EASTSUFFOLK
COUNCIL

**Riverside, 4 Canning Road, Lowestoft, Suffolk,
NR33 0EQ**

Audit and Governance Committee

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

Members are invited to a **Meeting of the Audit and Governance Committee** to be held in the Conference Room, Riverside, on **Monday, 13 December 2021** at **6.30pm**

This meeting is being held in person in order to comply with the Local Government Act 1972. In order to comply with East Suffolk Council's coronavirus arrangements and guidance, the number of people at this meeting will have to be restricted to only those whose attendance is reasonably necessary.

Ordinarily, East Suffolk Council encourages members of the public to attend its meetings but on this occasion would encourage the public to watch the livestream, via the East Suffolk Council YouTube channel instead at https://youtu.be/82wjcFgLCOY

If you do believe it is necessary for you to be in attendance we encourage you to notify Democratic Services, by email to democraticservices@eastsuffolk.gov.uk, of your intention to do so no later than 12 noon on the working day before the meeting so that the meeting can be managed in a COVID secure way and the Team can endeavour to accommodate you and advise of the necessary health and safety precautions.

However, we are not able to guarantee you a space/seat and you are advised that it may be that, regrettably, we are not able to admit you to the meeting room.

An Agenda is set out below.

Part One – Open to the Public

Pages

11 Audit and Governance Committee's Draft Work Programme 2021/22 **207 - 207**

To consider the Committee's Forward Work Programme

12 Exempt/Confidential Items

It is recommended 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.

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 Purchase Order Update

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

15 Internal Audit: Status of Actions

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

16 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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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 1

EASTSUFFOLK COUNCIL

Minutes of a Meeting of the **Audit and Governance Committee** held in the Deben Conference Room, East Suffolk House, on **Monday, 20 September 2021** at **6:30 PM**

Members of the Committee present:
Councillor Edward Back, Councillor Tony Cooper, Councillor Linda Coulam, Councillor Geoff Lynch, Councillor Ed Thompson

Other Members present:
Councillor Peter Byatt, Councillor Maurice Cook

Officers present: Matt Makin (Democratic Services Officer), Siobhan Martin (Head of Internal Audit Services), Brian Mew (Chief Finance Officer & Section 151 Officer), Alli Stone (Democratic Services Officer), Julian Sturman (Senior Accountant)

Others present: Debbie Hanson (Ernst & Young LLP), Ghulam Hussein (Ernst & Young LLP)

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1 Apologies for Absence and Substitutions

Apologies for absence were received from Councillor Tess Gandy and Councillor Rachel Smith-Lyte. Councillor Peter Byatt attended as Councillor Gandy's substitute.

2 Declarations of Interest

There were no Declarations of Interest.

3 Minutes

RESOLVED

That the Minutes of the Meeting held on 28 June 2021 be agreed as a correct record and signed by the Chairman.

4 External Audit Plan 2020/21

The committee received report ES/0887 of Councillor Maurice Cook, the Cabinet Member with responsibility for Resources, which presented the 2020/21 Indicative External Audit Plan

Councillor Cook introduced Ms Debbie Hanson, Associate Partner at Ernst & Young LLP (EY) and invited her to take the Committee through the proposed plan.

Ms Hanson stated that the accounts are currently indicative, but that EY was satisfied that the risks were adequately covered. Ms Hanson drew Members' attention to Section 1 of the strategy which was an overview of their 2020/21 audit strategy and it was noted that there were some new risks associated with the impact of Covid-19, and that there was a new auditing standard which applied to 2021 audits and would require additional work by EY.

Ms Hanson went through the areas of the report where there had been change in the level of risk, namely land and building and investment valuations due to the impact of Covid-19; the pension liability valuation due to change in asset values; the going concern disclosures; and grant income associated with Covid-19. Ms Hanson then went through the value for money section of the plan which had significantly changed compared to previous years due to a new code of audit practise. As a result, additional work was being done to gather sufficient evidence and the report would contain commentary on each risk area regardless of whether there is significant risk. Ms Hanson went through the remainder of the plan including audit materiality, scope of the audit, the EY audit team, audit timeline and independence. She concluded that EY was aiming to complete the report by the end of December 2021.

In relation to the Fee, Ms Hanson stated that there was a scale fee variation due to additional work required following the impact of Covid-19 which was not reflected in the 2020/21 scale fee. She reported that the PSAA would be writing to Members with regard to this change.

The Chairman asked what the indicative percentage range increase of the scale fees was. Ms Hanson responded that there had not been a specific percentage increase but that PSAA had set out a fee range in each area.

The Committee asked when the fees for the 2019/20 year will be confirmed. Ms Hanson responded that EY will be able to report to this meeting December on the fees as submitted to management.

The Chairman was pleased to see that the timeline for this year had been firmed up and enquired whether timelines beyond December 2021 could also be clarified. Ms Hanson responded that there was still some uncertainty due to the additional reports and work required in this years audit.

Clarification was sought on the reasons for the pension fund deficit as detailed on page 32 of the document pack. Ms Hanson responded that there was always a large movement in these accounts which was largely driven by changes in asset values. As asset values had changed so much in the past year another large change was expected.

On the proposition of Councillor Coulam, seconded by Councillor Cooper it was by a unanimous vote

RESOLVED

That having commented on the contents of the External Audit Plan 2020/21, the report be noted.

5 **Treasury Management Outturn 2020/21 and Mid-Year 2021/22 Report**

The committee received report ES/0888 of Councillor Maurice Cook, the Cabinet Member with responsibility for Resources, which presented the Treasury Management Outturn 2020/21 incorporating a mid-year review of 2021/22.

Councillor Cook introduced the report and outlined the sections on borrowing and investments. He reported that the Council had continued to ensure security over liquidity and the long term investments had done well over the past year despite the impact of Covid-19.

The Chairman reported that he was pleased to see the focus on ethical investments and that he hoped this would continue. He also thanked the Finance and Resources teams for their hard work during the past year.

Councillor Cook reported that an ethical statement would be included in the report in January to continue emphasising ethical investment.

On the proposition of Councillor Thompson and seconded by Councillor Coulam it was by a unanimous vote

RESOLVED

That the Annual Report on the Council's Treasury Management activity for 2020/21 incorporating the Mid-Year review for 2021/22 be noted.
That the Prudential Indicators Outturn position for 2020/21 in Appendix B be noted

6 **Audit and Governance Committee's Forward Work Programme**

The committee considered the Forward Work Programme for 2021/22.

Following a query on lines of communication to and from the committee, particularly with regards to investigations of complaints, it was agreed that the committee would receive a report on the communication process at the meeting scheduled for Monday 13 December 2021.

The Chairman also noted that there was an upcoming review of the planning process and the committee would receive a report following the review at the meeting scheduled for Monday 13 December 2021.

7 **Exempt/Confidential Items (LGA)**

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

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.

8 Exempt Minutes

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

9 Internal Audit Reports Recently Issued - Exempt

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

10 Internal Audit: Status of Actions

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

The meeting concluded at 19:58

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Chairman

Agenda Item 4

ES/0972

EASTSUFFOLK COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday, 13 December 2021

Subject	Annual Audit Letter for the year ended 31st March 2020
Report by	Councillor Edward Back, Assistant Cabinet Member for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk 01394 444571

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report: The Annual Audit Letter for year ending 31st March 2020 attached as Appendix A, produced by the External Auditor Ernst & Young, communicates the key issues arising from their work to Members and external stakeholders, including members of the public. This report also presents an analysis of additional fees for information in respect of the audit.
Options: None to consider

Recommendation/s: That the Annual Audit Letter for the year ended 31st March 2020, along with the additional fee analysis be noted.

Corporate Impact Assessment

Governance: The Annual Audit Letter is a statutory requirement by the Local Audit and Accountability Act 2014.
ESC policies and strategies that directly apply to the proposal: The Annual Audit Letter does not link directly to the Council's Strategic Plan, but through securing external assurance over the Council's governance, financial statements, and value for money, this will assist to achieve the priorities of the Strategic Plan.
Environmental: No impacts
Equalities and Diversity: No impacts
Financial: No direct financial impact, but the Annual Audit Letter demonstrates that assurance has been obtained as to East Suffolk Council's financial statements and value for money.
Human Resources: No impacts
ICT: No impacts
Legal: No impacts
Risk: No impacts

External Consultees:	Ernst & Young LLP, external auditors

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		**Primary priority**	**Secondary priorities**
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☒
P11	Making best use of and investing in our assets	☐	☒
P12	Being commercially astute	☐	☒
P13	Optimising our financial investments and grant opportunities	☐	☒
P14	Review service delivery with partners	☐	☒
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐
How does this proposal support the priorities selected?			

