRA
Fixed	10/08/2007	31/03/2055	3,000,000	4.55%	GF/HRA
Fixed	28/03/2012	28/03/2039	10,000,000	3.47%	HRA
Fixed	28/03/2012	28/03/2036	10,000,000	3.42%	HRA
Fixed	28/03/2012	28/03/2027	10,000,000	3.01%	HRA
Fixed	28/03/2012	28/03/2041	10,000,000	3.49%	HRA
Fixed	28/03/2012	28/03/2032	10,000,000	3.30%	HRA
Fixed	28/03/2012	28/03/2042	8,000,000	3.50%	HRA
Variable	28/03/2012	28/03/2022	10,286,000	0.92%	HRA
Equal Instalments of Principle (EIP)					
Fixed	15/05/2015	15/11/2035	2,960,000	3.69%	GF/HRA
Annuity					
Fixed	10/09/1968	26/08/2028	7,127	7.62%	GF/HRA
		Total	**77,253,127**		

Investment Portfolio:

Counterparty	Type of Investment	Principal	Duration	Start Date	Maturity	Interest Rate
Bank 1	Instant Access	19,000,000	Over night	N/A	N/A	0.10%
Bank 2	Instant Access	15,000,000	Over night	N/A	N/A	0.10%
Bank 3	Instant Access	20,000,000	Over night	N/A	N/A	0.10%
Bank 4	Instant Access	20,000,000	Over night	N/A	N/A	0.08%
		74,000,000				
Local Authority 1	Fixed Term	5,000,000	1 Year	10/12/2019	08/12/2020	1.10%
Local Authority 2	Fixed Term	5,000,000	1 Year	19/02/2020	17/02/2021	0.95%
Local Authority 3	Fixed Term	2,000,000	1 Year	22/05/2020	21/05/2021	1.00%
Local Authority 4	Fixed Term	2,000,000	10 months	15/04/2020	15/02/2021	1.10%
Local Authority 5	Fixed Term	3,000,000	6 months	28/05/2020	27/11/2020	0.83%
Local Authority 6	Fixed Term	5,000,000	1 Year	29/05/2020	28/05/2021	1.00%
Local Authority 7	Fixed Term	5,000,000	9 months	20/05/2020	22/02/2021	0.90%
Local Authority 8	Fixed Term	4,000,000	1 Year	29/07/2020	28/07/2021	1.00%
Local Authority 9	Fixed Term	2,000,000	6 months	11/06/2020	14/12/2020	0.90%
Local Authority 10	Fixed Term	2,000,000	6 months	03/06/2020	03/12/2020	0.68%
Local Authority 11	Fixed Term	3,000,000	6 months	05/06/2020	04/12/2020	0.68%
Local Authority 12	Fixed Term	1,000,000	6 months	10/06/2020	10/12/2020	0.68%
Local Authority 13	Fixed Term	3,500,000	6 months	26/06/2020	24/12/2020	0.35%
Local Authority 14	Fixed Term	1,000,000	6 months	03/07/2020	04/01/2021	0.35%
Local Authority 15	Fixed Term	5,000,000	2 Years	01/09/2020	01/09/2022	0.90%
Local Authority 16	Fixed Term	5,000,000	2 Years	09/10/2020	10/10/2022	0.90%
Local Authority 17	Fixed Term	5,000,000	2 Years	24/08/2020	24/08/2022	0.90%
Local Authority 18	Fixed Term	2,000,000	6 months	31/07/2020	29/01/2021	0.18%
Local Authority 19	Fixed Term	2,000,000	9 months	29/10/2020	29/07/2021	0.40%
Local Authority 20	Fixed Term	2,100,000	6 months	28/08/2020	26/02/2021	0.14%
Local Authority 21	Fixed Term	2,000,000	6 months	23/10/2020	23/04/2021	0.10%
Local Authority 22	Fixed Term	2,000,000	6 months	20/11/2020	20/05/2021	0.10%
Local Authority 23	Fixed Term	2,000,000	6 months	23/11/2020	24/05/2021	0.10%
		70,600,000				
Money Market Fund (MMF)	Instant Access	20,000,000	N/A	n/a	N/A	0.48%
		20,000,000				
Pooled Fund 1	Notice Long Term	4,855,460	N/A	29/11/2017	N/A	4.49%
Pooled Fund 2	Notice Long Term	5,000,000	N/A	25/11/2019	N/A	4.49%
Pooled Fund 3	Notice Long Term	4,404,089	N/A	17/10/2019	N/A	3.36%
		14,259,549				
		178,859,549				

Notes:			
£35m of Treasury investments are	*Lockdown 1 Covid19 Grants to be*		
£10m of Treasury investments are	*Lockdown 2 Covid19 Grants being*		
The Councils total investment portfolio excluding Covid19 Grants is £133,859,549m			

Appendix B

Investment Strategy Report 2021/22

East Suffolk Council

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £100 million and £140 million(excluding any additional Covid19 Business Grants) during the 2021/22 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.

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

Category of borrower	31.3.2020 actual			2021/22
	Balance owing £000	Loss allowance £000	Net figure in accounts £000	Approved Limit £000
Subsidiaries	0	0	0	10,000
Suppliers	0	0	0	0
Local businesses	0	0	0	500
Local charities & Community Groups	0	0	0	500
Parish Councils	0	0	0	500
Housing associations	0	0	0	5,000
Residents	0	0	0	0
Employees	0	0	0	0
TOTAL	0	0	0	15,100

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Councils statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding service loans by presenting a full business detailing.

- Market assessment – evidencing an independent assessment of the market that the Council is/will be competing in, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements
- External Advisor Assessment – All service loans will be subject to assessment by the Council's External Treasury Advisor and a report will be included within the business case.
- Any external advice will be presented to the Audit & Governance, Scrutiny, Cabinet and Council Committees for approval
- Credit Ratings may be used to assess the risk appetite and will be subject to regular monthly review.

Annual Reporting:

- Reporting – As a minimum Service departments will provide an annual report to Council which will include an update on the investment and an independent external review.

Service Investments: Shares

Contribution: The Council may invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Category of company	31.3.2020 actual			2021/22
	Amounts invested £000	Gains or losses £000	Value in accounts £000	Approved Limit £000
Subsidiaries	0	0	0	5,000
Suppliers	0	0	0	500
Local businesses	0	0	0	500
TOTAL	**0**	**0**	**0**	**6,000**

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding shares by presenting a full business detailing.

- Market assessment – evidencing an independent assessment of the market that the Council is/will be competing in, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements
- External Advisor Assessment – All service loans will be subject to assessment by the Council's External Treasury Advisor and a report will be included within the business case.
- Any external advice will be presented to the Audit & Governance, Scrutiny, Cabinet and Council Committees for approval
- Credit Ratings may be used to assess the risk appetite and will be subject to regular monthly review.

Annual reporting:

- Reporting – As a minimum Service departments will provide an annual report to Council which will include an update on the investment and an independent external review.

Liquidity: The maximum period for which funds may be prudently committed is for 5 years, after which subject to satisfactory review this may be renewed annually for a 1-year period.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Councils upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition

<u>Commercial Investments: Property</u>

Contribution: The Council invests in local commercial property with the intention of making a profit that will be spent on local public services.

Table 1: Property held for investment purposes in £ millions

Property	Actual	31.3.2020 Actual	
	Purchase cost £000	Gains or (losses) £000	Value in accounts £000
Commercial shop	166	89	255
Commercial shop	1,433	-648	785
Commercial shop	2,358	-498	1,860
TOTAL	**3,957**	**-1,057**	**2,900**

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss. However, the Council fully expects the fair value to increase following significant works to the adjoining car park, with the fair value expected to increase to that nearing the original purchase price.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by assessing the viability of the cost of financing the investment against the return on investment in terms of receivable income. Investments that are subject to short leases are unlikely to be considered due to the high risk of potential voids.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed; the Council ensures that borrowing is on an equal instalment basis and that revenue budgets cover the cost of the loan repayment.

Loan Commitments and Financial Guarantees

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

The Council does not have any current financial guarantees and all loans are through the Public Works Loan Board (PWLB).

Capacity, Skills and Culture

Elected members and statutory officers: It is important that the members and officers involved in the Treasury Management function have appropriate capacity, skills and information to enable them to take informed decisions on specific investments, to assess the risk and strategic objectives and to ensure that the Council's risk exposure is managed. Periodically the Council's external Treasury advisors, Arlingclose will hold member training sessions which will provide members with a raft of technical advice specifically designed for the Council's environment. Additionally, Officers have a wide range of information available to them from various sources such as the Charted Institute of Public Finance and Accountancy (CIPFA), Arlingclose and Room 151. Officers will also attend a number of courses/seminars throughout the year and have periodical strategic meetings with the Council's treasury advisors.

Commercial deals: Officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local Authorities operate and have access to a number of external bodies who can provide specific advice and direction.

Corporate governance: All of the Council's procedures provide a corporate governance arrangement that ensure accountability and for decision making on investment activities and ensure that the Council's Chief Finance Officer/Section 151 Officer is fully briefed on the Council's investment position at any one time.

__Investment Indicators__

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

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

Table 2: Total investment exposure in £millions

Total investment exposure	**31.03.2020 Actual £000**	**31.03.2021 Forecast £000**	**31.03.2022 Forecast £000**
Treasury management investments	109.68	110.00	110.00
Commercial investments: Property	2.90	2.50	2.50
TOTAL INVESTMENTS	**112.58**	**112.50**	**112.50**
Guarantees issued on loans	77.41	77.25	67.09
TOTAL EXPOSURE	**-35.17**	**-35.25**	**-45.41**

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

Table 3: Investments funded by borrowing in £millions

Investments funded by borrowing	**31.03.2020 Actual £000**	**31.03.2021 Forecast £000**	**31.03.2022 Forecast £000**
Commercial investments: Property	3.12	2.96	2.80

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

Table 4: Investment rate of return (net of all costs)

Investments net rate of return	2019/20 Actual	2020/21 Forecast	2021/2022 Forecast
Short Term Treasury Management investments	0.75%	0.76%	0.10%
Long Term Treasury Management property investments	4.49%	4.40%	4.40%
Long Term Treasury Management multi asset investments	3.36%	3.35%	3.35%
Commercial investments: Property	3.67%	3.50%	2.00%
ALL INVESTMENTS	**12.27%**	**12.01%**	**9.85%**

Agenda Item 7

ES/0587

EASTSUFFOLK
COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Monday, 14 December 2020

CAPITAL STRATEGY 2021/22 TO 2024/25

EXECUTIVE SUMMARY

1. The Capital Strategy (***Appendix A***) gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability.
2. Section 2 of the Strategy outlines the planned Capital Programme 2021/22 to 2024/25 and the way in which it is to be financed. Including the Revised 2020/21 Capital Programme, overall planned expenditure is £254.39 million (General Fund £189.44 million and HRA £64.95 million) over 2020/21 to 2024/25. In 2021/22, there is planned capital expenditure of £68.22 million.
3. The Council has made provision for a Capital Investment loan of £10m in 2021/22 to the Councils Local Authority Trading Company which is included within the Councils Capital Programme for 2021/22.
4. Section 3 of the Strategy refers to the Asset Management Strategy, this highlights the treatment of asset disposals and the continuation of the prudent policy of not anticipating capital receipts before they are received.
5. Section 4 covers Treasury Management, including both borrowing and investment. Treasury Management is a well-established Council activity that operates within a tightly controlled framework. Borrowing levels are expected to remain comfortably within the Council's pre-set limits throughout the duration of the Strategy.
6. Section 5 presents the Council's approach to Service Investments and its ongoing joint venture commitments with the Norse Group for a package of services including Refuse Collection, Cleansing and Maintenance.
7. Section 6 sets out the position on Commercial Investment and the way in which an increase in commercial investment and trading by the Council is set to build on current levels of activity. This represents a 'mixed delivery approach' – combining in-house/direct and arm's length delivery (through a local authority trading company) –for a range of commercial activities.
8. Section 7 explores the Council's other financial liabilities, both in terms of existing commitments (e.g. the Pension Fund deficit) and guarantees.

9. Section 8 explores the in-built revenue implications within the Capital Programme, its financing costs and evaluates its overall “prudence, affordability and sustainability”.
10. Section 9 explains how the Strategy is underpinned by a systematic approach to obtaining and maintaining the necessary knowledge and skills required, to operate effectively, whilst (simultaneously) adequately protecting the Council’s financial risk exposure and wider interests.
11. The Strategy concludes in Sections 10 and 11. This includes an explicit statement by the Interim CFO in accordance with the Prudential Code, providing assurance to Members that the Capital Strategy as a whole is affordable, and that risk has been identified and is being adequately managed.

Is the report Open or Exempt?	Open

Wards Affected:	All

Cabinet Member:	Councillor Maurice Cook Cabinet Member with responsibility for Resources

Supporting Officer:	Brian Mew Interim Chief Finance Officer 01394 444571 brian.mew@eastsuffolk.gov.uk

1 HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?

1.1 The Capital Strategy is a critical component in the delivery of many ambitions included within the Business Plan. It is not only essential to achieving one of the three overarching strategic priorities of the Plan ("Financial Self-Sufficiency") but is also vital in the delivery of a vast range of service development and delivery initiatives.

2 FINANCIAL AND GOVERNANCE IMPLICATIONS

2.1 All Financial and Governance implications are covered in the Capital Strategy (***Appendix A***).

3 OTHER KEY ISSUES

3.1 There are no other key issues arising from this report. Equality, (environmental) Sustainability and Partnership issues are considered as part of individual Capital Programme bids.

4 CONSULTATION

4.1 Professional guidance has been received (and followed) from the Council's Treasury Management advisors (Arlingclose).

5 OTHER OPTIONS CONSIDERED

5.1 There are no alternative options.

6 REASON FOR RECOMMENDATION

6.1 To enable Scrutiny Committee to review the Capital Strategy, including obtaining a recommendation for approval to Cabinet and Full Council.

RECOMMENDATION
That the Audit & Governance Committee reviews, comments upon, and recommends the Capital Strategy 2021/22 to 2024/25 to Full Council for approval.

APPENDICES	
Appendix A	**Capital Strategy 2021/22 to 2024/25**

BACKGROUND PAPERS – none

APPENDIX A

East Suffolk Council

Capital Strategy 2021/22 – 2024/25

1) Introduction

1.1 This Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability. It has purposely been written in an accessible style to enhance understanding of what can be very technical areas.

2) Capital Expenditure and Financing

2.1 Expenditure

2.1.1 Capital expenditure occurs when the Council spends money on assets such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example individual assets costing below £10,000 are not capitalised and are charged to revenue in year.

2.1.2 Further details on the Council's capitalisation policy can be found in the 2019/20 Statement of Accounts:

- Note 1 (o)

2.1.3 In 2021/22, East Suffolk Council is planning total capital expenditure of £68.22 million (and £222.70 million over the next four years) as summarised in Table 1 below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2020/21 budget	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
General Fund Services	27,162	45,511	32,727	37,589	46,454
Council Housing (HRA)	4,534	22,712	13,312	12,193	12,200
TOTAL	**31,696**	**68,223**	**46,039**	**49,782**	**58,654**

2.1.4 The main General Fund capital projects scheduled for 2021/22 are as follows:

- *Lowestoft Flood Risk Management/Tidal Barrier (£17.35 million)* – currently the highest value scheme that the Council has with a budget allocation of £9.96 million included for Phase 1 works (Tidal Walls, Pluvial and Fluvial) and £12.36 million for Phase 2 works (the Tidal Gate);

- *Commercial Investment LATCO (£10 million)* – as part of the Councils commercial portfolio a £10 million investment into the newly created LATCO will provide a steady revenue income stream over the longer term.

- *Former Deben High School Project (£2.60 million)* – major investment and redevelopment for the former Deben High School for Leisure Services and Housing.
- *Lowestoft Beach Hut Replacement (£1 million)* – phase 2, replacement of beach huts following the demolition, reconstruction of the Cliff face and installation of beach hut frame.
- *Post Office London Road North Lowestoft (£1 million)* -Redevelopment of the purchased vacant Post Office site in London Road North Lowestoft.
- *Public Conveniences – (£1 million) – enhancement programme of district wide public conveniences.*
- *Railway Building, Lowestoft (£1.5 million)* – Purchase and development of building contained within the Railway site.
- *Southwold Caravan Site (£1 million)* – redevelopment and enhancement of Caravan site.
- *Felixstowe South - seafront work and Martello Café (£1 million)* - Development of South Seafront area and Martello Café Felixstowe

2.1.4 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council's housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes £40.02 million allocated to the New Build Programme over the (four-year) forecast period, which is expected to deliver around 200 new homes.

2.1.5 Capital investments include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the CIPFA Treasury Management Code.

2.2 Governance

2.2.1 The evaluation, prioritisation and acceptance of capital schemes onto the Capital Programme is carried out in accordance with strict criteria that ensures that new schemes reflect Council priorities and can be delivered within available resources (e.g. due priority is given to schemes yielding savings and/or generating income as well as meeting a Council priority). Proposals are shaped by senior managers in consultation with councillors and considered at the Head of Service budget meetings (in October/November each year) which also includes the Strategic Director responsible for the service area, the Chief Finance Officer (CFO) and relevant members of the finance team. The Head of Housing budget meeting also considers the HRA capital programme.

2.2.2 The draft Capital Programme is then subjected to formal Scrutiny prior to setting the budget (followed by Cabinet and full Council approval).

2.3 Financing

2.3.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is presented in Table 2 below.

Table 2: Capital Financing

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
External sources (Grants)	10,852	22,469	18,347	28,189	37,102
Revenue resources	9,575	24,073	12,692	10,693	10,152
Debt	11,269	21,681	15,000	10,900	11,400
TOTAL	**31,696**	**68,223**	**46,039**	**49,782**	**58,654**

2.3.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as "Minimum Revenue Provision" (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are presented in Table 3 below.

Table 3: Replacement of Debt Finance

	2020/21 Actual	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Minimum Revenue Provision (MRP)	820	1,196	1,627	1,941	2,014

2.3.3 The Council's annual MRP statement can be found at Annex A below.

2.3.4 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP. The CFR is expected to increase by £11.269 million in 2020/21 and £21.681 million in 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is presented in Table 4 below.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (CFR)

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
General Fund services CFR	48,493	70,174	95,460	106,360	117,760
Council housing (HRA) CFR	77,550	77,550	67,264	67,264	67,264
TOTAL CFR	**126,043**	**147,724**	**162,724**	**173,624**	**185,024**

3) Asset Management

3.1 Asset Management Strategy

3.1.1 The Council recognises the importance of ensuring that capital assets continue to be of long-term use especially against a rapidly changing operational and technological backdrop. Enhancing the management of the Council's existing asset base and looking beyond the traditional medium-term financial planning horizon is a major priority. An updated Asset Management Strategy (AMS) was approved in July 2019, broken down into four key components:

- Administrative Improvements.
- Compliance and Sustainability.
- A strategic approach to assets; and
- Reducing expenditure and increasing income.

The AMS takes a longer-term view comprising:

- 'Good' information about existing assets.
- The optimal asset base for the efficient delivery of Council objectives.
- The gap between existing assets and optimal assets.
- Strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

3.2 Asset Disposals

3.2.1 When a capital asset is no longer needed, it may be sold so that the proceeds - known as capital receipts - can be spent on new assets or to repay debt. The Council is also permitted to spend capital receipts on service transformation projects until 2022/23 (in line with its "Flexible Use of Capital Receipts Policy"). Repayments of loans and investments also generate capital receipts. Table 5 below summarises the overall budget projections for capital receipts.

Table 5: Capital Receipts

	2020/21	2021/22	2022/23	2023/24	2024/25
	£000's	£000's	£000's	£000's	£000's
Asset sales	-	-	-	-	-
Loans repaid	160	10,446	160	160	160
TOTAL	**160**	**10,446**	**160**	**160**	**160**

3.2.2 The Council operates a deliberately prudent policy of not assuming future capital receipts within its capital income projections. The most significant capital receipt likely to be received during the timescale of this Strategy relates to the disposal of the former headquarters of Suffolk Coastal District Council at Melton Hill, Woodbridge and the value of capital receipts assumed within the Capital Programme will be updated to reflect this when they are realised.

3.2.3 The Council's Flexible Use of Capital Receipts Policy will form part of the General Fund Budget & Council Tax Report to Council on 24th February 2021.

4) Treasury Management

4.1 Introduction

4.1.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

4.1.2 Due to decisions taken in the past, the Council currently (30th November 2020) has borrowing of £77.25 million at an average interest rate of 4.39% and £179 million in treasury investments at an average consolidated rate of 0.77%. The investment amount at the end of November includes a total of £45 million in relation to Covid19 grant money provided by MHCLG. £35 million is due to be repaid to MHCLG in respect of grants relating to the first national lockdown and £10 million is currently being distributed to eligible business in respect of the second national lockdown.

4.2 Borrowing

4.2.1 The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.25%) and long-term fixed rate loans where the future cost is known but higher (currently 2.50%).

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing, leases and transferred debt) are shown below in Table 6, compared with the Capital Financing Requirement (Table 4 above).

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

	2020/21 budget	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Debt (incl. leases)	94,601	105,536	119,954	130,350	141,221
Capital Financing Requirement	126,043	147,724	162,724	173,624	185,024

4.2.3 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from Table 6, the Council expects to comply with this in the medium term.

Liability Benchmark

4.2.4 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the minimum amount of borrowing required to keep investments at minimum liquidity level. This assumes that cash and investment balances are kept to a minimum level of £30 million at each year-end (five times the Councils General Fund balance). The Liability Benchmark is currently £77.253 million and is forecast to decrease to £66.327 million over the next four years due to the estimated use of resources in lieu of borrowing.

Table 7: Borrowing and the Liability Benchmark

	31.3.2021 forecast	**31.3.2022 forecast**	**31.3.2023 forecast**	**31.3.2024 forecast**	**31.3.2025 forecast**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Outstanding Borrowing	88,522	99,757	114,597	125,337	136,577
Liability Benchmark	77,253	66,807	66,647	66,487	66,327

4.2.5 Table 7 above shows that the Council expects to remain borrowed above its Liability Benchmark due to the borrowing requirement of the capital programme.

Affordable Borrowing Limit

4.2.6 The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt

	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Authorised limit – borrowing	148,380	148,380	148,380	148,380	148,380
Authorised limit – leases	6,620	6,620	6,620	6,620	6,620
Authorised limit – total external debt	155,000	155,000	155,000	155,000	155,000
Operational boundary – borrowing	146,380	146,380	146,380	146,380	146,380
Operational boundary – leases	6,620	6,620	6,620	6,620	6,620
Operational boundary – total external debt	153,000	153,000	153,000	153,000	153,000

4.2.7 Further details on borrowing are contained in the Treasury Management Strategy

4.3 Investments

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

(Treasury Management) Investment Strategy

4.3.2 The Council's Investment Strategy is to prioritise security and liquidity over yield; focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with other local authorities or selected high-quality banks, to minimise the risk of loss.

4.3.3 From 2020/21, the Council plans to operate a more diverse strategy than in the past for longer-term funds, which will be invested more widely, including into bonds, loans, property and shares; this will better balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

4.3.4 Table 9 below summarises the Council's current and forecast treasury investments.

Table 9: Treasury Management Investments

	2020/21 current	2021/22 forecast	2022/23 forecast	2023/24 forecast	2024/25 forecast
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Near-term investments	112,000	102,000	89,000	79,000	68,000
Longer-term investments	15,000	15,000	15,000	15,000	15,000
TOTAL	**127,000**	**117,000**	**104,000**	**94,000**	**86,000**

4.4 Risk Management

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

4.5 Governance

4.5.1 Treasury management decisions are made daily and are therefore delegated to the CFO, who must act in line with the Treasury Management Strategy approved by the Council. Annual outturn reports on treasury management are also approved by the Council (following recommendation from Audit and Governance Committee), whereas mid-year updates are reported exclusively to the Audit and Governance Committee.

5) Investments for Service Purposes

5.1 The Council will sometimes make investments for service delivery purposes where there is a strategic case for doing so. This is an approach that has been adopted for the delivery of a package of services including Refuse Collection, Cleansing and Maintenance whereby the Council has entered into joint ventures with the Norse Group. Given its public service objectives, the Council is willing to take more risk than with treasury investments, nevertheless the arrangements feature cost reduction incentives, from which the Council benefits in the form of Management Fee reductions.

5.2 As at 31st March 2020, the Council held net investments of £329,000 as follows:

- Suffolk Coastal Norse Limited - the Council has held a 20% equity share since April 2009. The Council's share of Net Assets / (Liabilities) at 31st March 2020 was (£130,000); and
- Waveney Norse Limited – the Council has held a 19.9% equity share since April 2008. The Council's share of Net Assets / (Liabilities) at 31st March 2020 was £459,000.

Governance

5.3 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case. The Council is also represented on the boards of both Norse joint venture companies.

6) Commercial Investments

6.1 Current Investments

6.1.1 In recent years, the Council has invested in commercial property in the district on a selective basis, usually where there is a fit with corporate priorities and a positive financial return that can be used to contribute towards the protection of local services. As at 31st March 2020, the commercial property portfolio comprised three shop units in Lowestoft with an estimated Fair Value of £2.9 million. Estimated net return (after all costs) for 2020/21 is expected to be £172,000 (0.6%).

6.2 Commercial Investment Strategy

6.2.1 In recognition of the continued shortfall in local government funding and commitments made in the East Suffolk Business Plan (2015-23), the Council adopted a draft Commercial Investment Strategy (CIS) in September 2017 with a view to achieving a step change increase in commercial investment and trading by the Council.

6.2.2 The CIS has been developed into a business case advocating a commercial investment and trading delivery approach, including the creation of a local authority trading company (LATCO). Adopted in January/February 2019, and being progressively phased in during 2021/22 (following the development and approval of a full business case in support of each commercial activity), it is a mixed delivery approach covering the following activities:

- *In-House*
  - Commercial Property Investment
  - Commercial Property Development
- *LATCO*
  - Residential Property Investment
  - Residential Property Development
  - Property Management Services
  - Construction Services (initially Roofing and Scaffolding)
  - Leisure Services (e.g. Holiday Lets and Beach Huts).

6.2.3 With regard to Commercial Property Investment, CIPFA expressed concern in October 2018 at what they perceive to be the increasing risk taken on by local authorities following a sharp increase in Public Works Loan Board (PWLB) borrowing by councils to invest in commercial property. Both CIPFA and MHCLG have made changes in recent years to codes of practice and statutory guidance in response to increased investment in property. This includes revisions to the CIPFA Prudential Code for Capital Finance in Local Authorities; the CIPFA Treasury Management in the Public Services: Code of Practice; and MHCLG Statutory Investment Guidance. MHCLG have indicated that there is unlikely to be any radical change to the current Statutory Investment Guidance.

6.2.4 CIPFA recently issued guidance on Prudential Property Investment in November, following circulation of draft guidance for consultation in June. The CIPFA Guidance expresses three main areas of concern:

- whether legal powers exist that permit local authorities to borrow to invest in property.
- whether the risks of incurring certain borrowing costs in exchange for uncertain investment returns are fully understood; and
- that ever-increasing purchases of commercial property funded by borrowing places a strain on the credibility of the prudential framework that could lead to statutory intervention.

6.2.5 Although not statutory in nature, the Council's approach will incorporate the CIPFA guidance; this will enhance the other risk management features that are being developed; this includes a strict governance framework, the use of real estate investment experts and diversified portfolios. The aim is to offset principle risks such as falling capital values and voids. However, (within a tightly controlled framework) the Council ultimately accepts a higher risk on commercial investments compared to treasury investments.

6.3 Governance

6.3.1 Governance arrangements for commercial investment and trading continue to be developed. Tailored arrangements will be required for both the in-house and LATCO elements of the commercial investment and trading approach. Thus:

- *In-House* – Commercial Property Investment is an activity that requires quick decisions to be made if good commercial investment opportunities are to be realised. However, the requirement for speed must not be at the expense of professional expertise (e.g. on real estate investment) and strong oversight. Draft proposals include an officer "Property Acquisitions Group" - with provision for investment expertise – to consider and make recommendations on investment opportunities, overseen by a "Property Acquisitions Sub-Committee" with delegated decision-making powers; and

- *LATCO* – the arm's length delivery of commercial investment and trading dictates a need for an appropriate balance between allowing the LATCO sufficient operational freedom to think and act with a commercial mind-set, but at the same time ensuring effective Governance arrangements are in place so that the strategic objectives of the Council are met and their general interest protected. Draft proposals include an independent LATCO Board with freedom to make day-to-day operational decisions, overseen by a Shareholder Committee appointed by Cabinet, being responsible for "reserved matters" (major decisions).

7) Other Liabilities

7.1 Outstanding Commitments

7.1.1 The Council also has the following outstanding commitments:

- A commitment to achieve a fully funded position on the Pension Fund (over a 20-year period from 2013 to 2033). The deficit was valued at £54.45 million as at 31st March 2020, from 2020/21 the deficit payment will be incorporated into the primary employers' pension contribution rate rather than an annual lump sum payment; and
- The Council has also set aside £6.11 million (as at 31st March 2020) to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA).

7.2 Guarantees

7.2.1 The Council became "self-financing" in respect of its retained housing stock (in the former Waveney district) from April 2012. The self-financing regime applied to all authorities and replaced the former housing subsidy system whereby the Council made annual subsidy payments to the Government funded from its HRA. Its introduction entailed a one-off redistribution of 'debt' between local authorities, and locally this resulted in the Council taking on PWLB loans, which it is required to service (instead of making housing subsidy payments).

7.2.2 A 30-year Business Plan for the Council's HRA has been developed, which is currently generating sufficient rental income each year to run an efficient and effective housing management service, whilst at the same time servicing the outstanding debt (which is scheduled for repayment in full by March 2042 i.e. within the 30-year timeframe). However, if the HRA is unable to repay the outstanding debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on HRA debt as at 31st March 2020 was £71 million.

7.3 Governance

7.3.1 Decisions on incurring new discretionary liabilities are taken by Directors and Heads of Service in consultation with the CFO. For example, in accordance with the Financial Procedure Rules (Part 3 of the Constitution, Paragraph 2.1.25), credit arrangements – such as leasing agreements – cannot be entered into without the prior approval of the CFO.