Demonstrating assurance as to the correct accounting and value for money in respect of East Suffolk Council's financial resources.

Background and Justification for Recommendation

1	Background facts
1.1	The Annual Audit Letter communicates the key issues identified by the External Auditor, Ernst & Young, following completion of their audit procedures for the year ended 31 March 2020.
1.2	Detailed findings from Ernst & Young's (EY) audit work have already been reported to the Audit & Governance Committee via the Audit Results Report on 15th March 2021. A further verbal update was then provided to the Committee on 28th June 2021. At that time the audit was substantially complete and all necessary information to complete the audit had been received. These findings have not been repeated in the Annual Audit Letter.

2	Current position
2.1	The Executive Summary of the Annual Audit Letter, Appendix A, summarises the areas of audit work undertaken and the conclusions of that work, while the Financial Statement Audit and Value for Money sections of the letter detail the significant risks identified from EY's audit planning, along with the findings from their work in relation to these areas. It is noted in the letter that Covid-19 had an impact on a number of aspects of the 2019/20 audit including uncertainty and impact on valuations, going concern and events after the balance sheet date. There were no issues to report in the letter and an unqualified audit opinion and unqualified value for money conclusion were issued.
2.2	Section 7 of the Audit Letter and Appendix B details the audit fees that are agreed and proposed. EY propose a fee variation for the 2019/20 financial year of £39,360 in addition to the Public Sector Audit Appointments (PSAA) agreed fee of £69,964. The S151 officer has agreed to £22,320 of this variation, in recognition of the fact that additional work has been necessary in addition to that included in the original PSAA fee. However, the remaining proposed £17,040 has not been agreed, and has been referred to PSAA.

3	How to address current situation
3.1	The remaining £17,040 fee variation is being consulted on with PSAA as to the reasonableness of this and the Council will follow their advice when it is received.

4	Reason/s for recommendation
4.1	Consulting with PSAA on the disputed fee variation will ensure it is considered fairly and in-line with other Councils facing similar charges for the 2019/20 financial year.

Appendices

Appendices:	
Appendix A	Annual Audit Letter for year ended 31st March 2020
Appendix B	Additional Fee Analysis

Background Papers:
None.

East Suffolk Council

Annual Audit Letter for the year ended 31 March 2020

12 October 2021

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). .

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to East Suffolk Council following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for accounts from 31 July to 30 November 2020 for all relevant authorities. Despite the disruption caused by Covid-19, management was able to produce the draft financial statements with in deadline (i.e. 31 August 2020) before the commencement of the audit in November 2020. Covid-19 has also affected our ability to complete the audit to the planned timetable. There have also been additional audit procedures we had to perform to respond to the additional risks, mainly due to Covid-19.
Impact on our risk assessment	
► Valuation of land and buildings and investment properties	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty as at 31 March 2020. Material judgemental inputs and estimation techniques are required to calculate the year-end asset property valuations held on the balance sheet. Considering the uncertainty and impact caused by Covid-19, we decided to involve our internal valuation experts (EYRE) to help us in reviewing valuation work performed by the internal valuers.
► Disclosures on Going Concern	Financial plans for 2020/21 and future medium term financial plans needed revision to take into account the ongoing impact of Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Group may not appropriately disclose the key factors relating to going concern. This assessment needed to be underpinned by managements assessment with particular reference to Covid-19 and the Group's actual year end financial position and performance/outturn reports, along with cashflow forecast till August 2022.
► Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the ongoing impact of the Covid-19 pandemic may need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Group.

Executive Summary (continued)

We are required to issue an Annual Audit Letter to East Suffolk Council following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Group's systems. We undertook the following to address this risk: ► Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ► Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact of Covid-19 on auditor reports were put in place for all audits.

Executive Summary (continued)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Group's :	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the financial statements.
▶ Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council and Group
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (continued)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Group's Whole of Government Accounts return (WGA).	Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. The Council falls below the £500 million threshold for review as per the NAO's group instructions, Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Group communicating significant findings resulting from our audit.	Our Audit Results Report, dated 2 March 2021, was presented to Audit and Governance Committee on 15 March 2020 once we had significantly completed our audit procedures. We issued an update on Audit Results Report on 26 August 2021, once we had concluded the remaining elements of our audit.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 August 2021

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Debbie Hanson
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Ref: EY-000092651-01

Purpose

The Purpose of this Letter
The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council and Group. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report dated 2 March 2021 to the Audit and Governance Committee, representing those charged with governance. We provided an update on Audit Results Report on 26 August 2021, upon concluding our audit. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council and Group.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan dated 10 September 2020 that we presented to the September 2020 Audit and Governance Committee meeting. Our audit is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the Annual Governance Statement is misleading or not consistent with our understanding of the Council and Group;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Group is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council and Group

The Council and Group is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council and Group report publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council and Group is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Statement of Accounts is an important tool for the Council and Group to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited East Suffolk Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 August 2021.

Our detailed findings were reported through our Audit Result Report dated 2 March 2021, followed by an update on Audit Results Report dated 26 August 2021.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error (Risk of management override)	
The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur, being the incorrect capitalisation of revenue spending, as noted below.	We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify adjustments outside of the normal course of business. All journals tested have appropriate rationale. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business.
Incorrect capitalisation of revenue expenditure	
In considering how the risk of management override may present itself, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. Linking to our risk of misstatements due to fraud and error, we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment& investment property as a specific area of risk.	We did not identify any misreporting of the financial position through the inappropriate capitalisation of revenue expenditure.

Financial Statement Audit (continued)

Other Key Findings	Conclusion
Land and buildings and investment properties valuations Land and buildings represent the vast majority of the property, plant and equipment balance in the financial statements. Both land and buildings and investment property represent a significant balance in the Group accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end asset property valuations held on the balance sheet. The Group engages internal property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates. Due to the higher risk related to the valuation of land and buildings and investment property valuations as at 31 March 2020, we engaged EY valuation specialists to assist the audit team on a sample of assets.	To address this risk we: ▸ Assessed the classification of the assets and whether the appropriate valuation basis has been applied; ▸ Identified and obtained evidence to support any material increases or impairments that arise during the year; ▸ Considered the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample tested key asset information used by the valuer in their valuation, and agreed this to what had been recorded in the fixed asset register and general ledger; ▸ Considered if there were any specific changes to assets that have occurred and that these had been communicated to the valuer; ▸ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme for property, plant and equipment and annually for investment property assets as required by the Code; ▸ Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ▸ Engaged EY specialists (EYRE) to assist the audit team on a sample of assets. Our sample included total 8 properties, 6 from land & buildings and one each from surplus assets and investment properties.; ▸ Tested accounting entries had been correctly processed in the financial statements; ▸ Ensured that appropriate disclosure had been made in the accounts concerning the material uncertainty relating to year end valuations. Based on our procedures and our internal valuers (EYRE) report, we did not identify any material issues in relation to these balances.

Financial Statement Audit (continued)

Other Key Findings	Conclusion
Pension liability valuation and disclosures	Based on our procedures performed, we concluded that: ▸ Based on the information provided by the pension fund auditor and the EY Pensions actuarial team, we are satisfied that information supplied to the actuary and the assumptions applied are reasonable. ▸ We are satisfied that the movement in fund asset values between the actuary's estimate and year end are not material for the Council. ▸ We are satisfied that the controls over the triennial valuation were adequate. ▸ We are satisfied that the emphasis of matter included in the pension fund auditor's report does not have a material impact on the pension fund liability in the Council's accounts, taking into account the proportion of the overall pension fund assets held in property unit trusts (9.6%) and the overall proportion of the pension fund related to East Suffolk (7.9%). ▸ Our EY Pensions team has reviewed the approach adopted by the Fund actuary to the McCloud consultation and confirmed that the allowance they have made is reasonable. Although the impact is not material, the Council has amended the financial statements to reflect the figures in the updated IAS19 report. ▸ We discussed and agreed the required changes in accounting entries and disclosures in the accounts, we are satisfied that the amended disclosures are appropriate. Therefore no adjustments have been proposed.
Bad debt and business rates appeal provision valuation	We: ▸ Reviewed the calculation of the bad debt provision and assessed the reasonableness of the approach. ▸ Challenged management assumptions supporting the calculation, particularly where historic collection rates have been used as a prediction for future collectability. ▸ Reviewed and assessed the accuracy and completeness of any disclosures related to estimation uncertainty in the accounts. We concluded our work with no issues noted.