8) Revenue Implications

8.1 Financing Cost

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

Table 10: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (General Fund)

	2020/21 budget	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Financing Costs (£m)	1,350	1,726	2,157	2,472	2,544
Proportion of Net Revenue Stream	1.47%	3.70%	5.31%	6.23%	6.29%

Table 11: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (HRA)

	2020/21 budget	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Financing Costs (£m)	3,653	9,868	7,559	5,798	6,622
Proportion of Net Revenue Stream	17.62%	46.73%	35.07%	26.30%	29.09%

8.1.2 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many [occasionally up to 50] years into the future.

8.2 "Prudence, Affordability and Sustainability"

8.2.1 The Interim CFO is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable, and sustainable based on the following:

Prudence

- Prudential indicators 10 and 11 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator 10 (General Fund) - Proportion of Financing Costs to Net Revenue Stream* – the growth in financing costs reflects the Council's ambitions for capital investment in its strategic priorities over the medium-term. The projected indicator profile is relatively flat from 2020/21, remaining well below 10% at all times.
  - *Prudential Indicator 11 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan, which is a fully-costed strategy that will see all outstanding debt repaid by 2042/43.
- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme. This is illustrated in the approach to capital receipts whereby the proceeds are not assumed within projections until the associated sale is completed and the money received by the Council; and
- *Repairs and Maintenance* – the approach to asset maintenance is professionally guided with assets maintained in a condition commensurate with usage and expected life, addressing those items that could affect ongoing and future maintenance, in the most appropriate and cost-effective manner.

Affordability

- The estimated 'revenue consequences' of the Capital Programme (£8.899 million over four years) have been included in the draft 2021/22 Budget and Medium-Term Financial Strategy (MTFS), extending to 2024/25; and
- The MTFS is underpinned by a Reserves Strategy, which includes contingency funds in the event that projections are not as expected (further supported by CFO report to Council under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of financial reserves and balances).

Sustainability

- Capital schemes that are expected to deliver long-term revenue savings/generate income are given due priority. For example, the Lowestoft Tidal Barrier (unlocking brownfield development sites and providing a boost to future income from Business Rates and Council Tax), the Leisure Centre Development Programme (driving up usage, enabling Management Fee reductions) and Commercial Investment (e.g. generating rental income from commercial property investments).
- As explained in Section 3.1 above, the Asset Management Strategy represents an enhancement to the Council approach to asset planning through (especially) taking a longer-term view. This includes providing for future operational need, balancing the requirement to achieve optimal performance, whilst taking account of technological change and managing the risk of obsolescence.

9) Knowledge and Skills

9.1 Officers

9.1.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Most notably:

- *Finance* - the Interim Chief Finance Officer (CFO) is a qualified (CIPFA) accountant with many years of experience. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also pays for (and ensures attendance on) training courses and conferences across all aspects of accounting, including (especially) Treasury Management to keep professional client status under "MIFID II" (the "Markets in Financial Instruments Directive", incorporated into UK law in November 2017); and
- *Property* – the Asset and Investment Manager (AIM) – a qualified (MRICS) surveyor, with many years of experience – is responsible Asset Management within the Council. The Asset Management department is well resourced and comprises the Estates Management, Building Services and Development functions of the Council. Each function is headed by an appropriately qualified professional within their individual specialism (e.g. the Building Services team is led by Member of the Chartered Institute of Builders). As with Finance, the Council is strongly committed to supporting both professional and wider staff development within its Asset Management function, with the number of qualified RICS surveyors continuing to increase in recent years. The AIM will also play a key role in the Council's approach to commercial investment and trading (highlighted above in Section 6).

9.1.2 The Council also has a separate Housing team that is responsible for overseeing social housing developments within the district.

9.2 External Advisors

9.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisers and consultants that are experts/specialists in their field. The Council currently employs Arlingclose Limited as Treasury Management advisers, and the Asset Management team will appoint property advisors (e.g. development managers, valuers etc.) to support their work where required. The approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with risk.

9.3 Councillors

9.3.1 Specifically with regard to Treasury Management, the Council acknowledges the importance of ensuring that members have appropriate capacity, skills, and information to effectively undertake their role. To this end, newly elected East Suffolk councillors with Treasury Management responsibilities will receive tailored training sessions from the Council's Treasury Management advisors (Arlingclose).

10) Interim CFO Statement on the Capital Strategy

10.1 Prudential Code

10.1.1 Paragraph 24 of the recently updated Prudential Code determines that…." the Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy".

10.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risk has been identified and is being adequately managed.

10.2 Affordability

10.2.1 The Capital Strategy is affordable and there is a range of evidence to support this assertion, including:

- *Capital Programme* – the Programme as presented above (in Section 2.1) is supported by a robust and resilient MTFS extending through until 2024/25 that contains adequate revenue provision, including sufficient reserves in the event that plans and assumptions do not materialise as expected;
- *Asset Management* – as presented above (in Section 3.1) the new Asset Management Strategy is taking a strategic longer-term (i.e. beyond 2024/25) view of the Council's asset base. A fundamental aim of the Strategy is to achieve the optimum balance between future operational need and affordability, which is reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- *Commercial Investment* – as presented above (in Section 6.2) the primary aim of the Strategy long-term is income generation to replace the shortfall in Government funding. The Strategy is progressing positively towards the delivery stage and its success will be critical to the long-term affordability of the Capital Strategy.

10.3 Risk

10.3.1 The risk associated with the Capital Strategy has been identified and is being adequately managed. Evidence to support this assertion includes:

- *Treasury Management Strategy* – the Council is in the process of formally approving its Treasury Management Strategy for 2021/22 in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice 2017". That Strategy was developed by the Council's (professionally qualified and experienced) Finance team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance.
- *Investment Strategy* – the Council is also formally approving an Investment Strategy for 2021/22 in accordance with MHCLG's "Statutory Guidance on Local Government Investments (3rd Edition) 2018". As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance; and
- *Commercial Activities* – as noted above (in Paragraph 6.2) the Council is committed to expanding the scale of its commercial activities in the medium-term as part of its Commercial Investment Strategy. It is recognised and accepted that increased commercial activity brings additional risk. The Strategy is therefore being developed in accordance with contemporary best practice. This includes the engagement of professional advisors on the commercial, financial and legal aspects of the project and the preparation of full supporting business cases prior to the commencement of both in-house and arm's length trading activities, strictly in accordance with HM Treasury's 'five-case model' ("The Green Book: Central Government Guidance on Appraisal and Evaluation").

10.3.2 In addition, the Interim CFO is satisfied that there are no major omissions – in terms of financial liabilities – from the Capital Programme in the medium-term.

11) Capital Strategy Updates

11.1 The Capital Strategy is a 'living document' and will be periodically – usually annually – updated to reflect changing local circumstances and other significant developments.

Annex A

Annual Minimum Revenue Provision Strategy

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Ministry for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision.
2. The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
3. The Guidance requires the Council to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
4. For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant Public Works Loan Board rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
5. Capital expenditure incurred during 2021/22 will not be subject to a charge until 2022/23.

AUDIT AND GOVERNANCE COMMITTEE

Monday, 14 December 2020

ANNUAL GOVERNANCE STATEMENT 2019/20

EXECUTIVE SUMMARY

1. The Annual Governance Statement is a key document which helps provide assurance to Members and other stakeholders as to how the governance of the Council is conducted, how effective it has been for the year, and identifies any major issues of improvement raised by the Corporate Management Team and Head of Internal Audit together with emerging issues upon which the Council will need to focus over the coming year.

2. The Accounts and Audit Regulations 2015 require councils to produce an Annual Governance Statement, in line with the conclusion of the audit of the Statement of Accounts.

3. For 2019/20, the External Audit results report for East Suffolk Council has been delayed from August 2020 due to the Covid-19 pandemic and changes to the Accounts and Audit Regulations, and this Annual Governance Statement has consequently been produced before the conclusion of the audit. External Audit work commenced in November 2020.

Is the report Open or Exempt?	Open

Wards Affected:	All Wards within the District

Cabinet Member:	Councillor Maurice Cook Cabinet Member with responsibility for Resources

Supporting Officer:	Brian Mew Interim Chief Finance Officer and S151 Officer (01394) 444571 Brian.Mew@eastsuffolk.gov.uk Lorraine Rogers Deputy Chief Finance Officer (01502) 523667 Lorraine.rogers@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 The Council has a duty to ensure that public money is safeguarded and properly accounted for, and is used economically, efficiently and effectively. It also has a duty under the Local Government Act 2000 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.

1.2 In discharging this overall responsibility, the Council is required to put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements of the management of risk to a reasonable level rather than eliminate all risk of failure to achieve the Council's policies, aims and objectives.

1.3 The Annual Governance Statement (AGS) is a key document that helps provide assurance to Members and other stakeholders as to how governance of the Council is conducted, how effective it has been for the year and identifies major issues of concern raised by the Corporate Management Team and Head of Internal Audit together with emerging issues upon which the Council will need to focus over the coming year. The Council's AGS for 1 April 2019 to 31 March 2020 is appended to this report.

1.4 The AGS is designed to give stakeholders greater assurance that the Council has a systematic strategy, framework and processes in place for the effective management of risk.

1.5 The Council's AGS embraces the seven core principles set out in the CIPFA framework: *Delivering Good Governance in Local Government.*

1.6 The overall effectiveness of the Council's governance arrangements continued to improve, with positive assessments and feedback by Internal Audit, the Council's external auditors Ernst and Young LLP and other external bodies. However, there continue to be areas to address and improvements are required to strengthen those overall controls.

1.7 The areas to address in the AGS (1 April 2019 to 31 March 2020) within the Statement have been informed by:

- the outcomes of internal and external review bodies that report on the Council's effective governance performance during the year;
- Corporate Management Team review and assurance (Corporate Governance arrangements);
- the AGS Steering Group assessment and progress monitoring; and
- changes in Government policy that impact across a wide range of Council's activities.

1.8 The Council's Section 151 Officer (Chief Finance Officer) has a statutory obligation to ensure that the Council has an adequate and effective system of internal control in place (Local Government Act 1972). The Council's systems of internal control are independently assessed by the Head of Internal Audit.

1.9 Risk management is also an integral part of the Council's corporate governance arrangements, which is also independently assessed by the Head of Internal Audit. Recommendations made to improve the control environment and ensure good governance are assessed by External Audit and Audit and Governance Committee.

1.10 Section 5 of the AGS provides a review of effective governance measures undertaken in the year.

2 HOW DOES THIS RELATE TO THE EAST SUFFOLK STRATEGIC PLAN?

2.1 The AGS is a statutory requirement by the Accounts and Audit Regulations 2015. The AGS will help to deliver the East Suffolk Strategic Plan through securing good governance.

3 FINANCIAL AND GOVERNANCE IMPLICATIONS

3.1 Evidence of good governance in the AGS is fundamental in supporting public purse stewardship related to all financial and policy making decisions.

4 CONSULTATION

4.1 There is no requirement upon the Council.

5 OTHER OPTIONS CONSIDERED

5.1 No other options were considered.

6 REASON FOR RECOMMENDATION

6.1 To strengthen the Council's governance arrangements and to ensure any issues or risks are appropriately managed and resourced.

6.2 To provide further assurance to stakeholders that the Council's Statutory Statement of Accounts accurately represents the Council's overall financial position for the year.

RECOMMENDATION

That the Annual Governance Statement for 2019/20 (1 April 2019 to 31 March 2020) be reviewed and approved.

APPENDICES	
Appendix A	East Suffolk Council Annual Governance Statement 2019/20 (1 April 2019 to 31 March 2020)

BACKGROUND PAPERS – None

Agenda Item 8

ES/0588

Annual Governance Statement

2019/20

CONTENTS

1. SCOPE OF RESPONSIBILITY

1.1 East Suffolk Council's responsibilities are to:

- ensure its business is conducted in accordance with the law and proper standards;
- safeguard and properly account for public money;
- use public money economically, efficiently and effectively; and
- meet its duty under the Local Government Act 2000 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.

1.2 On 1 April 2019 Suffolk Coastal District Council and Waveney District Council were replaced by East Suffolk Council, which assumed the district tier functions and responsibilities of these previous councils. As part of this process, the Council put in place proper arrangements for the governance of its affairs, to facilitate the effective exercise of its functions which included arrangements for the management of risk.

1.3 The Annual Governance Statement (AGS) reports publicly on the extent to which the Council has to comply with its governance duties on an annual basis, including how the Council has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

1.4 East Suffolk Council has produced a Code of Corporate Governance which is consistent with the principles of the revised CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* The document was reviewed on 24 July 2018 by the Audit and Governance Committee and approved by Full Council on 27 September 2018.

1.5 The AGS also explains how the Council has complied with governance elements within the Accounts and Audit Regulations.

1.6 This document supported the East Suffolk Business Plan 2015-2023 and the vision for the new Council, and the newly approved East Suffolk Strategic Plan 2020-24 adopted by Full Council on 26 February 2020.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework is the systems, processes, culture and values which direct and control the Council. The framework also includes the activities with which the Council accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

2.2 The system of internal control is a significant part of that framework. It is designed to manage risk to a reasonable level. This is an ongoing process:

- to identify and prioritise risks to the achievement of the Council's policies, aims and objectives;
- to evaluate the likelihood of those risks occurring and the impact if they do;
- to manage risks efficiently, effectively and economically.

2.3 The system of internal control cannot eliminate all risk of failure so only provides reasonable and not absolute assurance of effectiveness.

2.4 The governance framework has been in place at the Council for the year ended 31st March 2020 and up to the date of approval of the annual report and statement of accounts.

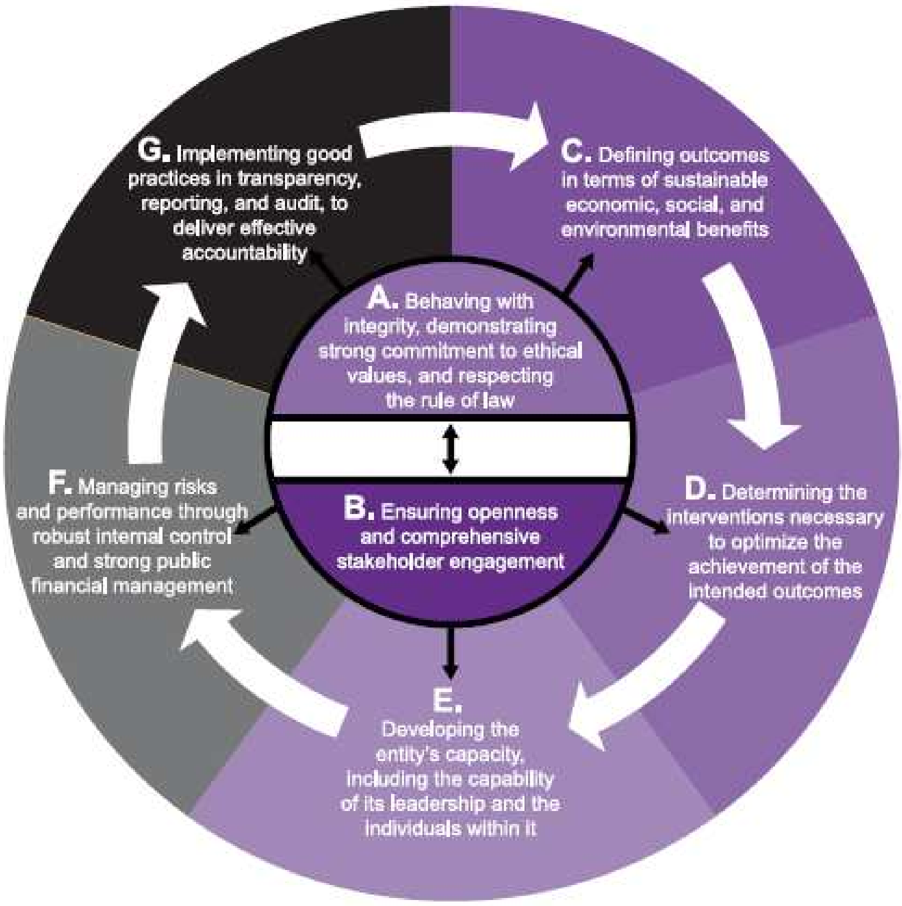
3. THE GOVERNANCE FRAMEWORK

3.1 The Council has committed itself to the pursuit of proper corporate governance throughout its services and to establishing the principles and practices by which this can be achieved. To support this, briefings on topical issues are held to enable Member development.

3.2 Corporate governance is the system by which the Council leads, directs and controls its functions and relates to the community and its partners. Through various systems and processes the Council strives to adhere to the principles of good governance: openness, inclusivity, integrity, and accountability.

3.3 The Council's governance environment is consistent with the seven core principles of the revised CIPFA/SOLACE framework, pictured below, which illustrates the various principles of the good governance in the public sector and how they relate to each other.

Extract from CIPFA/SOLACE 'Delivering Good Governance in Local Government' entitled 'Achieving the Intended Outcome while Acting in the Public Interest at all Times'



3.4 Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

3.5 Each of the core principles above have multiple sub principles and the framework in operation is evidenced at Appendix A 'The Council's Governance Assurance Framework', and Appendix B 'Documents/Processes Supporting the Code of Corporate Governance'.

3.6 The framework in operation directly supports the Council's five strategic objectives, namely growing our economy, enabling our communities, remaining financially sustainable, delivering digital transformation and caring for our environment.

4. REVIEW OF EFFECTIVENESS

Governance

4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Heads of Service within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Auditor's annual report, and also by comments made by the External Auditor and other review agencies and inspectorates.

East Suffolk Council

4.2 East Suffolk Council was created on 1 April 2019, replacing Suffolk Coastal and Waveney District Councils. Significant work was undertaken prior to its creation including comprehensive Member and Officer Working Groups leading on projects and programmes and good governance was the cornerstone of the new Council preparations.

External Audit

4.3 The Council's auditors, Ernest & Young LLP (EY), independently audit the Council and provide an opinion on the truth and fairness of the financial statements, the Council's use of resources and provide a value for money judgement. In reaching an opinion EY take account of statutory requirements, national standards, their own audit work and the reports of Internal Audit. The Council aims to achieve an unqualified audit opinion for the financial years 2019-20 and will respond to any improvements suggested. No interim recommendations for 2019-20 have been made to date by the External Auditor.

Risk Management

4.4 Risk Management covers all services and operations throughout the Council and is continuously monitored and managed across the Council by Corporate Governance Group (CGG). The CGG meets at least every quarter to review the corporate risk register. Corporate risks continue to be fully integrated into the Council's overall performance management which is considered quarterly by Cabinet and reviewed by the Audit and Governance Committee.

4.5 The risk management e-learning module is a mandatory requirement for all members of staff. The module was updated for East Suffolk Council from 1 April 2019.

4.6 As part of the ongoing risk management training programme, Zurich Insurance Group delivered, on behalf of the council, risk management training to members on 23 October 2019. The event was delivered to increase knowledge and understanding on risk management (including reporting and responsibilities). Training was also delivered on risk management to 18 officers in October 2019, tailored on the Council's risk management procedures and aimed to increase understanding and knowledge of how risks are managed. An 'horizon scanning/risk challenge session' was delivered to CGG on 23 January 2020 which thoroughly reviewed and challenged existing risks and identified risks to be considered. There is also a training programme to ensure risk management needs continue to be met.

4.7 The Council's risk management activity is co-ordinated and led by the CGG, chaired by a Strategic Director and supported by members of CMT and other senior officers.

4.8 An annual report on corporate risk management, including any changes to processes, is reported to the Audit and Governance Committee. The Risk Management Strategy continues to provide details of risk management roles and the responsibilities of individuals and groups across the Council.

Senior Information Risk Owner

4.9 Senior Information Risk Owner (SIRO) – The Council has a designated SIRO (the Head of Internal Audit) who has responsibility for the Council 's information management (governance) framework and acts as the champion for information risk**.** The SIRO aims to mirror the model prescribed by central government (Cabinet Office). Following this 'best practice' approach allows for uniformity across the public sector as it strives to meet the competing demands of further transparency and public/private engagement in contrast to increased cybersecurity threats and the need to prevent data leakage. By treating information has a business priority and not as an ICT or technical issues, the Council can ensure that risks are addressed, managed, and capitalised upon.

4.10 SIRO Annual Report - The following paragraphs represents the SIRO Annual Report. The main purpose of such reporting and management is to provide accountability and greater assurance that information risks are addressed***.***

4.11 Risk Register – Information Governance is recognised as a serious risk on the Corporate Risk Register and is regularly monitored, with mitigation plans implemented when necessary by the Corporate Governance Group and Councillors.

4.12 Information Governance – Information is treated as a priority by the Council which acknowledges that information is of value to enable effective and efficient outcomes for all stakeholders.

4.13 Data Quality - The importance of data quality is communicated at all levels throughout the organisation, via workshops covering business planning, performance and risk management and report writing, etc. The Council acknowledges that information is a priority, which aids the delivery of its services effectively and efficiently. Moreover, protecting personal data is the overarching responsibility of the Council to meet obligatory legal duties and to fulfil its public service duty to everyone.

4.14 Designated Posts – Job Descriptions are appropriate and filled i.e. Data Protection Officer, Deputy Data Protection Officer, and Senior Information Risk Owner, Freedom of Information Strategic Lead. Further clarity over ICT Security roles and responsibilities is in hand.

4.15 Policies – Key information governance documents are promoted across the organisation and all have been refreshed to reflect the new Council. These documents are included with a full list of Polices and Processes which are listed within Appendix B.

4.16 Compliance – The Council is currently compliant with the Central Government Public Service Network (PSN) information security requirements (this is a mandatory annual process). The Council acts upon any advice from the new Cyber Security Information Sharing Partnership and National Cyber Security Centre. Sysnet Global Solutions deliver PCI DSS compliance services and have validated the Council’s systems.

4.17 General Data Protection Regulations and UK Data Protection Act 2018 – Qualified and experienced staff in post. The impact on GDPR of the Exit from the EU is also being closely monitored, and Government guidance on this will be followed.

4.18 Personal Data Breaches. The Data Protection Officer has investigated 61 potential personal data breaches, 29 were confirmed breaches. 2 of the 29 confirmed breaches were reported to the Information Commissioners Office (ICO). Of the 2 taken by the ICO no further action was taken but recommendations were made. These recommendations were acted upon. Data Protection Act – Subject Access Requests and requests for advice has increased significantly, as expected given the change in the law during 2018. There is recognition that the process of capturing and reporting any breaches is operating effectively.

4.19 Freedom of Information Act (FOI) – 858 FOI requests (including EIR request) were received by the Council in 2019/20 of which 95% were answered within 20 days. One case has been referred to the ICO by a customer which is still being investigated. 12 requests required an internal review (four upheld, four part upheld, and four not upheld).

4.20 Training - Data Protection Act and Freedom of Information Act training is provided throughout the year and forms part of the induction process. Increased cyber security precautions including an e-learning training module for all staff and sponsoring a cyber security qualified officer demonstrates the Council’s commitment to good information governance.

4.21 Local Government Transparency Code – The Council provides all information that must be published to comply with this Code by ensuring local people can see and access data covering:

- How money is spent – for example, all spending transactions over £250, all Corporate Credit Card spend, and contracts valued over £5,000;

- Use of assets – ensuring that local people are able to scrutinise how well their local authority manages its assets enabling local people the information they need to ask questions about how their authority is managing its housing stock to ensure it is put to best use;

- Decision making – how decisions are taken and who is taking them, including how much senior staff are paid, and,

- Issues important to local people – for example, parking and the amount spent by an authority subsidising trade union activity.

Project Management

4.22 The Project Management Framework is fully established and can be adapted according to the scale of a particular project. Advice and support continue to be offered to relevant staff on the application of good project practices, particularly surrounding changes in service delivery.

4.23 A new governance structure has been established for governing projects delivering to the Strategic Plan, adopted by full Council in February 2020. Each Theme of the Strategic Plan has a programme delivery team to monitor projects feeding into that theme, to govern the progress and delivery to the objectives. The Digital Theme Programme Team, for example, monitors all ICT and digital projects. All corporate projects and tasks are recorded on service plans to build up the programme for each Theme, covering the whole authority.

4.24 Where necessary, programme or project boards combining members and officers are established for specific large capital projects and where necessary the Council also works with various stakeholders to deliver significant projects. These boards ensure adequate project controls are in place and allow fast reaction to any specific project issues if they occur.

Contract Management

4.25 Contract Procedure Rules are in place and form part of the Council's Constitution. The Contracts Procedure Rules support effective procurement by setting out key responsibilities and actions that are required when undertaking procurements within the Council. They support officers to meet legislative requirements and to meet the Council's ambitions for procurement, the Council's Procurement Strategy and related policies and procedures.

4.26 Guidance is published on the intranet, and support is offered by the specialist procurement and legal teams to relevant managers. In addition, a corporate contracts register is maintained by the Procurement Team, and contracts are monitored to ensure effective management. Comprehensive contract manuals are available detailing requirements of contracts, setting out business continuity arrangements, key personnel and key performance indicators.

4.27 A health and safety review has been carried out by an external organisation. A health and safety checklist has been produced for contract managers, and this will be used to carry out audits throughout the year of high-risk areas.

Designated Officer Group

4.28 Membership of the Designated Officer Group is those officers that hold statutory roles within the Council, such as Head of Paid Service, Monitoring Officer, Section 151 Officer and Head of Internal Audit. The group met regularly to discuss management of:

- finances and governing business (value for money / Medium Term Financial Strategy (MTFS) and budget setting / risk management / internal audit / ethical issues / business continuity);

- resources (workforce planning / recruitment monitoring / absences / health & safety / asset management); and

- performance (inspections / business plan / service plans / partnerships / measuring performance / emerging issues).

Head of Internal Audit Opinion

4.29 A sound system of internal control and the management of risks are integral elements of the Council's corporate governance arrangements. Based on the findings of the managed audits and governance reviews carried out throughout 2019/20 and taking into account the current climate in which the Council is operating it is the opinion of the Head of Internal Audit that the Authority's control environment provides ***Reasonable Assurance*** of sound systems of control. Generally, risks are well managed, but some areas require improvement of internal controls to ensure strategic objectives are met.

4.30 This opinion is based on internal work undertaken, and completed, prior to emergency measures being implemented because of the Coronavirus Pandemic. These measures have resulted in significant levels of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. All findings that are found to be of a significant corporate concern will be considered during 2020/21 and will be reported within the Annual Governance Statement for that year.

4.31 Internal Audit is an independent and objective function with all audit work carried out in this capacity and in accordance with the Internal Audit Charter, Code of Ethics and Public Sector Internal Audit Standards. The Head of Internal Audit has performed her duties in accordance with CIPFA's guidance on the Role of the Head of Internal Audit. In giving the audit opinion, it should be noted that assurance can never be absolute. The most that can be provided is a reasonable assurance that there are no major weaknesses in risk management, governance, and control processes.

4.32 It is not possible, as at 31 March 2020, to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control brought about by the Coronavirus Pandemic. However, continuous assessment will take place by the Head of Internal Audit and be reported accordingly.

Financial Management

4.33 A new set of financial procedure rules were introduced for East Suffolk Council from 1st April 2019.

4.34 The Government had announced proposals for Councils to retain 75% of all locally raised business rates and had intended to consult on Relative Needs and Resources as they look to revise the distribution of core grant from central Government. However, the Covid-19 pandemic has now meant that reforms to the local government finance system have been deferred until 2022/23 at the earliest and the planned national business rates revaluation exercise has also been postponed. The continuation of the current arrangements into 2021/22 is of significant financial benefit to the Council, given its advantageous position under the current system. Although the Government has implemented a range of support measures to local authorities, including additional grant and compensation for lost income, the Covid-19 pandemic is estimated to have a significant net impact on the Council's General Fund, estimated to be in the region of £3m in 2020/21 and 2021/22, with reduced and very uncertain impacts over the rest of the MTFS period. These impacts are dependent on the scale and duration of the economic recession, and the speed and nature of economic recovery. Significant changes may also be implemented for the New Homes Bonus (NHB), although consultation on replacement of the current scheme has also been delayed.

4.35 The MTFS report to Council in February 2020 indicates that future years beyond 2020/21 showed continuing budget shortfalls of core funding sources compared with budgeted expenditure. This position was updated to Cabinet in July 2020 as part of a report on the financial implications of Covid-19, which have exacerbated the situation.

4.36 This outlook highlights the importance of continuing to develop and implement entrepreneurial and commercial models, efficiencies and some key changes to service provision in order to be sustainable over the medium and long term.

Chief Finance Officer

4.37 In accordance with the 'Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the Role of the Chief Financial Officer in Local Government' (published in April 2016), the Section 151 Officer / Chief Finance Officer, is a professionally qualified Accountant, and is a member of the Council's Corporate Management Team, reporting directly to the Chief Executive and Leader on key strategic finance matters. The Council's financial management arrangements conform with the governance requirements of the CIPFA [Statement on the Role of the Chief Financial Officer in Local Government.]

4.38 In continuing to strengthen the internal control arrangements regular and routine review and sign off by the Chief Finance Officer / Deputy Section 151 Officer of all key control accounts reconciliations was undertaken to ensure timely monitoring of key transactional activities.

4.39 In October 2019, CIPFA published the Financial Management Code (FM Code), which provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively.

4.40 The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. CIPFA's intention is that the FM Code will have the same scope as the *Prudential Code for Capital Finance in Local Authorities*, which promotes the financial sustainability of local authority capital expenditure and associated borrowing. Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities.

4.41 Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the Code. The first full year of compliance with the FM Code will therefore be 2021/22.

4.42 A review of compliance has been carried out and a draft action plan produced categorised by reference to the CIPFA financial management standards. Changes to processes and strategies required by the Code will be tested and embedded during 2020.

5. SIGNIFICANT GOVERNANCE ISSUES

5.1 In arriving at the areas to address during 2019/20, the Council has been informed by the results of the review of the effectiveness of the governance framework within the Council arising from last year's reports, by the outcomes of internal and external review bodies that report on the Council's performance to date, by undertaking a gap analysis of the seven core principles that underpin delivering good governance in local government, and by consulting Members.

Ongoing Actions – Significant Governance Issues Identified in 2018/19

5.2 'Significant Governance Issues Identified and Improvement Plan' records two carry forward issues identified in the 2018/19 Annual Governance Statement relating to contract management and asset management. Asset Management has now been completed and contract management remains ongoing within significant progress being undertaken. The Council is committed to completing agreed actions.