Financial Statement Audit (continued)

Other Key Findings	Conclusion
Going concern disclosures	We: ▸ Reviewed management's going concern assessment in the draft financial statements. Our work included stress testing of assumptions and cash flow forecasts and ensuring the going concern disclosure within the financial statements is consistent with management's going concern assessment and that there is no material uncertainty which requires disclosure. ▸ We complied with our internal consultation processes in relation to whether our audit opinion needed to include an emphasis of matter in relation to the going concern disclosures in the Council's accounts. We concluded our work and found no exceptions. Accordingly, no emphasis of matter paragraph was included in our audit report in relation to this issue.
Establishment of East Suffolk Council and determining opening balances	We: ▸ Reviewed the process the Council adopted to produce the 2019/20 accounts and established opening balances; ▸ Tested the opening balance sheet position for East Suffolk Council and the process for merging balances of the demised Councils; ▸ Compared the opening reserve balance position to the Council's budget; ▸ Reviewed accounting disclosures relating to Council's opening balances disclosed in the Statement of Accounts and comparing this to the disclosures required by the CIPFA Code of Practice; and ▸ Used our testing of journals to identify transactions not appropriately included in the statement of accounts, such as those denoted Suffolk Coastal or Waveney Council, which should be part of East Suffolk Councils statement of accounts. We were satisfied that the management adopted adequate procedures to ensure the completeness and accuracy of opening balances. No issues were noted and hence no adjustments were proposed.

Financial Statement Audit (continued)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	Our materiality levels for East Suffolk Council (as communicated in our Audit Planning Report and Audit Results Report) for 2019/20 were set at £2.86 million. This represents 2% of the gross expenditure on provision of services for the year. We set our performance materiality at £1.43 million which represents 50% of planning materiality. We set at 50% to reflect the fact that 2019/20 was the first year of existence of East Suffolk Council. Our audit difference threshold was set at 5% of our materiality (£143K).
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee, all audit differences in excess of the amounts as detailed above.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no audit differences which remained unadjusted in the statement of accounts.

Section 4
Value for Money

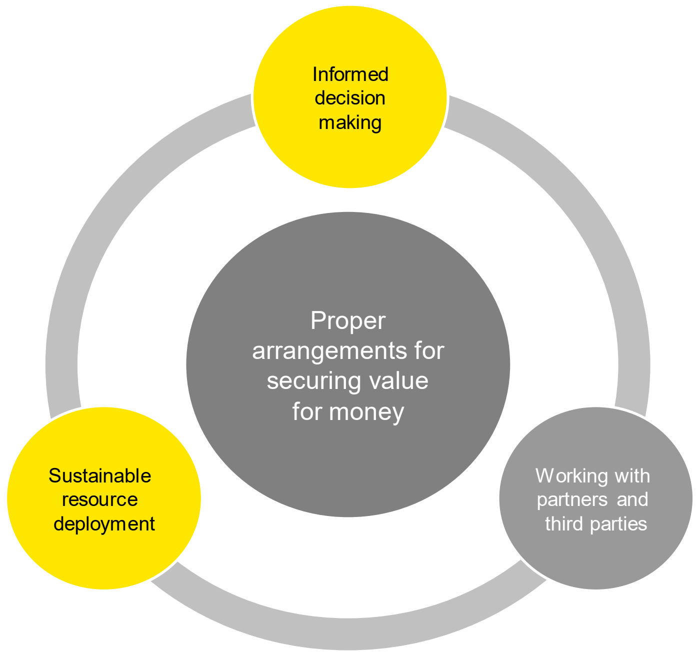
Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

On 16 April 2020, the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider local authorities response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.



We did not identify any significant risks in relation to our value for money related procedures at planning stage. We did not identify any additional risks as a result of Covid-19.

We performed the procedures outlined in our Audit Plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There were no issues to report in relation to the Council's arrangements for value for money. Therefore we issued an unmodified Value for Money opinion.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Group for Whole of Government Accounts purposes.

The Group is below the specified audit threshold of £500 million. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Group's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

Under the Accounts and Audit Regulations, The Council published its draft accounts on its website and the period of inspection was identified as 10 August 2020 to 18 September 2020 inclusive. Notice and signed draft statement of accounts were included on the Council's website. Further to this public notice, a public member, Mr. Michael Holland, raised certain enquiries to EY. We considered those enquiries and responded to Mr. Holland's points in a letter. All points were responded adequately and there are no points/issues which remained unanswered or need further considerations.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Planning Report, Audit Results Report and update on Audit Results Report to the Audit & Governance Committee in September 2020, March 2021 and August 2021 respectively. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Audit & Governance Committee.

Section 6

Focused on your future

Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on the Council and Group and our audit is summarised in the table below:

Responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, there is a requirement to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the content needs to be tailored to reflect the Council and Group's own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources

Auditor responsibilities under the new Code

Under the 2020 Code, we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. However, there is no longer an overall evaluation criterion which we need to conclude on. Instead, the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Reporting on value for money

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Focused on your future (continued)

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Group is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	The CIPFA LASAAC Local Authority Accounting Board has recently announced the implementation of this standard will be deferred until the 2022/23 financial year. This is in response to the ongoing pandemic and the impact on local authority finance teams. The Board has indicated this will be for one year only and there is no intention to grant any further extensions based on lack of preparedness. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.	Whilst there is a further delay in implementation, it is clear is that the Group will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. To ensure the readiness to implement the new IFRS 16, the Group must therefore consider that all lease arrangements are fully documented.

Section 7

Audit Fees

Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees due for the year ended 31 March 2020. All below fees are excluding VAT. We confirm that we will undertake the non-audit services for the year ended 31 March 2020 as set out in the table below.

Description	Proposed Fee (£) 2019/20
Scale fee – Code work	69,964
Changes in work required to address professional and regulatory requirements & scope changes associated with risk **- Note 1**	39,360
Additional work required due to changes in scope as a direct result of Covid-19 - **Note 2**	15,362*
Additional work required due to changes in scope for Non-Covid-19 related – **Note 2**	8,462
Additional work required to address VFM risk – **Note 2**	212
Non-audit Fee – Housing subsidy claim	25,935
Total audit fees	159,295

Note 1: PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased audit and quality requirements and increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. We have proposed an increase of £39,360 to the scale fee to reflect these additional requirements. We have shared the breakdown and details of our proposed increase to the scale fee with management. Management have agreed to £22,320 of this increase. PSAA are yet to determine whether they agree with this increase.

Note 2: For 2019/20, the audit work and resulting fee has been impacted by a range of factors. These included, the increased risk relating to valuations of land and buildings and investment properties, work related to the group accounts as well as the fact that 2019/20 was the first year of existence of East Suffolk Council, which meant we had to undertake additional work on opening balances and perform our audit procedures to a lower level of performance materiality. Covid-19 has also impacted on the work that was required and we identified increased risk and associated work in a number of areas. These included the higher risk related to the valuation of the bad debt provision and going concern disclosures, as well as the work to address the material uncertainty in the valuer's report relating to the valuation of land and buildings and investment properties. As part of our response to this last risk, we engaged EY Real Estate to review a sample of valuations of land and buildings and investment properties. We have quantified the impact of all of the additional risks and resulting audit work on our audit fee for 2019/20 as £24,036. We have shared a detailed breakdown and details of this fee with management. This additional fee is subject to approval by PSAA.

** The management has agreed to £10,952 out of this amount*

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ED None

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East Suffolk Council

Additional Fee Analysis
year ended 31 March 2020

12 October 2021

Building a better working world

Overall Summary

Additional Work	£
Changes in work required to address **professional and regulatory requirements & scope changes associated with risk** (Refer slide 3)	39,360
Additional work required due to **changes in scope as a direct result of Covid-19** (Refer slide 4)	15,362
Additional work required due to **changes in scope for Non-Covid-19 related** (Refer slide 5)	8,462
Additonal work required to address **VFM risk** (Refer slide 6)	212
Total	**63,395**