Ongoing Governance Issues	Progress/Improvement Plan	Status
Asset Management The Council's Strategic governance arrangements with regards to Asset Management requires improvement specifically around: a) Asset Management Strategy b) A centralised Asset Register *Carry forward from 2018/19*	**Head of Operations comment:** A significant amount of work had been undertaken by the Service Area including: • New corporate Financial and Contract Procedure Rules for East Suffolk Council included within Constitution from 1st April 2019. • All assets have been visited, inspected, recorded, valued and are available on a register (on GGP) and are fully accessible by the public. • An assurance review was undertaken by Internal Audit. • Audit & Governance Committee had been updated on a regular basis by the Head of Service.	**Completed** Internal Audit has assessed this outstanding action complete

Ongoing Governance Issues	Progress/Improvement Plan	Status
	• Asset Management Strategy completed and approved by Cabinet and main actions reported at Scrutiny Committee in July 2020. **Internal Audit comment:** This outstanding action is deemed as complete by Internal Audit and a report will be issued to Audit & Governance Committee soon. Internal Audit will be undertaking assurance testing on reconciliations during November/December 2020.	
Contract Management The Council's strategic governance arrangements over contract management requires strengthening specifically around: a) Procurement Strategy b) Contracts Register *Carry forward from 2017/18 and 2018/19*	**Head of Operations comment:** A significant amount of work continued to be undertaken by the service area during 2019/20 including: • Contracts register now in place and regularly updated. • Contract managers in place and team operating within capacity. • New Contract and Financial Procedure Rules implemented for East Suffolk Council from 1st April 2020. • Review of major contracts took place, including work being undertaken to review the contract for Norse, and the work to re-procure a leisure contract for East Suffolk. This work will be completed by February 2021. • Task Group set-up to look at how the council can maximise benefit of council procurement to people in East Suffolk. Group will develop a new policy for procurement for East Suffolk, which will inform the Procurement Strategy. • Continuing to look at opportunities for contract management training, including through insurers, Zurich. **Internal Audit comment:** Internal Audit can confirm that a contract register is in place. A review of Contract Management and the Procurement Strategy will be undertaken in the new year.	**Ongoing**

Other Governance Issues Identified in 2019/20

5.3 On the basis of assurance statements produced by the Heads of Service and the Council's Corporate Risk Register (CRR), the Corporate Governance arrangements are adequate and operating effectively. In 2019/20, issues under review with the intention to improve processes in 2020/21 were identified in the following areas:

AGS Action	Issues/Challenges Identified	Progress
Flood Risk	Significant flood risk project in Lowestoft without the funding to complete	• Lowestoft Flood Risk Management Project had funding issues until July 2020. • Project now awarded funding by Government. • Next phase is delivery of the scheme.

AGS Action	Issues/Challenges Identified	Progress
External Audit Results Report 2019/20	2019/20 External Audit results reports for East Suffolk Council delayed due to Covid-19 pandemic and changes to the Accounts and Audit Regulations.	• External Audit work was due to commence in August 2020 but was delayed. Planning work began in September and the main audit work was started in November 2020. A significant amount of work was undertaken by the Council to ensure accounts were presented ready for audit to be undertaken. The draft Statement of Accounts was published on 10 August 2020, before the 31 August 2020 publication deadline prescribed in the amended Accounts and Audit Regulations.
Performance Framework (ARP)	Overview Improvement Board (OIB) requested further transparent reporting of performance	• Principles of new Framework requirements and links to ARP Strategic Themes agreed in 2019/20. • Work ongoing to review and improve performance reporting for approval by Joint Committee in March 2021.
Delivery of Energy and Sizewell C Projects	Uncertainty of ongoing requirements for Sizewell C and offshore wind projects on resources and impact on Council, the District and wider community.	• Mechanism in place for ESC to influence Central Government. • Resource to support projects monitored and reviewed. Additional resource has been made, through PPA's to address capacity, although uncertainty remains relating to future funding. • Senior Officer Group in place internally looking at Sizewell C and its impact in short, medium and long term.
Brexit	Impact of national policy changes and uncertainty of Brexit on the Council.	• Working with Government departments to identify likely impact on Port Health at end of Brexit transition period. • Additional funding from FSA and Defra being made available. Recruitment and training plans in hand. • Implications of Brexit and identification of possible issues managed by senior management. Business continuity planning in place. • Extensive engagement with Government departments around impacts and concerns relating to Brexit. Countywide Brexit planning team established.
Covid-19 Pandemic	Impacts from the Covid-19 pandemic upon all service areas within Council, residents, partners, communities, and businesses.	• Significant work undertaken to ensure the Council continued to deliver essential services to residents, businesses and communities. Work involved ensuring that those who were most vulnerable received support. Emergency Response and Business Continuity Plans in place and the way major incidents are managed was adapted to meet specific challenges of pandemic. The financial impact on the Council's costs and income is monitored and reported on regularly – internally to officers and members, to central Government via monthly returns and information sharing with other Suffolk Local Authorities. The financial impact of Covid-19 is taken into consideration for updating the MTFS and the budget setting process for 2021/22.

AGS Action	Issues/Challenges Identified	Progress
Sentinel Leisure Trust Partnership	Review of existing partnership	• Full review of leisure contract underway, currently undergoing procurement exercise to reduce financial risk to council of leisure contracts. Contract with Sentinel Leisure Partnership ceased and Places Leisure awarded an interim operational contract for Waveney Valley Leisure Centre and Waterlane Leisure. Full procurement exercise to be undertaken.
Completed in 2019/20		
External Audit Results Reports 2018/19	2018/19 External Audit results reports for Suffolk Coastal DC and Waveney DC were delayed due to External Audit resourcing issues and Covid-19.	• The external Audit Reports were considered at the Audit and Governance Committee in September 2020. Following this meeting, the 2018/19 Accounts for Suffolk Coastal DC and Waveney DC are subject to final review and sign off by the external auditors

Examples of Good Governance in Operation in 2019/20

5.4 In the period covered by this Annual Governance Statement the following governance actions have taken place:

AGS Action	Improvements	Progress
General Data Protection Regulation (GDPR) Training	Target 100% staff and Councillors to receive refresher GDPR training.	• Rollout of refresher Data Protection Act/ GDPR training for staff and Councillors. Near to completion.
Review of Building Control policies and procedures to ensure compliant with legislation	Ongoing review of Building Control policies and procedures to ensure compliant with legislation.	• Policies and procedures constantly reviewed to ensure compliant. • Building Control continuing to work closely with Housing Team and colleagues across Suffolk.
ICT Work Programme	ICT working with service teams to review processes and identify benefits.	• ICT working with service teams to review business processes to ensure they are realising full benefits from ICT systems. • All ICT/digital projects identified are managed through the Strategic Plan Digital Theme. This ensures transparency over work being done and clarity on how each project/ operational service contributes to strategic digital priorities and that right technical environments/systems are in place.
Digital Transformation	Stakeholder Engagement: Building on customer satisfaction / customer access work. Looking to engage customers to better understand channel choice and channel performance.	• Further work to be undertaken to upskill staff to engage with customers in a robust manner and understand data collected. • Work underway to engage with consultant / external providers to ensure work is undertaken in a robust manner. • Digital transformation a main theme within the East Suffolk Strategic Plan and clearly identifies the priorities for its delivery.

AGS Action	Improvements	Progress
		• Channel shift group being set up as part of the Digital Transformation Group.
Implement CIPFA Financial Management Code	Requirements of the Financial Management Code to be applied with effect from 1 April 2020. 2020/21 is a shadow year for full compliance in 2021/22.	• Review of compliance carried out and a draft action plan produced, categorised by reference to the CIPFA financial management standards. • Changes to processes and strategies required by the Code will be tested and embedded during 2020/21. Behind schedule due to Covid-19 impact.
Review of other Partnerships	Review of existing partnerships including contracts to ensure value for money and good service delivery.	• Due to start an external review of other contracts in 2020, including services provided through Norse.
Workforce Values	Work being undertaken to continue to embed the corporate values, including review of the People Strategy in 2020.	• Values will be reinforced as part of People Strategy review. Workshops scheduled for October 2020 involving staff and members to help re-create a refreshed People Strategy which will identify goals and how to develop staff capabilities to realise organisational ambitions. Incorporates a delivery plan with monitoring processes in place. • Values and behaviours to be incorporated in recruitment and selection processes.
Corporate Training Plan	Improvements relating to Corporate Training Plan	• The corporate training plan continues to provide training to meet identified individual needs. Working closely with Strategic Plan Theme Delivery Groups to align corporate training plan to organisational priorities. • Senior Management Team Development has been suspended due to the pressure from Covid-19, but will recommence as soon as is appropriate.
East Suffolk Strategic Plan	Following formation of (and elections to) the new council in April/May 2019, work on a new Strategic Business Plan began which centres around five key themes and now drives the work of Members and Officers.	• New Strategic Business Plan created following close collaboration between Members and Officers in the form of a three day 'hothouse' event in October 2019. Collaboration has continued through implementation and delivery. • Series of briefings held early 2020 (Members and Officers) to involve and engage everyone. • Creation of a new reporting framework; Strategic Plan Delivery Boards focussing individually on each of the five themes. • Plan updated and adapted to take account of the implications of Covid-19.
Corporate Peer Review	It is recognised that peer reviews are important to good governance and performance of the Council. Corporate Peer Review to be undertaken by LGA.	• Corporate Peer Review was due to take place but was delayed due to impact of Covid-19. Likely to take place second part of next financial year. Ongoing discussions taking place with LGA to establish how this will be delivered including possible online reviews.

AGS Action	Improvements	Progress
Corporate Fraud Plan and Internal Audit Plan	Refocussed corporate fraud plan and internal audit plan due to changing risks due to Covid-19	• Significant anti-fraud work regarding Coronavirus Pandemic grant awards and other corporate anti-fraud activity e.g. cybercrime. • Risk based holistic Internal Audit Plan in operation.
Strategic Planning Committee	Establishment of newly formed Strategic Planning Committee enabled detailed operational planning and performance matters to be reported at each meeting.	• Strategic Planning Committee in place. First meeting held 10 June 2019 with regular meetings undertaken throughout each year. • Details on operational planning and performance are reported and provides useful mechanism for identifying issues ensuring transparency. Data includes determination of planning applications, enforcement and appeals. It also reviews decisions made and complaints received to consider any lessons learnt.
Partnership working with other Councils	Successfully established partnerships including Building Control, Coastal Management, Internal Audit and Emergency Planning which ensure good governance, resilience and valuable delivery of services.	• Regular partnership board meetings and aligned working practices. • Work ongoing to ensure programmes are met and necessary legislation changes are implemented.
Forums for Towns and Parish Councils	Forums for town and parish councils undertaken to ensure two-way communication relating to planning matters within District and specific local areas.	• Forums held every six months. One for developers and one for town and parish councils. • Identified outcomes and issues are monitored and rectified where appropriate. • Lowestoft Town Liaison meeting in place.
Community Partnerships	Community Partnership Board and eight Community Partnerships in place to meet ambitions within East Suffolk Strategic Plan	• Community Partnership Board oversees governance of Community Partnerships. • Regular Community Partnership meetings held. • Delivers into the East Suffolk Strategic Plan.
Management Development Programme	Ongoing management development programme in place.	• Training Plan in place to ensure middle managers are put through Setting the Standard Development Programme. Ensures consistency through staff management and underpins Council's values and agreed behaviours. Tenth cohort of programme completed. A focus group will review content and identify organisational needs moving forward. Part of this will be carried out in partnership with SCC and other Suffolk authorities. • Mandatory e-learning units included in welcome and induction information, including Code of Conduct. Ongoing review of East Suffolk E-learning with jointly funded shared postholder in place to support/ develop e-learning within Suffolk Councils.

AGS Action	Improvements	Progress
Review of Safeguarding within Council	Our commitment to safeguarding is audited on an annual basis by the Suffolk Safeguarding Partnership.	• Safeguarding is internally communicated through the Services for All Group and through regular training.
Asset Management Strategy (2019-2023)	Asset Management Strategy sets out high-level strategic framework for managing our non-residential property portfolio effectively for four years. It will guide future strategic property decisions to ensure we manage our property portfolio sustainability and efficiently.	• Approved by ESC Cabinet in July 2019. • Asset Management Strategy clearly identifies Key Performance Indicators which will be monitored. • Asset Management Group meets regularly and has clearly defined objectives and aims that are detailed within the terms of reference ensuring the Council's assets are governed appropriately.
Acquisitions and disposals	Mechanism in place for all stock acquisitions and disposals to be approved by Cabinet Member/ Cabinet and ensures compliance with Constitution.	• Regular reporting of acquisitions and disposals to Cabinet and/or Portfolio Holder.
Staff Wellbeing	Health and wellbeing resources available to all staff.	• Access to health and wellbeing information on Council's internal intranet. • Up to date wellbeing information on topics such as domestic violence, anxiety, sleep, depression, money and debt advice. • Regular managers bulletins focusing around staff wellbeing (e.g. 24 hour counselling).
Completed in 2019/20:		
Government enabled local planning authorities to increase planning fees by 20% in January 2018 if it used the additional money to increase staff resources and maintain and improve performance	The former two councils agreed to invest increased fees in staff	• Approved by Cabinet and Full Council of former councils. • Additional officers recruited to increase processing of applications within Council. • Meeting operational requirements, all key performance indicators relating to speed of planning determinations in 2019/20 achieved.
Local Plan	Local Plans providing full coverage of East Suffolk District.	• Full reviews of Local Plans undertaken. Waveney Local Plan adopted in March 2019 and Suffolk Coastal Local Plan was adopted in September 2020. • Work continuing to proactively manage the delivery of the Local Plans and a framework will ensure deliverables are achieved.
E-enabled consultation on all planning applications	E-enabled consultation on planning applications to improve service delivery and processing.	• Successfully Implemented in April 2020. • All details and information accessible via the Council's website.

AGS Action	Improvements	Progress
New approach and framework of Community Partnerships	East Suffolk Partnership evolved and replaced with a new governance framework to respond to community needs, both for the District and in each community area. Community partnership priorities influence and are a core deliverable in East Suffolk Strategic Plan.	• In 2019/20 Community Partnership Board established and 8 Community Partnerships were created for each part of the District, focussed around market towns but with strong rural dimension. Regular meetings held. • At a data led workshop each Community Partnership used a voting process to agree future priorities for its area.

Leisure Operations

5.5 During the course of 2019/20 there were two developments concerning the Council's relationship with related parties and associated companies which will entail governance changes during the course of 2020/21. With effect from 1 April 2011, Waveney District Council transferred the management and operation of its leisure operations to Sentinel Leisure Trust, which included two Council representatives on the Board. Waveney District Council had a 15-year partnership management agreement with Sentinel. The facilities and equipment remain the property of the Council throughout the Partnership, with the Trust operating under a lease. East Suffolk Council gave Sentinel 12 months' notice in respect of the Waterlane Leisure Centre in October 2019. In respect of the Bungay Leisure Centre, Sentinel were given 12 months' notice of a major re-development in June 2019.

Commercial Partnerships

5.6 East Suffolk Holdings Limited is wholly owned by the Council and was incorporated on 24 October 2019. East Suffolk Holdings is the sole shareholder of East Suffolk Construction Services Limited, East Suffolk Property Developments Limited, and East Suffolk Property Investments Limited, all of which were incorporated on 26 November 2019. All these companies were dormant in 2019/20 and are intended to commence trading in 2020/21.

5.7 **Impact of Covid-19**

During March 2020, the Coronavirus pandemic resulted in a nationwide lockdown and an emergency response, which significantly impacted our 'business as usual' service delivery and alternative models were used to deliver critical services. This has and will continue to have an impact on the Council's governance arrangements. The impacts on governance will fall into the following broad categories:

- Impact on business as usual delivery of services;
- New areas of activity arising from the national response to coronavirus and any associated governance issues;
- Funding of financial implications and logistical consequences of delivering the local governance response;
- Assessment of the long-term disruption and consequences arising from the coronavirus.

In the last week of March 2020 over 170 members of staff were diverted to Covid-19 related work. The cost associated with staff time diverted to Covid-19 is estimated at over £900,000 for the 12 month period since March 2020. This includes activities such as, supporting communities administration of the business grant scheme and enforcement and compliance of guidelines on re-opening and outbreak planning.

During the lockdown period, temporary governance arrangements were put in place to allow for essential decision-making, either by making changes to the Scheme of Delegation to Officers, or by relying on the cascade of delegations to Officers in the Council's Constitution. Examples of this included:

- Officers being able to make financial decisions up to £250K in consultation with the relevant Portfolio Holder.
- All development control decisions being delegated to the Head of Planning and Coastal Management, acting in consultation with Advisory Panels of Members.

- Some few formal meetings being cancelled during the early weeks of the lockdown whilst regulations were awaited from Government to allow meetings to be held remotely.
- Remote meetings being held from 6 May 2020 onwards, the relevant regulations to allow for this having come into force on 4 April 2020.

Brexit

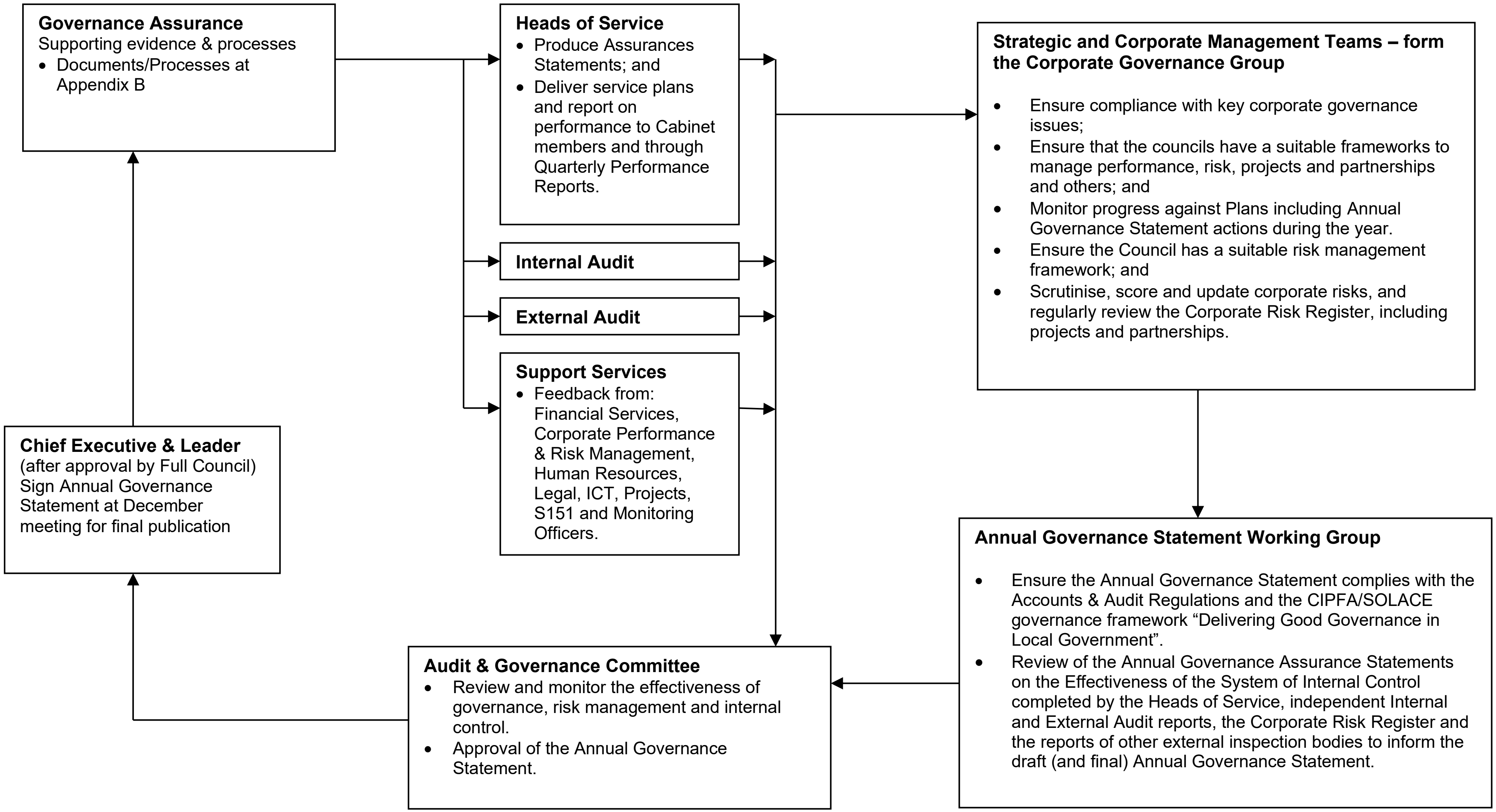
5.8 In anticipation of the UK's planned exit from the European Union in 2020 the Council is proactively involved in regional and national working groups assessing the risks and opportunities of the UK's withdrawal and the potential impact upon the Council stakeholders.

6 ASSURANCE BY CHIEF EXECUTIVE AND LEADER OF THE COUNCIL

We approve this statement and confirm that it forms the basis of the council's governance arrangements.

Post	Signature	Date
Stephen Gallant Leader of the Council		23.11.20
Stephen Baker Chief Executive		23.11.20

The Council's Governance Assurance Framework



Appendix B

DOCUMENTS/PROCESSES SUPPORTING THE CODE OF CORPORATE GOVERNANCE

- Access and Customer Care Strategy
- Air Quality Consultation
- Air Quality Reports
- Annual audit letters
- Annual Governance Statement
- Anti-Bribery Policy and Procedure
- Anti-Money Laundering Policy
- Anti-Fraud and Corruption Strategy
- Asset Management Strategy 2019-24
- Assurance Statements
- Audit & Governance Committee

- Budget process
- Business case appraisal process
- Business Continuity Plan

- Capital Programme
- Capital Strategy
- Code of Corporate Governance
- Committee reports, agendas and minutes
- Compliance and Enforcement Policy
- My Conversation Managing Performance – people
- Compliments, Comments and Complaints Policy
- Complaints process and procedure
- Contaminated Land Strategy
- Contracts Register
- Corporate Governance Group
- Corporate Risk Register

- **Constitution**
  - Part 2: Functions and responsibilities (including Scheme of Delegation)
  - Part 2: Terms of reference for committees
  - Part 3: Council Procedure Rules (contracts, budget & policy framework, financial, employment, meetings, scrutiny)
  - Part 4: Codes and Protocols
  - Part 4: Members' Code of Conduct
  - Part 4: Officers' Code of Conduct
  - Part 4: Suffolk Local Code of Conduct
  - Part 5: Members' Scheme of Allowances

- Council newsletter
- Council website
- Customer feedback process

- Data Protection Policy
- Data Quality Strategy
- Digital Strategy

- East Suffolk Business Plan
- East Suffolk Strategic Plan (2020-2024)
- East Suffolk Economic Growth Plan 2018-2023
- East Suffolk Housing Strategy 2017-2023
- East Suffolk Partnership priorities
- East Suffolk People Strategy
- East Suffolk Quarterly Performance Reports
- Economic Growth Plan
- Economic Development Delivery Plan
- Efficiency Plan
- Efficiency Strategy
- Enabling Community Strategy
- Enabling Communities Delivery Plan
- East Suffolk Environmental Policy
- Equality & Diversity Policy
- External audit (and other reviews)

- Felixstowe Town Forward Improvement
- Financial procedure rules and standing orders
- Financial services
- FOI and EIR request performance statistics
- Freedom of Information

- Green Infrastructure Strategy

- Head of Internal Audit
- Head of Paid Service
- Health and Safety Officer
- Human Resources
- Health and Safety Policy
- Health and Safety policies
- Housing Strategy

- ICT Strategy and action plan
- ICT Acceptable Use Policy
- ICT Security Policy
- Independent remuneration panel
- Internal audit

- JNC terms & conditions
- Job evaluation process
- Job descriptions
- Joint Emergency Response Plan
- Key decisions

- Law & governance
- Leisure Strategy
- Licensing Policy
- Local Plan
- Local Government Ombudsman (report)

- Medium Term Financial Strategy
- Member training
- Member Communication Guidelines
- Member Development Strategy
- Modern Slavery and Human Trafficking Statement
- Monitoring Officer

- Neighbourhood Plans

- Our Values

- Partnership framework
- Pay Policy Statement
- Petty Cash Policy
- People Strategy
- Performance Management (business) framework (including service plans)
- Private Sector Housing Strategy
- Procurement Forward Plan
- Procurement regulations
- Procurement Strategy
- Prudential code

- Record of decisions
- Record Retention Policy
- Recruitment Policy
- Register of Councillors' interest
- Risk management process
- Risk Management Strategy

- S151 Officer
- Safeguard Policy
- Salary scales
- Senior management remuneration report
- Service plans
- Staff surveys
- Social Media Enterprise Project
- Social Media Policy
- Social Value Policy
- Statement of Accounts
- Suffolk Care Leavers Policy
- Suffolk Code of Conduct
- Suffolk Growth Strategy

- Temporary Accommodation Policy
- Timetable of council meetings
- Tourism Strategy
- Transparency publications
- Training programs
- Treasury Management Strategy
- Treasury Management Policy Statement

- Whistleblowing Policy
- Workforce development and plans

Blue = Available on Internet / **Purple** = processes / **Green** = Internal Use

Agenda Item 9

ES/0590

AUDIT AND GOVERNANCE COMMITTEE

Monday, 14 December 2020

INTERNAL AUDIT CHARTER

EXECUTIVE SUMMARY

1. This report presents the Audit and Governance Committee with the refreshed Internal Audit Charter. The Internal Audit Charter defines Internal Audit's purpose, authority, responsibility and position within the Council, and is regularly reviewed to take account of any practical or best practice changes. The Internal Audit Charter was last reviewed in January 2020.

2. The Charter has been reviewed and refreshed.

3. This report is presented to the Audit and Governance Committee to enable it to fulfil its terms of reference: 'To review and approve the Internal Audit Charter to ensure that it is appropriate to the needs of the organisation'.

Is the report Open or Exempt?	Open

Wards Affected:	All

Cabinet Member:	Councillor Maurice Cook Cabinet Member with responsibility for Resources

Supporting Officer:	Mrs Siobhan Martin Head of Internal Audit 01394 444254 siobhan.martin@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 The existing Internal Audit Charter has been reviewed to ensure it remains compliant with the Public Sector Internal Auditor Standards (PSIAS) 2017 and local requirements.

2 HOW DOES THIS RELATE TO THE EAST SUFFOLK BUSINESS PLAN?

2.1 The Internal Audit Charter facilitates the good governance arrangements and practices which underpin the Council's strategic and operational workings, including the East Suffolk Business Plan.

3. FINANCIAL AND GOVERNANCE IMPLICATIONS

3.1 No direct financial implications have been identified.

3.2 The governance implications relate to the statutory necessity to maintain an adequate and effective Internal Audit Service. In order to achieve effectiveness, the Service must be compliant with the latest best practice. Regular review of the Internal Audit Charter enables adherence to best practice.

4. OTHER KEY ISSUES

4.1 There are no known implications in relation to this report over Equality Impact Assessment, Sustainability Impact Assessment or Partnership Impact Assessment.

5. CONSULTATION

5.1 The Chief Executive, Section 151 Officer and External Auditor (Ernst & Young) will be apprised of the refreshed Internal Audit Charter.

6. OTHER OPTIONS CONSIDERED

6.1 There are no other options to be considered in the context of this report.

7. REASON FOR RECOMMENDATION

7.1 By approving the refreshed Internal Audit Charter, which is in accordance with best practice, the Committee will fulfil its responsibility within its terms of reference: *'To review and approve the Internal Audit Charter to ensure that it is appropriate to the needs of the organisation'.*

RECOMMENDATION

That the Audit and Governance Committee approve the refreshed Internal Audit Charter attached at Appendix A.

APPENDICES	
Appendix A	Internal Audit Charter – November 2020

BACKGROUND PAPERS - Please note that copies of background papers have not been published on the Council's website, but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant officer.

Date	Type	Available From
2017	Public Sector Internal Auditor Standards	Head of Internal Audit Siobhan.martin@eastsuffolk.gov.uk

Agenda Item 9

ES/0590

East Suffolk Council

INTERNAL AUDIT CHARTER

November 2020

1. INTRODUCTION

1.1 This Internal Audit Charter defines the purpose, authority and responsibility of the Internal Audit Service across East Suffolk Council.

1.2 The Internal Audit function is a requirement of Regulation 5 of the Accounts and Audit (England) Regulations 2015, which requires local authorities to undertake "effective internal audit to evaluate the effectiveness of its risk management, control and governance processes". This supplements Section 151 of the Local Government Act 1972, which requires that authorities make arrangements for the proper administration of their financial affairs.

1.3 The Audit and Governance Committee has overall responsibility for providing independent assurance as to the adequacy of the risk management framework and the Council's internal controls. All auditing activity within the Council is accountable to the Audit and Governance Committee.

1.4 The Head of Internal Audit will periodically review this Charter and present it to the Audit and Governance Committee and senior management at least every two years.

2. THE MISSION OF INTERNAL AUDIT

2.1 The Mission of Internal Audit articulates what internal audit aspires to accomplish within the Council. All audit activity is designed to support and achieve the Mission:

> **To enhance and protect organisational value by providing risk-based independent and objective assurance, advice and insight.**

2.2 To deliver the Mission, Internal Audit is further defined as providing:

"… an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

3. GOVERNANCE OF INTERNAL AUDIT

3.1 Internal Audit within the public sector has a statutory duty to take into account public sector internal auditing standards or guidance. These are CIPFA's Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN).

3.2 A public sector requirement of the PSIAS is for this Charter to define the terms 'board' and 'senior management' for the purpose of internal activity.

3.2.1 The Board

In accordance with CPIFA guidance, the Council's Audit and Governance Committee will perform the function of the Board. The Audit and Governance Committee's role and responsibilities, including those for overseeing Internal Audit activity, are set out in the Council's Constitution.

3.2.2 Senior Management

At East Suffolk Council, the Corporate Management Team (CMT) will perform the function of senior management.

3.3 In addition, there are a number of key roles within the Internal Audit function:

3.3.1 Head of Internal Audit

The Head of Internal Audit (HOIA) is responsible for establishing and effectively managing the provision of Internal Audit. Details of the HOIA's responsibilities and authority are set out in the Council's Constitution and this Audit Charter.

3.3.2 Internal Auditor Officers

The Internal Audit team is responsible for delivering internal audit services under the direction of the HOIA.