Professional and regulatory requirements & scope changes associated with risk

Description	Additional number of hours					Fee for additional number of hours				
	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £132	Manager £73	Senior Auditor £47	Other staff £36	Total Fee variation (£)
ESC prepared Group Accounts in 2019/20 incorporating the results of its 2 Associates. ESC also has several newly incorporated (but still dormant) subsidiaries. Our work included not only auditing the Group consolidation workings and disclosures, but also agreeing the number of individual entities requiring group consolidation as well as consideration & documentation on status of all the subsidiaries and our work to ensure that group accounts are complete and accurate.	3	13	60	0	76	396	949	2,820	-	4,165
We have a higher inherent risk over pension valuation. This cost reflects the time taken to address this risk which inlcudes review of PwC report, EY Pensions team review of PwC report and audit team follow up of required procedures from these reviews. We also liaise with the auditors of Suffolk Pension Fund to gain assurance over the IAS19 entries and disclosures and review & test the accounting entries/disclosures made within ESCs financial statements	6	16	56	0	78	792	1,168	2,632	-	4,592
We have a higher inherent risk over land and buildings (part of PPE) asset valuation. This means we have completed testing at a lower testing threshold. This cost reflects the time taken to test a sample of assets and perform procedures over assets revalued and relevant assumptions as well as to consider cluster wide findings from internal valuation specialists.	15	45	160	22	242	1,980	3,285	7,520	778	13,563
There are a number of areas where an increase in overhead costs has led to a spread of costs across audits, this allocation is made based on the size and complexity of the audit: 1. Investment in time in our professional practices department (PPD) team to consider events such as: risks of non compliance with laws and regs; consultation and approval requirements on materiality for MLAs; rotation approvals of EP portfolios; Prior year adjustments consultation; approval and application of pre-issuance policy; Audit Quality Support team annual cycle of GPS audits review (introduced from 2018 for FRC scope audits). 2. We have invested in data capture methods to meet the requirements of enhanced IPE (information provided by the entity) testing, which results in a direct charge to each audit code for the technology costs. 3. Testing thresholds have been lowered following feedback from regulators that testing more generally should have a greater response to risk of error, resulting in higher testing sample sizes for those areas not mentioned specifically above Note that not all the procedures/costs here relates to the audit team, but the hours reflect the additional time incurred by audit.	15	75	135	90	315	1,980	5,475	6,345	3,240	17,040
Total	39	149	411	112	711	5,148	10,877	19,317	4,018	39,360

Changes in scope as a direct result of Covid-19

Description	Additional number of hours					Fee for additional number of hours				
	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £132	Manager £73	Senior Auditor £47	Other staff £36	Total Fee variation (£)
Going Concern assessment. This disclosure was assessed as a higher risk due to the impact of Covid on the future financial projections for local government bodies. This includes all meetings attended by both associate partner and manager to discuss going concern and work performed on cashflow forecasts and stress testing.	8	14	7	0	29	1,056	1,022	329	-	2,407
Additional reassessment of materiality required on all audits as a result of the Covid-19 impact on the business and planning.	1	2	2	0	5	132	146	94	-	372
As a rsult of COVID-19 the Council's valuer included a material uncertainty disclosure in the valuation report. The Council therefore also reflected this in their own disclosures in the financial statements. This reflects the time required for the audit team to consider the impact of the clause on the financial statements and audit report, including a detailed analysis of the council's land and building assets and an assessment of the likely impact of the material uncertainty on each type of asset. Note the work undertaken by specialists re PPE is noted separately below	4	8	16	0	28	528	584	752	-	1,864
Following COVID-19 audit team revisited the risk assessment for the financial statments on a line by line basis for each balance in the primary statements. As a result of this, the risk assessment for the bad debt provision was increased to higher inherent risk resulting in additional audit procedures and documentation. Accordingly, we have completed our work on the bad debt provision (especially NNDR provisions) and on other areas to satify ourselves that management has appropriately reflected the uncertainty as a result of Covid-19 in the calculation of provisions. This time also includes the line by line assessment of the financial statements and documentation of this	3	8	30	0	41	396	584	1,410	-	2,390
Increased risk related to land and buildings (PPE), predominently because of COVID-19 impact. As a result we identified the need to engage specialists from EYRE. This cost represents the time spent by our EYRE experts to review a sample of 8 properties - 6 from land and buildings and one each from surplus assets and investment properties.	38	0	28	0	66	5,016	-	1,293	-	6,309
This is the additional time it takes to do our work remotely, time is largely staff and senior who have spent a lot more time in screen sharing calls than they would do in a face to face situation.	2	7	15	15	39	264	511	705	540	2,020
Total	**56**	**39**	**98**	**15**	**208**	**7,392**	**2,847**	**4,583**	**540**	**15,362**

Changes in scope for Non-Covid-19 related

Description	Additional number of hours					Fee for additional number of hours				
	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £132	Manager £73	Senior Auditor £47	Other staff £36	Total Fee variation (£)
This was the 1st year of existence for ESC and therefore these were first year accounts. This cost represents the time spent to perform our procedures on opening balances and the accuracy and completeness of transfer of balances from demised councils to ESC. Furthermore, as this was a first year audit we set our performance materiality at £1.43 million which represents 50% of planning materiality in line with EY audit methodology. The reduced performance materiality was set to reflect the fact that 2019/20 is the first year of existence of East Suffolk Council and resulted in comparatively large sample sizes for our testing purpose.	3	12	45	15	75	396	876	2,115	540	3,927
During the course of audit (to be specific, towards the end of the audit especially on our valuation work), we faced issues related to the timely availability of quality information, as there were delays in providing information to audit team. Therefore, team spent a significant amount of time in following up through ESC team, assesing the reliability and sufficiency of information provided by internal valuers and a lot of back-and-forth exchange of emails/information. Due to the non-availability of timely information and lack of response to our queries, team couldn't finish off work in scheduled time when they were booked to finish the work and accordingly we required the team to be rescheduled back on the audit on at least 2 occasions.	0	8	22.5	32	63	-	584	1,058	1,152	2,794
Time incurred to respond to correspondence from a local elector regarding his questions on 2019/20 accounts. The main points were related to absence of comparatives in ESC's draft accounts, justification of 2019/20 audit being in progress before 2018/19 accounts were signed off, the position in relation to East Suffolk Coastal District Council's old offices at Melton Hill and other sundry matters. All points were considered and answered adequately and there are no issues which remained unanswered or need further considerations. This time represents the time for the manager to consider this along with review by the AP and other internal review processes related to dealing with elector correspondence.	6	13	0	0	19	792	949	-	-	1,741
Total	9	33	68	47	157	1,188	2,409	3,173	1,692	8,462

VFM risk

Description	Additional number of hours					Fee for additional number of hours				
	Partner/ Director	Manager	Senior Auditor	Other staff	Total Hours	Partner/ Director £132	Manager £73	Senior Auditor £47	Other staff £36	Total Fee variation (£)
Time taken to assess the impact of Covid-19 on VFM arrangements in year.	0.5	2	0	0	3	66	146	-	-	212
Total	1	2	-	-	3	66	146	-	-	212

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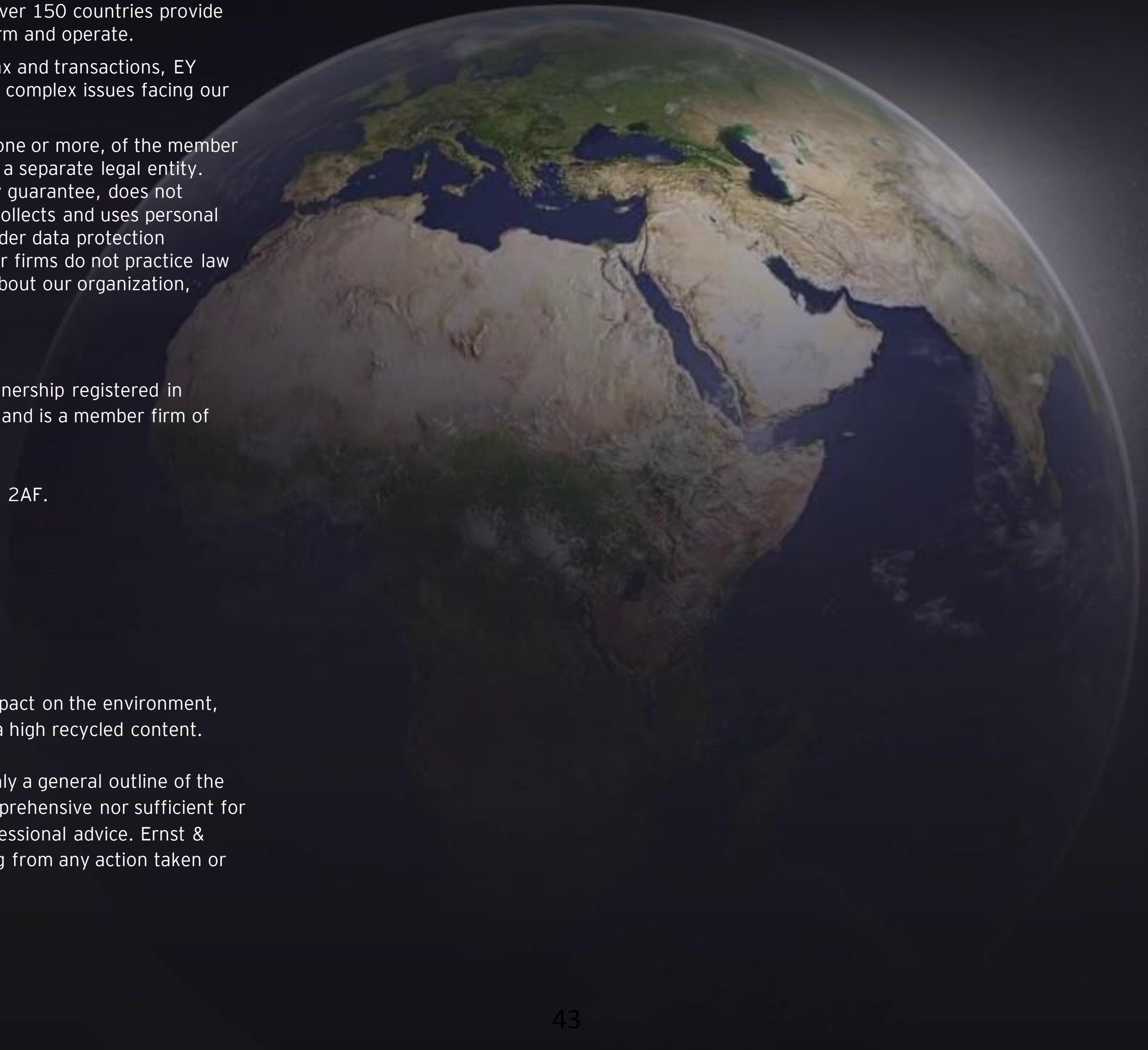