3.4 Where there is a conflict of standards, the PSIAS set out above within this Charter will take precedent.

4. SCOPE OF INTERNAL AUDIT

4.1 Internal Audit is a valuable asset, contributing to the Council's achievement of corporate objectives by promoting the identification and management of risk, strengthening the control environment, and fostering good governance practices.

4.2 In line with the Council's Constitution, Internal Audit has unrestricted scope in order to fulfil its Mission. Internal Audit's remit includes the whole of the organisation's control environment and activities. This includes access to delegated or contracted out services where the Council remains accountable.

4.3 Internal Audit may rely on assurance from other providers, where professional standards allow and the assurance is relevant to the activities of the Council.

4.4 Internal Audit supports the Council's counter fraud activities by providing resources where required. The Corporate Fraud Team retains responsibility for directing fraud-related activities, such as investigation of irregularities or pro-active exercises.

4.5 Internal Audit provides assurance in accordance with the Annual Plan approved by the Audit and Governance Committee. It may also provide consultancy services, giving advice and guidance to management, subject to there being no impact on the core assurance work and the availability of skills and resources.

4.6 Internal Audit services may also be provided to organisations beyond this Council, where agreed in writing and subject to there being no impact on the core assurance work.

5. RESPONSIBILITIES AND OBJECTIVES OF INTERNAL AUDIT

5.1 To meet its mission, responsibilities and objectives Internal Audit will:

- Review and assess the soundness, adequacy and reliability of financial and non-financial management and performance systems, and quality of data that support the controls (including those for risk management, corporate governance and ethical framework) established for the proper administration of the Council's activities.

- Review and assess the effectiveness of internal controls and agree actions to improve where appropriate.

- Review and assess procedures to check the Council's assets and interests are properly accounted for, adequately protected and risks are identified and effectively managed.

- Check for the extent of compliance with legislation, council policies, plans and procedures to ensure that good standards of management are maintained and that decisions taken by the Council, its committees and management are correctly applied.

- Examine, review, appraise and report upon the application of proper authorisation within the delegated authorities given by the various levels of management.

- Promote and assist the Council in the economic, efficient and effective use of resources to in the achievement of the Council's corporate objectives. This includes the provision of any consultancy (advice, facilitation, training etc) work as well as assurance services.

- Undertake independent investigations into allegations of fraud and irregularity in accordance with the Council's policies and procedures and relevant legislation.

- Maintain effective relationships with the managers. Regular meetings will be held with key stakeholders and management will be consulted during the audit planning process. Timing of audit work will be in conjunction with management.

- Take account of the results and reports from any inspections when planning and undertaking Internal Audit work. Where appropriate the Head of Internal Audit will establish a dialogue with representatives of the appropriate inspection agencies.

- Maintain an established working relationship with the External Auditor where internal and external audit can rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. Regular meetings will be held and plans and reports shared.

5.2 The Head of Internal Audit will

- establish a working relationship with members, in particular with members of the Audit and Governance Committee. The Head of Internal Audit has the right to meet privately with the Chairman of the Audit and Governance Committee, if desired.

- maintain an effective working relationship with the Chief Financial Officer who leads and directs financial strategy and operations.

6. INDEPENDENCE AND OBJECTIVITY

6.1 Internal Audit must be independent of the organisation, so that it can provide objective, impartial and effective professional judgements at the individual auditor, engagement, functional and organisational levels.

6.2 At the functional and organisational levels:

- The Audit and Governance Committee receives reports directly from the HOIA, as set out in the Council's Constitution

- Internal Audit will have no direct operational responsibility or authority over any audited operational process where appropriate safeguards do not exist. Internal Audit will not develop, install systems and procedures, prepare records or engage in any other process that could be considered an auditable activity, without appropriate safeguards in place.

- The HOIA has a direct reporting line to the Audit and Governance Committee, with free and unfettered access to the Council's Chief Executive and Chair of Audit and Governance Committee.

- Line management and performance appraisal of the HOIA by the Chief Executive includes feedback from the Chair of the Audit and Governance Committee.

- Where Internal Audit is responsible for an activity that could be considered auditable (such as the administration of Data Protection tasks, Senior Information Risk Owner duties or Counter Fraud), safeguards to limit impairments of independence and objectivity will be put in place. These may include:
  - Obtaining Audit and Governance Committee approval of additional activities, where they are of significant importance or impact

    - Informing the Audit and Governance Committee and/or senior management of additional activities, where they are of minor significance
    - Clearly avoiding reference to independence or assurance in reports relating to additional activity, so that the additional activity is not confused with audit work
    - Periodic review to confirm the arrangement continues to be appropriate, to be considered by the Audit and Governance Committee
    - Requesting third parties to undertake independent assurance reviews of the additional activity on the Council's behalf.

- Internal Audit's Annual Plan is determined and approved by the Audit and Governance Committee, although input from senior management will be sought during the development of proposals.

6.3 At the individual auditor and engagement levels:

- Internal Audit officers must comply with the professional standards set out in Section 7

- Internal Audit officers must maintain an impartial and unbiased attitude, avoiding any conflict of interest. Internal Auditors will notify the HOIA immediately if they become aware of any conflict of interest or appearance of a conflict of interest.

- Where assurance is to be provided, any Internal Audit officer with a potential conflict of interest will not have responsibility for any part of the audit. Where Internal Audit is providing consultancy, the potential conflict of interest will be disclosed to senior management before work is commenced.

- Work shall not be allocated to Internal Audit officers who have had operational responsibility for the audited area within the last 12 months.

- Peer review of all assurance work will be undertaken before it is reported to management.

- Internal Audit officers will declare any offers any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties, which may be accepted only on the express authorisation of the HOIA, having taken into account Council policies, conflicts of interest, and the appearance of bias.

7. PROFESSIONAL STANDARDS

7.1 All members of the Internal Audit team will comply with the professional standards as set out in the PSIAS:

- Definition of Internal Auditing
- Code of Ethics, including the four principles of:
    - integrity
    - objectivity
    - confidentiality
    - competency
- The Seven Principles of Public Life and

- The Public Sector Internal Audit Standards themselves

7.2 Internal Audit will safeguard information received in carrying out its duties. Any information gained during the course of the audit work will remain confidential, without limiting or preventing Internal Audit from reporting within the Council as appropriate. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information will not be used for personal benefit.

8. INTERNAL AUDIT RESOURCES

8.1 Internal Audit must have appropriate, sufficient and effectively deployed resources in order to achieve the approved plan.

8.2 If the HOIA concludes that resources are insufficient, for example due to lack of staff or funding, this will be reported to the Chief Executive. If the position is not resolved and the level of resources will adversely impact on the provision of the annual audit opinion, the HOIA must report this to the Audit and Governance Committee, who have ultimate power to report this to Full Council.

8.3 The Head of Internal Audit is responsible for appointing the staff for the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of knowledge, qualifications, experience, audit skills and other competencies.

8.4 The HOIA will ensure that Internal Audit officers complete Continuing Professional Development to develop and maintain the required mix of knowledge, skills and competencies. Internal Auditors training and personal development needs are established through an appraisal process.

9. INTERNAL AUDIT ACTIVITY AND DELIVERY

9.1 The HOIA will undertake and document an annual risk assessment, taking into account:

- The need to provide an annual audit opinion
- The Council’s risk management framework
- Input and feedback from senior management
- The Council’s strategies, key objectives, and risks

9.2 The HOIA will use the risk assessment, taking account of available resources and opportunities to add value, to develop an annual risk-based internal audit plan for the Audit and Governance Committee to review and approve prior to the commencement of each financial year.

9.3 The approved annual risk-based internal audit plan shall be kept under review during the year, and the HOIA may make adjustments to the plan in response the changes within the Council’s business, risks, operations, programmes, systems or control environment. Significant adjustments to the approved annual risk-based internal audit plan will be agreed with the Audit and Governance Committee.

9.4 Formal audit reports will be issued at the completion of each individual audit assignment included in the approved annual risk-based internal audit plan. The report provides management with an assurance opinion on the adequacy of the reviewed internal control system to manage risks effectively, and details significant audit findings, conclusions and agreed management actions. Senior management and relevant Portfolio Holders receive copies of all audit reports.

9.5 Formal audit reports issued to management will also be provided to the Audit and Governance Committee as they are completed throughout the year.

9.6 Where a need to make improvements is identified in a formal audit report, the relevant Head of Service are responsible for ensuring actions are considered and agreed promptly.

9.7 The relevant Head of Service is responsible for ensuring that any agreed actions address and correct the identified weakness, and are completed promptly. Internal Audit monitors management's progress in completing action plans. Reports of progress against agreed actions will be provided to the Audit and Governance Committee throughout the year.

9.8 The HOIA will provide an annual summary of activity and an overall audit opinion to the Audit and Governance Committee. The report includes:

- The HOIA's annual audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
- information on the performance of the Internal Audit Service
- significant issues related to the processes for controlling the activities of the Council.

The issue of this report is timed to support the annual review of the Council's Corporate Governance and production of the Council's Annual Governance Statement.

9.9 The HOIA, where appropriate and resources allow, may provide audit services for organisations other than East Suffolk Council. All work for external organisations shall be agreed in writing prior to commencement, and the authority for Internal Audit to operate within the external organisation agreed.

10. AUTHORITIY OF INTERNAL AUDIT

10.1 The Audit and Governance Committee, via approval of this Audit Charter and in line with the expectations of the Council's Constitution, endorses the authority of Internal Audit officers acting in proper pursuit of their duties.

10.2 The Head of Internal Audit has rights of:

- an unrestricted ability to plan and undertake audit assignments
- direct access to the Chair of the Audit and Governance Committee
- reporting directly and direct access to the Chief Executive
- direct access to all Councillors
- direct access to the Chief Finance Officer
- direct access to the Monitoring Officer

10.3 The Head of Internal Audit and Internal Audit officers are authorised to have:

- Unrestricted access to all functions, records, property, and personnel
- The necessary assistance of any officer within the Council to provide information or explanations as required
- The assistance of partner organisations and third party suppliers where contract terms include internal audit access rights.

11. QUALITY OF INTERNAL AUDIT

11.1 The Internal Audit team operates a Quality Assurance and Improvement Programme, with periodic assessments to confirm the service operates effectively. Results of internal and external assessments are shared with the Chair of the Audit and Governance Committee.

12. FRAUD AND CORRUPTION

12.1 The HOIA is also responsible for counter fraud activities, which are delivered by through a separate counter-fraud specialist team.

12.2 Responsibility for the prevention and detection of fraud and corruption is a matter for all employees. The Anti-Fraud and Corruption Strategy and other supporting counter fraud policies set out the Council's approach.

12.3 This Charter supports the approaches for reporting suspected or detected fraud, corruption, maladministration, irregularity, misappropriation or impropriety to the HOIA set out in the Anti-Fraud and Corruption Strategy and Whistleblowing Policy. Where there is a conflict in approach, the Anti-Fraud and Corruption Strategy and Whistleblowing Policy will take precedent.

12.4 The HOIA will decide, based on the specific circumstances of an allegation or case, whether reports of fraud or irregularity are to be investigated by either Internal Audit, Corporate Fraud, jointly, or with the support of external agencies such as the Police.

12.5 Where the routine work of Internal Audit highlights a risk of fraud, this shall be included in the resulting audit report and an appropriate action agreed with management.

Agenda Item 10

ES/0591

AUDIT AND GOVERNANCE COMMITTEE

Monday, 14 December 2020

CODE OF CORPORATE GOVERNANCE

EXECUTIVE SUMMARY

1. CIPFA recommend an annual review of the Code of Corporate Governance, as directed in the CIPFA/SOLACE 2016 publication "Delivering Good Governance in Local Government". The Code of Corporate Governance was last reviewed in July 2018.

2. The main body of the Code remains unchanged, but the evidence attached has been refreshed to capture current frameworks and processes in operation. The refreshed list is attached as Appendix A for consideration by the Audit and Governance Committee; this falls within the Committee's terms of reference: 'To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances'

Is the report Open or Exempt?	Open

Wards Affected:	All

Cabinet Member:	Councillor Maurice Cook Cabinet Member with responsibility for Resources

Supporting Officer:	Mrs Siobhan Martin Head of Internal Audit 01394 444254 siobhan.martin@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which such bodies are directed and controlled and through which they account to, engage with, where appropriate, lead their communities.

1.2 The Council strives to meet the highest standards of corporate governance to help ensure it meets its objectives. Members and officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal.

1.3 All local authorities were strongly recommended to adopt a Code of Corporate Governance ("the Code") by 31 March 2002, which this Council adopted. The Code was based on a CIPFA/SOLACE framework set in 2001. This framework was supplemented by the Office of the Deputy Prime Minister (ODPM) and CIPFA publication entitled "The Good Governance Standard for Public Services".

1.4 This Code has been refreshed regularly since 2005 and again most recently in July 2018, each time following the introduction of key national changes e.g. the Localism Act.

1.5 The concept underpinning the ideal of corporate governance is to help local government to take responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards, in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to principles; that there is sound and inclusive decision making; and that there is clear accountability for the use of those resources, in order to achieve desired outcomes for service users and communities.

1.6 CIPFA recommends an annual review of the Code of Corporate Governance. There have been no additional publications to consider since the Code was last refreshed in July 2018, and reported to the Audit and Governance Committee, ie incorporation of recommended changes in the publication entitled Delivering Good Governance in Local Government (CIPFA/SOLACE 2016) and features listed in The International Framework: Good Governance in the Public Sector (CIPFA/IFAC).

1.7 Fundamental to the Code are seven core principles. The seven core principles are:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law.

B. Ensuring openness and comprehensive stakeholder engagement.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes.

E. Development the Partnership's capacity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency reporting, and audit to deliver effective accountability.

1.8 Each of the seven core principles has a number of sub principles, which in turn, translate into a range of specific behaviours and actions that apply across the various aspects of the Partnership's business and demonstrates good governance.

1.9 The Code will facilitate the Council's review of its corporate governance arrangements (incorporating a list of corporate evidence) for the purposes of the Annual Governance Statement.

1.10 Attached to this report is an updated Code of Corporate Governance.

2 MONITORING AND REVIEW

2.1 Having adopted a Code of Corporate Governance, the Council needs to ensure:

a. that the principles and practices in it are adhered to, and

b. that it is periodically reviewed, to provide assurance that governance arrangements are adequate, operating effectively and to identify action for improvement which will develop and shape governance within the Partnership.

2.2 The outcome of the review is incorporated within the Governance Statement prepared on behalf of the Leader of the Council and Chief Executive and will be submitted to the Cabinet for consideration and review along with full Council..

3 HOW DOES THIS RELATE TO THE EAST SUFFOLK STRATEGIC PLAN?

3.1 Good governance is an essential feature of how East Suffolk is accountable for the public purse and therefore every element of the East Suffolk Strategic Plan is delivered with the Code of Corporate Governance explicitly applied.

4 FINANCIAL AND GOVERNANCE IMPLICATIONS

4.1 The Code of Corporate Governance is the keystone to demonstrating how the Council embodies and delivers governance.

5 OTHER KEY ISSUES

5.1 This report does not require an Equality Impact Assessment, a Sustainability Impact Assessment or a Partnership Impact Assessment.

6 CONSULTATION

6.1 The Cabinet Member with responsibility for Resources and the Senior Management Team have been consulted on the content of this report.