Agenda Item 5

ES/0973

EASTSUFFOLK COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday, 13 December 2021

Subject	Capital Strategy 2022/23 to 2025/26
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk 01394 444571

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report: 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
Options: To comply with the CIPFA Prudential code the report is required to be produced and presented to members, and consequently, no other options have been considered.

Recommendation/s: That Capital Strategy 2022/23 to 2025/26 be reviewed, commented upon, and recommended to Full Council for approval.

Corporate Impact Assessment

Governance: The report complies with the Charted Institute of Public Finance and Accountancy (CIPFA) Prudential Code to provide information and scrutiny on the Council's Capital Strategy.
ESC policies and strategies that directly apply to the proposal: East Suffolk Council Strategic Plan
Environmental: No impacts.
Equalities and Diversity: No impacts.
Financial: Management of the Council's capital budget plans and the impact on the council's cash flows transactions.
Human Resources: No impacts.
ICT: No impacts.
Legal: No impacts.
Risk: Noncompliance with CIPFA's Prudential Code

External Consultees:	None

Strategic Plan Priorities

	Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*	**Primary priority**	**Secondary priorities**
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being, and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☒
P12	Being commercially astute	☐	☒
P13	Optimising our financial investments and grant opportunities	☐	☒
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education, and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐

How does this proposal support the priorities selected?

Production of the Capital Strategy is a requirement under the CIPFA Prudential Code demonstrating the Council’s governance of its capital plans.

Background and Justification for Recommendation

1	Background facts
1.1	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	Current position
2.1	Section 2 of the Strategy outlines the planned Capital Programme 2022/23 to 2025/26 and the way in which it is to be financed, including the revised 2021/22 Capital Programme. The overall planned expenditure is £334.65 million (General Fund £256.86 million and HRA £77.79million) over 2021/22 to 2025/26. The 2022/23 planned capital expenditure is £69.78 million.
2.2	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.
2.3	Section 4 covers Treasury Management, including both borrowing and investments. Treasury Management is a well-established Council activity that operates within a tightly controlled framework.
2.4	Section 5 presents the Council's approach to Service Investments and the joint venture commitments with the Norse Group for a package of services including Refuse Collection, Cleansing and Maintenance.
2.5	Section 6 explores the Council's other financial liabilities, both in terms of existing commitments (e.g., the Pension Fund deficit) and guarantees.
2.6	Section 7 explores the in-built revenue implications within the Capital Programme, its financing costs and evaluates its overall "prudence, affordability and sustainability".
2.7	Section 8 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.
2.8	The Strategy concludes in Section 9 which includes an explicit statement by the 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. It also provides an update on the proposed implementation in the revision to the Prudential Code which is currently completing the consultation stage.

3	How to address current situation
3.1	The Capital Strategy is a critical component in the delivery of many ambitions included within the Strategic Plan. It is not only essential to achieving one of the three overarching strategic priorities of the Plan ("Financial Sustainability") but is also vital in the delivery of a vast range of service development and delivery initiatives.

4	Reason/s for recommendation
4.1	To enable the Audit & Governance Committee to review the Capital Strategy, including obtaining a recommendation for approval to Full Council.

Appendices

Appendices:	
Appendix A	Capital Strategy 2022/23 to 2025/26

Background reference papers:
None.

East Suffolk Council

Capital Strategy 2022/23 – 2025/26

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 2020/21 Statement of Accounts:

- Note 1 (n)

2.1.3 In 2022/23, East Suffolk Council is planning total capital expenditure of £69.78 million (and £333.66 million over the next four years) as summarised in Table 1 below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2021/22 budget	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
General Fund Services	16,169	45,135	68,643	79,238	47,764
Council Housing (HRA)	6,836	24,643	19,233	13,540	13,540
TOTAL	**23,005**	**69,778**	**87,876**	**92,778**	**61,304**

2.1.4 The main General Fund capital projects scheduled for 2022/23 are as follows:

- *Felixstowe North - Garden Neighbourhood Regeneration Project (£3.5 million)* - Provision within the programme to provide a new leisure centre and associated infrastructure. This project will require significant borrowing therefore a business case will be presented to Council in respect of further progression of the Leisure Centre element of the project land and prior to any further commitment in tendering for construction and entering into new borrowing for the project.

- *Felixstowe South – public realm and Martello Café (£1.5 million)* - Development of South Seafront area and Martello Café Felixstowe. The total project cost being £5.75m.

- *Lowestoft Barnards Way (£3 million)* – redevelopment of site to provide start up units.

- *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.
- *Lowestoft Flood Risk Management/Tidal Barrier (£13.91 million)* – currently the highest value scheme that the Council has with a budget allocation of £96.47 million included for Phase 1 works (Tidal Walls, Pluvial and Fluvial) and for Phase 2 works (the Tidal Gate).
- *Newcombe Road, Lowestoft – (£2.8 million)* – redevelopment of site to provide start up units to facilitate regeneration in Lowestoft.
- *Pakefield Coastal Resilience project (£1.79 million) - New accelerated project due to rapid increase of coastal erosion*
- *Railway Building, Lowestoft (£1.5 million)* – Purchase and development of building contained within the Railway site.
- *Southwold Caravan Site (£1.64 million)* – redevelopment and enhancement of the Caravan site.
- *Towns Fund (£4.94 million)* - Following a successful bid to the Government's £3.6 billion Towns Fund, Lowestoft was awarded £24.9 million to invest in the regeneration of the town, driving economic growth and acting as a catalyst for future investment. The Council has provisionally earmarked an additional £10m of East Suffolk Council funding (subject to business case) to facilitate these projects. Any additional award of external funding will reduce the Councils £10m commitment accordingly.
- *Thorpeness flood defence (£3.3 million)* - Strengthen the soft bag defences installed in 2010/11 that were damaged by unusually high erosion pressure in 2013.

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.

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 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

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
External sources (Grants)	5,966	25,698	37,598	50,238	45,134
Revenue resources	11,640	26,475	20,228	13,340	13,470
Debt	5,399	17,605	30,050	29,200	2,700
TOTAL	**23,005**	**69,778**	**87,876**	**92,778**	**61,304**

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 prior years' Debt Finance

	2021/22 Actual	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Minimum Revenue Provision (MRP)	1,058	1,264	1,735	2,452	2,573
Capital Receipt (HRA)	1,438	6,292	8,065	2,450	2,450

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 £71.53 million between 2021/22 and 2025/26 which is due to capital projects being financed through borrowing. 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)

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
General Fund services CFR	61,392	77,733	106,048	132,796	132,923
Council housing (HRA) CFR	67,210	67,210	67,210	67,210	67,210
TOTAL CFR	**128,602**	**144,943**	**173,258**	**200,006**	**200,133**

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. 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 Actual	**2021/22 Budget**	**2022/23 Budget**	**2023/24 Budget**	**2024/25 Budget**	**2025/26 Budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
General Fund Asset sales	-58	0	0	0	0	0
HRA Asset Sales	-1,545	0	0	0	0	0
TOTAL	-1,603	-1,000	0	0	0	0
General Fund Loans repaid	160	680	160	1,200	160	160
HRA Loans repaid	0	10,766	0	960	0	0
TOTAL	**160**	**11,446**	**160**	**2,160**	**160**	**160**

3.2.2 The Council operates a deliberately prudent policy of not assuming future capital receipts within its general fund 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. The redevelopment of the Jubilee Beach huts in Lowestoft will also attract a capital receipt when the beach huts are sold and revenue income on the allocation that the Council will hold for rental opportunity. The allocation of sales and rental will be determined upon completion of the project to allow for flexibility in market take up.

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 2021) has borrowing of £77.09 million at an average interest rate of 4.39% and £143 million in treasury investments at an average consolidated rate of 0.78%.

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 likely to be higher than the current 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

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
	£000's	£000's	£000's	£000's	£000's
Debt (incl. leases)	76,985	94,108	121,654	150,284	152,470
Capital Financing Requirement	128,602	144,943	173,258	200,006	200,133

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.

<u>*Liability Benchmark*</u>

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 £10 million at each year-end. The Liability Benchmark shows that based on the current capital plans there is no requirement to borrow in 2021/22 and 2022/23, however the Council will need to borrow in 2023/24 to 2025/26 due to the reduction in financial resources available.

Table 7: Borrowing and the Liability Benchmark

	2021/22 forecast	2022/23 forecast	2023/24 forecast	2024/25 forecast	2025/26 forecast
	£000's	£000's	£000's	£000's	£000's
Outstanding Borrowing	65,807	65,647	63,487	63,286	63,167
Planned CFR Borrowing	4,341	16,341	28,315	26,748	127
Total Borrowing Requirement	70,148	82,078	91,802	90,034	63,294
Liability Benchmark	-46,053	-24,122	6,243	31,691	31,818

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 sets as a warning level should debt approach the limit.

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

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
	£000's	£000's	£000's	£000's	£000's
Authorised limit – borrowing Authorised limit – leases Authorised limit – total external debt	148,380 6,620 155,000	148,380 6,620 155,000	148,380 6,620 155,000	148,380 6,620 155,000	148,380 6,620 155,000
Operational boundary – borrowing Operational boundary – leases Operational boundary – total external debt	146,380 6,620 153,000	146,380 6,620 153,000	146,380 6,620 153,000	146,380 6,620 153,000	146,380 6,620 153,000

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

Table 9: Treasury Management Investments

	2021/22 current	2022/23 forecast	2023/24 forecast	2024/25 forecast	2025/26 forecast
	£000's	£000's	£000's	£000's	£000's
Near-term investments	75,000	75,000	70,000	60,000	50,000
Longer-term investments	40,000	25,000	20,000	20,000	20,000
TOTAL	**115,000**	**100,000**	**90,000**	**80,000**	**70,000**

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 As published in the Councils Statement of Accounts 2020/21 at 31st March 2021, the Council held net investments 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 (£587,000); 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 £500,000.

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) Other Liabilities

6.1.1 Outstanding Commitments

6.1.2 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 £84.28 million as at 31st March 2021, from 2020/21 the deficit payment was incorporated into the primary employers' pension contribution rate rather than an annual lump sum payment; and

- The Council has also set aside £13.24 million (as at 31st March 2021) to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA).

6.2 Guarantees

6.2.1 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).

6.2.2 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 2021 was £71 million.

6.3 Governance

6.3.1 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.

7) Revenue Implications

7.1 Financing Cost

7.1.1 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)

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
	£000's	£000's	£000's	£000's	£000's
Financing Costs (£m)	838	1,005	1,395	2,069	2,190
Proportion of Net Revenue Stream	2.88%	3.54%	4.77%	6.87%	7.27%

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

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
	£000's	£000's	£000's	£000's	£000's
Financing Costs (£m)	4,312	7,917	5,739	7,125	7,125
Proportion of Net Revenue Stream	20.25%	36.52%	25.85%	31.30%	31.30%

7.1.2 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.

7.2 "Prudence, Affordability and Sustainability"

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

<u>*Prudence*</u>

- 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.
- *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 general fund 'revenue consequences' of the Capital Programme (£6.659 million over four years) have been included in the draft 2022/23 Budget and Medium-Term Financial Strategy (MTFS), extending to 2025/26; 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 and regenerate the area 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 Towns Fund Project which will look to regenerate Lowestoft Town Centre and seek to attract external interest and investment in the Town.
- 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.

8) Knowledge and Skills

8.1 Officers

8.1.1 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 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 for Asset Management within the Council. The Asset Management service 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).

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

8.2 External Advisors

8.2.1 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.

8.3 Councillors

8.3.1 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), and regular refresher sessions will also be undertaken for the Audit and Governance Committee.

9) CFO Statement on the Capital Strategy

9.1 Prudential Code

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

9.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risks have been identified and are adequately managed.

9.2 Affordability

9.2.1 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 2025/26 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 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

9.3 Risk

9.3.1 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 2022/23 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 2022/23 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

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

9.4 Capital Strategy Updates

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

9.4.2 Prudential Code update: In February 2021 CIFPA consulted on a revised Prudential Code guidance with consultation closing in April 2021. More that 100 responses from Local Authorities and their representative Treasury Management Advisors were received with a summary of the consultation and proposals published in July 2021. A second technical consultation on the proposals opened in September 2021 and closed in November 2021 with publication of the second consultation in December 2021.

The primary changes to the Prudential code focus on:

- Local Authorities must not borrow to invest for the primary purpose of commercial return
- prudence – investment/spending decisions that increase the capital financing requirement (CFR) unless directly or primarily related to the functions of the authority will be viewed as not being prudent.
- sale of commercial investments to be considered as an alternative to new borrowing for service purposes
- Prudential Indicators to be monitored and reported to members at least quarterly as part of regular budget monitoring
- new prudential indicators will be required to show income from commercial and service investments to net revenue stream.

9.4.3 With many Capital and Treasury Management strategies being written and approved by Councils the revised Prudential Code requirements will be implemented as part of a "soft launch" and expected to take effect in 2023/24 strategies.

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 2022/23 will not be subject to a charge until 2023/24.

Agenda Item 6

ES/0974

EASTSUFFOLK COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday, 13 December 2021

Subject	Treasury Management Strategy Statement for 2022/23 & Treasury Management Investment Strategy for 2022/23
Report by	Councillor Edward Back, Assistant Cabinet Member for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk 01394 444571

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:
This report sets out the Council's Treasury Management Strategy for 2022/23 and the Treasury Management Investment Strategy for 2022/23 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
Options:
To comply with the CIPFA Treasury Management Code the report is required to be produced and presented to members, and consequently, no other options have been considered.

Recommendation/s:
That the Treasury Management Strategy Statement and the Treasury Management Investment Strategy for 2022/23 be reviewed, commented upon, and recommended to Full Council for approval.

Corporate Impact Assessment

Governance:
The report complies with the Charted Institute of Public Finance and Accountancy (CIPFA) Treasury Management code to provide information and scrutiny on the Councils Treasury Management function.
ESC policies and strategies that directly apply to the proposal:
East Suffolk Council Strategic Plan
Environmental:
No impacts.
Equalities and Diversity:
No impacts.
Financial:
Management of the Council's cash flows, banking and capital market transactions.
Human Resources:
No impacts.
ICT:
No impacts.
Legal:
No impacts.

Risk:
Treasury Management in Local Government is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services and in this context is the "management of the Council's cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks". This Council has adopted the Code and complies with its requirements.

External Consultees:	None

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		Primary priority	Secondary priorities
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being, and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☒
P12	Being commercially astute	☐	☒
P13	Optimising our financial investments and grant opportunities	☐	☒
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education, and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐
How does this proposal support the priorities selected?			

Production of the Treasury Management Strategy Statement for 2022/23 & Treasury Management Investment Strategy for 2022/23 is a requirement under the CIPFA Treasury Management Code demonstrating the Council's governance of its investment and loans portfolio.

Background and Justification for Recommendation

1	Background facts
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.
1.3	CIPFA's Treasury Management Code is being revised and is currently at consultation stage, with the outcome and updates to the code are expected to be implemented in 2023/24 strategies. In the event of an earlier implementation the Council will update the Treasury Management Strategy and provide an update in the Mid-Year report to members in September.

2	Current position
2.1	The Treasury Management Strategy for 2022/23 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 to address current situation
3.1	The report recommends that the Treasury Management Strategy for 2022/23 and the Treasury Management Investment Strategy for 2022/23 be reviewed and commented upon and recommended for approval.

4	Reason/s for recommendation
4.1	The CIPFA Treasury Management code requires the strategies to be produced and presented at Full Council prior to the start of the financial year.

Appendices

Appendices:	
Appendix A	Treasury Management Strategy Statement 2022/23
Appendix B	Treasury Management Investment Strategy 2022/23

Background reference papers:
None.

Treasury Management Strategy Statement 2022/23

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 income are considered in the Investment Strategy.