7 OTHER OPTIONS CONSIDERED

7.1 No further options have been considered.

8 REASON FOR RECOMMENDATION

8.1 By reviewing and considering the revised Code in accordance with best practice the Audit and Governance Committee will fulfil its responsibility within its terms of reference.

RECOMMENDATION
That the Audit and Governance Committee comments upon the refreshed Code of Corporate Governance and recommends to Full Council that it adopts the revised Code of Corporate Governance attached at Appendix A to this report.

APPENDICES	
Appendix A	Code of Corporate Governance

BACKGROUND PAPERS		
Date	**Type**	**Available From**
2014	The International Framework: Good Governance in the Public Sector (CIPFA/IFAC)	Head of Internal Audit siobhan.martin@eastsuffolk.gov.uk
May 2016	CIPFA/SOLACE "Delivering Good Governance in Local Government" (2016).	Head of Internal Audit siobhan.martin@eastsuffolk.gov.uk

Agenda Item 10
ES/0591

East Suffolk Council

Code of Corporate Governance

November 2020

1. Introduction

This document sets out how East Suffolk Council intends to apply the principles of corporate governance in the way it operates and conducts its business. It has been developed in accordance with the principles outlined in the framework and guidance notes by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) “Delivering Good Governance in Local Government” (2016).

The Council is required to review existing governance arrangements, develop and maintain an up to date local Code of Corporate Governance (“the Code”) (including arrangements for ensuring ongoing effectiveness), and to prepare an Annual Governance Statement (in order to report publicly on its compliance with the Code and the monitoring of effectiveness of its governance arrangements).

2. What is Governance?

Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which such bodies are directed and controlled and through which they account to, engage with, where appropriate, and lead their communities.

Good governance enables the Council to define and pursue its vision more effectively. It leads to improvements in management, performance, stewardship of public money and public engagement and outcomes for individuals and the community. It ensures that appropriate mechanisms for control are in place and that risks and opportunities are managed effectively.

3. Core Principles of Good Governance

The following core principles have been taken from the International Framework; Good Governance in the Public Sector (CIPFA/IFAC 2014) and the CIPFA/SOLACE “Delivering Good Governance in Local Government (2016); which notes that principles A and B “permeate” implementation of principles C-G below.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law.

B. Ensuring openness and comprehensive stakeholder engagement.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

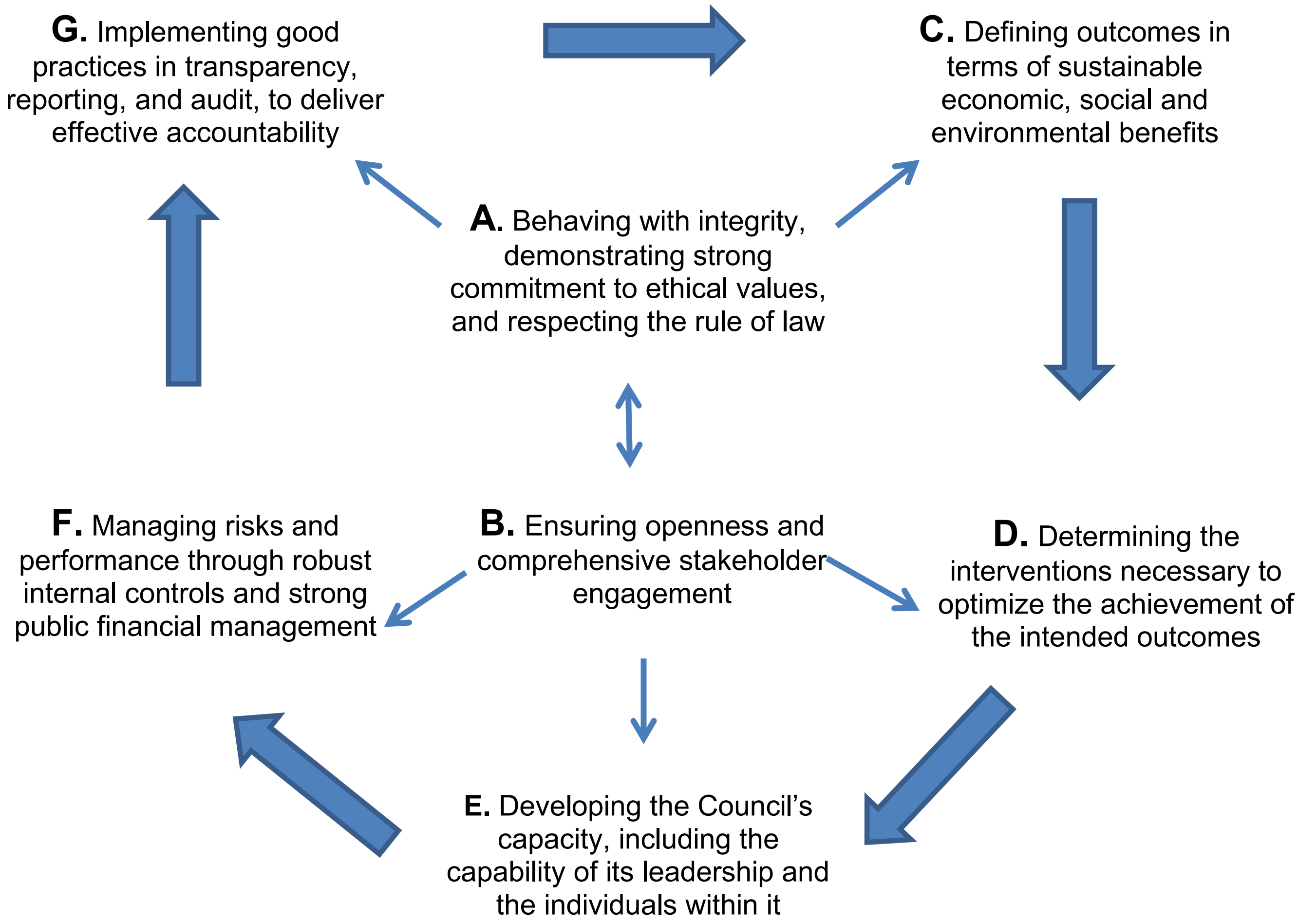
D. Determining the interventions necessary to optimise the achievement of the intended outcomes.

E. Developing the Council’s capacity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency reporting, and audit to deliver effective accountability.

The diagram below shows how the principles relate to each other.



4. Applying the Principles of Good Governance

Each of the seven core principles above has a number of sub principles, which in turn, translate into a range of specific behaviours and actions that apply across the various aspects of the Council's business that demonstrate good governance. The tables below (extracted from the CIPFA/SOLACE framework) show how each of these principles should be applied.

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Sub Principles	Behaviours and actions that demonstrate good governance
Behaving with integrity	Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.
	Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles).
	Leading by example and using the above standard operating principles or values as a framework for decision making and other actions.
	Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that effectively.
Demonstrating strong commitment to ethical values.	Seeking to establish, monitor and maintain the organisation's ethical standards and performance.
	Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation.
	Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values.
	Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation.
Respecting the rule of law.	Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations.
	Creating the conditions to ensure that the statutory officers, other key post holders, and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.
	Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders.
	Dealing with breaches of legal and regulatory provisions effectively.
	Ensuring corruption and misuse of power are dealt with effectively.

Principle B: Ensuring openness and comprehensive stakeholder engagement

Sub Principles	Behaviours and actions that demonstrate good governance
Openness	Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness.
	Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If this is not the case, a justification for the reasoning for keeping a decision confidential should be provided.
	Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.
	Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/course of action.
Engaging comprehensively with institutional stakeholders	Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably.
	Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.
	Ensuring that partnerships are based on trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.
Engaging with individual citizens and service users effectively.	Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.
	Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement.
	Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.
	Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account.
	Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.
	Taking account of the impact of decisions on future generations of tax payers and service users.

Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Sub Principles	Behaviours and actions that demonstrate good governance
Defining outcomes	Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions.
	Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer.
	Delivering defined outcomes on a sustainable basis within the resources that will be available.
	Identifying and managing risks to the achievement of outcomes.
	Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available.
Sustainable economic, social and environmental benefits	Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decision about service provision.
	Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints.
	Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs.
	Ensuring fair access to services.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Sub Principles	Behaviours and actions that demonstrate good governance
Determining interventions	Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided.
	Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts.
Planning interventions	Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets.
	Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered.
	Considering and monitoring risks facing each partner when working collaboratively, including shared risks.
	Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances.

Sub Principles	Behaviours and actions that demonstrate good governance
	Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured.
	Ensuring capacity exists to generate the information required to review service quality regularly.
	Preparing budgets in accordance with objectives, strategies and the medium term financial plan.
	Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.
Optimising achievement of intended outcomes	Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints.
	Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term.
	Ensuring the medium term financial strategy sets the context for ongoing decision on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage.
	Ensuring the achievement of “social value” through service planning and commissioning.

Principle E: Developing the entity’s capacity, including the capability of its leadership and the individuals within it

Sub Principles	Behaviours and actions that demonstrate good governance
Developing the entity’s capacity	Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness.
	Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently.
	Recognising the benefits of partnerships and collaborative working where added value can be achieved.
	Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources.
Developing the capability of the entity’s leadership and other individuals.	Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained.
	Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body.
	Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other’s authority.

	Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risk by:- - Ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged. - Ensuring members and offices have the appropriate skills, knowledge resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis. - Ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external.
	Ensuring that there are structures in place to encourage public participation.
	Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections.
	Holding staff to account through regular performance reviews which take account of training or development needs.
	Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.

Principle F: Managing risks and performance through robust internal control an strong public financial management

Sub Principles	Behaviours and actions that demonstrate good governance
Managing Risk	Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making.
	Implementing robust and integrated risk management arrangements and ensuring that they are working effectively.
	Ensuring that responsibilities for managing individual risks are clearly allocated.
Managing performance	Monitoring service delivery effectively including planning, specification, execution and independent post implementation review.
	Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks in inherent in the organisation's financial, social and environmental position and outlook.
	Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making.
	Providing members and senior management with regular reports on service delivery plans on progress towards outcome achievement.
	Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements).

Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Sub Principles	Behaviours and actions that demonstrate good governance
Implementing good practice in transparency	Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.
	Striking a balance between providing the right amounts of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.
Implementing good practices in reporting	Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way.
	Ensuring members and senior management own the results reported.
	Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement).
	Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate.
	Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations.
Assurance and effective accountability	Ensuring that recommendations for corrective action made by external audit are acted upon.
	Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon.
	Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations.
	Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement.
	Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met.
Robust internal control	Aligning the risk management strategy and policies on internal control with achieving objectives.
	Evaluating and monitoring risk management and internal control on a regular basis.
	Ensuring effective counter fraud and anti-corruption arrangements are in place.
	Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.
	Ensuring an audit committee or equivalent group/function, which is independent of the executive and accountable to the governing body: - Provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment - That its recommendations are listened to and acted upon.
Managing data	Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data.
	Ensuring effective arrangements are in place and operating effectively, when sharing data with other bodies.
	Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring.
Strong public financial management	Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance.
	Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

5. Annual Review and Reporting

5.1 Each year the Council will carry out a review of its Governance arrangements to ensure compliance with this Code in accordance with CIPFA/SOLACE "Delivering Good Governance in Local Government" (2016) Framework. The purpose of the review will be to provide assurance that governance arrangements are adequate, operating effectively and to identify action for improvement which will develop and shape governance within the Council. Appendix A, The Corporate Policy Framework, provides an overview of the policies in place to ensure that the Council has in place sufficient governance arrangements.

5.2 The outcome of the review is factored into the Governance Statement prepared on behalf of the Leader of the Council and Chief Executive. It will be submitted to the Cabinet for consideration and review.

5.3 The preparation and publication of the Governance Statement will meet the statutory requirement of the Accounts and Audit Regulations 2015 which requires authorities to "conduct a review at least once in a year of the effectiveness of its system of internal control" and to "prepare an annual governance statement". As such the Governance Statement will be prepared in accordance with the timetable in participation of financial statements in accordance with the Audit and Accounts Regulations 2015.

Appendix A

DOCUMENTS/PROCESSES SUPPORTING THE CODE OF CORPORATE GOVERNANCE

• Access and Customer Care Strategy • Air Quality Consultations • Air Quality Reports • Annual audit letters • Annual Governance Statement • Anti-Bribery Policy and Procedure • Anti-Money Laundering Policy • Anti-Fraud and Corruption Strategy • Asset Management Strategy 2019-24 • Assurance Statements • Audit & Governance Committee • Budget process • Business case appraisal process • Business Continuity Plan • Capital Programme • Capital Strategy • Code of Corporate Governance • Committee reports, agendas and minutes • Compliance and Enforcement Policy • My Conversation Managing Performance – people • Compliments, Comments and Complaints Policy • Complaints process and procedure • Contaminated Land Strategy • Contracts Register • Corporate Governance Group • Corporate Risk Register • **Constitution** - Part 2: Functions and responsibilities (including Scheme of Delegation) - Part 2: Terms of reference for committees - Part 3: Council Procedure Rules (contracts, budget & policy framework, financial, employment, meetings, scrutiny) - Part 4: Codes and Protocols - Part 4: Members' Code of Conduct - Part 4: Officers' Code of Conduct - Part 4: Suffolk Local Code of Conduct - Part 5: Members' Scheme of Allowances • Council newsletter • Council website • Customer feedback process • Data Protection Policy • Data Quality Strategy • Digital Strategy	• East Suffolk Business Plan • East Suffolk Strategic Plan (2020-2024) • East Suffolk Economic Growth Plan 2018-2023 • East Suffolk Housing Strategy 2017-2023 • East Suffolk Partnership priorities • East Suffolk People Strategy • East Suffolk Quarterly Performance Reports • Economic Development Delivery Plan • Efficiency Plan • Enabling Community Strategy • East Suffolk Environmental Policy • Equality & Diversity Policy • External audit (and other reviews) • Felixstowe Town Forward Improvement • Financial procedure rules and standing orders • Financial services • FOI and EIR request performance statistics • Freedom of Information • Green Infrastructure Strategy • Head of Internal Audit • Head of Paid Service • Health and Safety Officer • Human Resources • Health and Safety Policy • Health and Safety policies • ICT Strategy and action plan • ICT Acceptable Use Policy • ICT Security Policy • Independent remuneration panel • Internal audit • JNC terms & conditions • Job evaluation process • Job descriptions • Joint Emergency Response Plan • Key decisions • Law & governance • Leisure Strategy • Licensing Policy • Local Plan	• Medium Term Financial Strategy • Member training • Member Communication Guidelines • Member Development Strategy • Modern Slavery and Human Trafficking Statement • Monitoring Officer • Neighbourhood Plans • Our Values • Partnership framework • Pay Policy Statement • Petty Cash Policy • People Strategy • Performance Management (business) framework (including service plans) • Procurement Forward Plan • Procurement Strategy • • Record of decisions • Record Retention Policy • Recruitment Policy • Register of Councillors' interest • Risk management process • Risk Management Strategy • S151 Officer • Safeguard Policy • Salary scales • Senior management remuneration report • Service plans • Staff surveys • Social Media Enterprise Project • Social Media Policy • Social Value Policy • Statement of Accounts • Suffolk Care Leavers Policy • Suffolk Code of Conduct • Suffolk Growth Strategy • Temporary Accommodation Policy • Timetable of council meetings • Tourism Strategy • Transparency publications • Training programs • Treasury Management Strategy • Whistleblowing Policy • Workforce development and plans

Blue = Available on Internet / **Purple** = processes / **Green** = Internal Use