External Context

Economic background: The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) held Bank Rate at 0.10% in November 2021 and maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 7-2 to keep rates on hold and 6-3 to maintain the asset purchase programme. Within the announcement the MPC suggested interest rates would be increased soon, but not to the 1% level expected by financial markets. Within the November 2021 Monetary Policy Report, the Bank expected consumer price index (CPI) inflation to peak at around 5% in April 2022 before falling back as the impact from higher energy prices fade and demand slows.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will rise in calendar Q2 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates. Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks shift towards the downside.

Gilt yields had increased sharply on the back of higher inflation and anticipated central bank action, however in its November MPC meeting, the committee noted that market expectations for rates were excessive, and yields have since fallen back. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.60%, 1.0%, and 1.35% respectively. The risks around the gilt yield forecast are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon. As ever, there will almost certainly be short-term volatility due to economic and political uncertainty and events.

For the purpose of setting the budget, it has been assumed that new treasury 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 2021, the Council held £77.09m of borrowing and £143m of investments and 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 2022/23 and in the subsequent years.

Borrowing Strategy

The Council currently holds £77.09m 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 £153m.

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 2022/23 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 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. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

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.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is 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 £119.67 million and £163.45 million.

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 had increased the risk that the Bank of England would set its Bank Rate at or below zero, which would feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates would 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 2022/23. 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 (unsecured): 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.

	2021/22 Q2	Target
Portfolio average credit score	4.8	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	2025/26
Limit on principal invested beyond year end	£40.0m	£40.0m	£30.0m	£30.0m	£30.0m

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	2022/2023 Limit £m	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m
Borrowing	153.00	153.00	153.00	153.00	153.00
Total Debt	153.00	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	2025/26 Limit £m
Borrowing	155.00	155.00	155.00	155.00	155.00
Total Debt	155.00	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 2022/23 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 2022/23 is £2.39 million, based on an average debt portfolio of £65.80 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 offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
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

Treasury Management Code update

In February 2021 CIFPA consulted on a revised Treasury Management Code guidance with consulation closing in April 2021. More that 100 responses from Local Authorities and their representative Treasury Management Advisors were receieved with a summary of the consulation and proposals published in July 2021. A second technical consultation on the proposals opened in September 2021 and closed in November 2021 with publication of the second consultation in December 2021.

The primary changes to the Treasury Management Code focus on:

- Inclusion of a Liability Benchmark for borrowing
- A policy relating to environmental, social and governance (ESG) investment considerations
- Renaming of the "Principal sums invested for periods longer than a year" indicator to "long-term treasury management investments" and includes a category for total amounts invested in longer term instruments with no fixed maturity date.
- Inclusion of an appropriate measure of price risk and report on movements in fair value of longer term investments

With many Capital and Treasury Management strategies currently being written and approved by councils the revised Treasury Management Code requirements will be implemented as part of a “soft launch” and expected to take effect in 2023/24 strategies.

Annex A – Arlingclose Economic & Interest Rate Forecast October 2021

Underlying assumptions:

- The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit

- While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support

- Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher

- The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.

- Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

- The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

Forecast:

- Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank's desire to move from emergency levels as by fears of inflationary pressure.

- Investors have priced in multiple rises in Bank Rate to 1% by 2024. While we believe Bank Rate will rise, it is by a lesser extent than expected by markets

- Gilt yields have risen sharply as investors factor in higher interest rate and inflation expectations. From here, we believe that gilt yields will be broadly steady, before falling as inflation decreases and market expectations fall into line with our forecast

- The risk around our forecasts for Bank Rate is to the upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.15	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	-0.15	-0.15	-0.15	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
3-month money market ra													
Upside risk	0.10	0.15	0.20	0.20	0.30	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	0.10	0.15	0.35	0.40	0.45	0.60	0.65	0.65	0.60	0.60	0.60	0.60	0.60
Downside risk	0.00	-0.05	-0.25	-0.25	-0.30	-0.45	-0.50	-0.50	-0.45	-0.45	-0.45	-0.45	-0.45
5yr gilt yield													
Upside risk	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.65	0.65	0.65	0.65	0.65	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Downside risk	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
10yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.05	1.05	1.05	1.05	1.05	1.05	1.00	0.95	0.95	0.95	0.90	0.90	0.90
Downside risk	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.30	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.40	1.40	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	-0.35	-0.40	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50yr gilt yield													
Upside risk	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.30	1.30	1.30	1.30	1.25	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

PWLB certainty rate = relevant gilt yield + 0.80%

Annex B – Existing Investment & Debt Portfolio Position

	Nov-21 Actual Portfolio £m
External borrowing:	
Public Works Loan Board	**77.09**
Local authorities	**0**
Other loans	**0**
Total external borrowing	**77.09**
Other long-term liabilities:	
Leases	5.77
Total other long-term liabilities	
Total gross external debt	**82.86**
Treasury investments:	
The UK Government	
Local Authorities	**99.50**
Other Government entities	
Secured investments	
Banks (unsecured)	**20.00**
Building societies (unsecured)	
Registered providers (unsecured)	
Money Market Funds	**10.00**
Strategic Pooled Funds	**18.95**
Real Estate investment trusts	
Other investments	
Total treasury investments	**148.45**
Net debt	**-65.59**

Annex C – Summary of Existing Debt & Investment Portfolio Position as at November 2021

Debt Portfolio:

Type of Loan	Start Date	Maturity	Principal	Interest Rate	GF/HRA
Maturity Loans					
Fixed	30/11/1995	30/09/2024	2,000,000	8.375%	GF/HRA
Fixed	19/12/1996	31/03/2022	1,000,000	7.875%	GF/HRA
Fixed	10/08/2007	31/03/2055	3,000,000	4.550%	GF/HRA
Fixed	28/03/2012	28/03/2039	10,000,000	3.470%	HRA
Fixed	28/03/2012	28/03/2036	10,000,000	3.420%	HRA
Fixed	28/03/2012	28/03/2027	10,000,000	3.010%	HRA
Fixed	28/03/2012	28/03/2041	10,000,000	3.490%	HRA
Fixed	28/03/2012	28/03/2032	10,000,000	3.300%	HRA
Fixed	28/03/2012	28/03/2042	8,000,000	3.500%	HRA
Variable	28/03/2012	28/03/2022	10,286,000	0.920%	HRA
Equal Instalments of Principle (EIP)					
Fixed	15/05/2015	15/11/2035	2,800,000	3.69%	GF
Annuity					
Fixed	10/09/1968	26/08/2028	6,184.66	7.62%	GF/HRA
		Total	**77,092,185**		

Investment Portfolio:

Counterparty	Type of investment	Principal Balance	Duration	Start Date	Effective Maturity	Interest Rate
Bank 1	Instant Access	10,000,000	Overnight	N/A	N/A	0.05%
Bank 2	Instant Access	10,000,000	Overnight	N/A	N/A	0.05%
		20,000,000				
Local Authority 1	Fixed Term	5,000,000	1 Year	25/02/2021	24/02/2022	0.15%
Local Authority 2	Fixed Term	5,000,000	9 months	12/03/2021	10/12/2021	0.20%
Local Authority 3	Fixed Term	3,000,000	1 Year	20/04/2021	20/04/2022	0.14%
Local Authority 4	Fixed Term	5,000,000	1 Year	20/04/2021	14/04/2022	0.15%
Local Authority 5	Fixed Term	5,000,000	1 Year	30/06/2021	29/06/2022	0.35%
Local Authority 6	Fixed Term	4,000,000	1 Year	28/07/2021	27/07/2022	0.35%
Local Authority 7	Fixed Term	2,000,000	6 months	24/05/2021	24/11/2021	0.05%
Local Authority 8	Fixed Term	3,000,000	6 months	27/05/2021	26/11/2021	0.05%
Local Authority 9	Fixed Term	5,000,000	1 Year	27/09/2021	26/09/2022	0.18%
Local Authority 10	Fixed Term	2,000,000	6 months	03/06/2021	03/12/2021	0.05%
Local Authority 11	Fixed Term	3,000,000	6 months	04/06/2021	03/12/2021	0.05%
Local Authority 12	Fixed Term	1,000,000	6 months	10/06/2021	10/12/2021	0.06%
Local Authority 13	Fixed Term	3,500,000	6 months	24/06/2021	23/12/2021	0.06%
Local Authority 14	Fixed Term	5,000,000	1 Year	29/10/2021	28/10/2022	0.12%
Local Authority 15	Fixed Term	5,000,000	1 Year	30/06/2021	29/06/2022	0.10%
Local Authority 16	Fixed Term	1,000,000	6 months	05/07/2021	05/01/2022	0.06%
Local Authority 17	Fixed Term	2,000,000	6 months	29/07/2021	31/01/2022	0.05%
Local Authority 18	Fixed Term	5,000,000	1 Year	25/10/2021	24/10/2022	0.18%
Local Authority 19	Fixed Term	5,000,000	1 Year	29/10/2021	28/10/2022	0.18%
Local Authority 20	Fixed Term	5,000,000	1 Year	27/09/2021	26/09/2022	0.10%
Local Authority 21	Fixed Term	5,000,000	1 Year	22/09/2021	21/09/2022	0.10%
Local Authority 22	Fixed Term	5,000,000	2 Years	01/09/2020	01/09/2022	0.90%
Local Authority 23	Fixed Term	5,000,000	2 Years	09/10/2020	10/10/2022	0.90%
Local Authority 24	Fixed Term	5,000,000	2 Years	24/08/2020	24/08/2022	0.90%
Local Authority 25	Fixed Term	5,000,000	2 Years	29/09/2021	29/09/2023	0.20%
		99,500,000				
Money Market Fund (MMF)	Instant Access	10,000,000	Overnight	N/A	N/A	0.03%
		10,000,000				
Pooled Fund 1	Notice - Long Term	9,203,489	N/A	29/11/2017	N/A	3.91%
Pooled Fund 2	Notice - Long Term	4,774,348	N/A	25/11/2019	N/A	3.91%
Pooled Fund 3	Notice - Long Term	4,976,324	N/A	17/10/2019	N/A	2.60%
		18,954,161				
	Total	**148,454,161**				

Investment Strategy Report 2022/23

Introduction

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- to support local public services by lending to or buying shares in other organisations (service investments), and
- to regenerate and provide service delivery in the locality

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 £130 million during the 2022/23 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 2022/23 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	31.3.2021 actual			2022/23
	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	31.3.2021 actual			2022/23
	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

Regeneration/Service Investments: Property

Contribution: The Council invests in local property to facilitate regeneration and provide service delivery. The income from these investments will repay any borrowing used in the purchase and to provide a maintenance budget without putting further pressure on the Councils finances.

Table 1: Property held for investment purposes in £ millions

Property	Actual	31.3.2021 Actual	
	Purchase cost £000	**Gains or (losses) £000**	**Value in accounts £000**
Investment Property - shop	166	34	200
Investment Property - shop	1,433	-1,118	315
Investment Property - shop	2,358	-1,443	915
Investment Property - Business Park	2,355	250	2,605
Investment Property - Business Centre	851	114	965
TOTAL	**7,163**	**-2,163**	**5,000**

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.

Property Investment 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	**31.03.2021 Actual £000**	**31.03.2022 Forecast £000**	**31.03.2023 Forecast £000**
Treasury management investments	130.60	110.00	110.00
Property investments	2.96	2.80	2.64
TOTAL INVESTMENTS	**133.56**	**112.80**	**112.64**
Guarantees issued on loans	77.25	65.80	65.64
TOTAL EXPOSURE	**-56.31**	**-47.00**	**-47.00**

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	31.03.2021 Actual £000	31.03.2022 Forecast £000	31.03.2023 Forecast £000
Property Investments	2.96	2.80	2.64

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	2020/21 Actual	2021/22 Forecast	2023/2024 Forecast
Short & Long Term Treasury Management investments	0.33%	0.22%	0.35%
Long Term Treasury Management property investments	4.40%	3.91%	4.00%
Long Term Treasury Management multi asset investments	3.35%	2.60%	3.00%
Property Investments	3.84%	4.07%	4.50%
ALL INVESTMENTS	**12.07%**	**10.80%**	**11.85%**

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	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	31.3.2021 actual			2022/23
	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

Regeneration/Service Investments: Property

Contribution: The Council invests in local property to facilitate regeneration and provide service delivery. The income from these investments will repay any borrowing used in the purchase and to provide a maintenance budget without putting further pressure on the Councils finances.

Table 1: Property held for investment purposes in £ millions

Property	Actual	31.3.2021 Actual	
	Purchase cost £000	Gains or (losses) £000	Value in accounts £000
Investment Property - shop	166	34	200
Investment Property - shop	1,433	-1,118	315
Investment Property - shop	2,358	-1,443	915
Investment Property - Business Park	2,355	250	2,605
Investment Property - Business Centre	851	114	965
TOTAL	**7,163**	**-2,163**	**5,000**

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.

Property Investment 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	31.03.2021 Actual £000	31.03.2022 Forecast £000	31.03.2023 Forecast £000
Treasury management investments	130.60	110.00	110.00
Property investments	2.96	2.80	2.64
TOTAL INVESTMENTS	**133.56**	**112.80**	**112.64**
Guarantees issued on loans	77.25	65.80	65.64
TOTAL EXPOSURE	**-56.31**	**-47.00**	**-47.00**

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	31.03.2021 Actual £000	31.03.2022 Forecast £000	31.03.2023 Forecast £000
Property Investments	2.96	2.80	2.64

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	2020/21 Actual	2021/22 Forecast	2023/2024 Forecast
Short & Long Term Treasury Management investments	0.33%	0.22%	0.35%
Long Term Treasury Management property investments	4.40%	3.91%	4.00%
Long Term Treasury Management multi asset investments	3.35%	2.60%	3.00%
Property Investments	3.84%	4.07%	4.50%
ALL INVESTMENTS	**12.07%**	**10.80%**	**11.85%**

Agenda Item 7

ES/0975

AUDIT & GOVERNANCE COMMITTEE

Monday, 13 December 2021

Subject	Corporate Risk Management Update
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources Councillor Edward Back, Assistant Cabinet Member for Resources
Supporting Officer	Stacey Ransby Performance and Risk Officer stacey.ransby@eastsuffolk.gov.uk 01394 444232

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:

The purpose of this report is to provide the Committee with an overview on how the Council's strategic and operational risks are managed. It provides details on existing corporate risks and significant updates to the East Suffolk Risk and Opportunity Management Strategy which ensures it is comprehensive and robust, providing details of aims and objectives, roles and responsibilities, risk appetite, the risk management process and framework, and clearly identifies the significance of opportunities.

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. 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.

Options:

There are no options to be considered in relation to this report.

Recommendation/s:

1. That the corporate strategic risks from the Council's current Corporate Risk Register (CRR), which is governed and monitored by Corporate Governance Group (CGG), be commented upon and noted.
2. That the revised East Suffolk Risk and Opportunity Management Strategy be approved.

Corporate Impact Assessment

Governance:

The corporate governance of the Council is supported by ensuring it has an effective and robust risk management process in place to manage and monitor all risks, including strategic risks. Overall responsibility of corporate risks and governance is the responsibility of CGG. Risks are monitored, reviewed and clearly aligned to the Strategic Plan, with Strategic Plan theme meetings regularly reviewing risks relevant to each theme. Robust procedures are in place to ensure increased risks can be escalated to CGG to consider and approve inclusion onto the corporate risk register. All corporate and theme risks are reported to the Strategic Plan Delivery Board which dedicates a meeting on each theme.

ESC policies and strategies that directly apply to the proposal:

- East Suffolk Risk and Opportunity Management Strategy
- East Suffolk Strategic Plan

Environmental:

There are no direct environmental impacts arising from this report, other than risks relating to the environment (e.g. flooding).

Equalities and Diversity:

An Equality Impact Assessment is not required as the recommendations of this report do not require changes in policy and service delivery.

Financial:

No specific impacts.
Human Resources: No specific impacts.
ICT: No specific impacts.
Legal: No specific impacts.
Risk: This report provides information on the risk management process and procedures within the Council and full details and progress on the Council's corporate risks.

External Consultees:	None.

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		**Primary priority**	**Secondary priorities**
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☐
P12	Being commercially astute	☐	☐
P13	Optimising our financial investments and grant opportunities	☐	☐
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐

P23	Protection, education and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐

How does this proposal support the priorities selected?

Governance

Risk management ensures good governance and assurance that risks are managed, identified and monitored in an effect manner. Mechanisms are established and embedded within the Council and responsibilities are clearly identified with management and processes allowing risks to be escalated, when required, onto the corporate risk register. All risks within the ESC Risk Register are assigned to a strategic theme within the East Suffolk Strategic Plan which ensures risks are managed effectively. The Risk Management Framework (Appendix C) clearly demonstrates the management of risks within the Council.

Risk management supports all themes and priorities of the strategic plan

Background and Justification for Recommendation

1	Background facts
1.1	**Audit and Governance Committee** 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 to improve long-term stakeholder confidence by enhancing corporate performance and accountability. An annual update on Corporate Risk Management is reported to Audit and Governance Committee.
1.2	**Overview** 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.

2	Current position
2.1	**Management of Risks** 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. Overall Risk Management sits within the Digital & Programme Management service area, it is aligned to the management of the Strategic Plan and includes providing risk management advice and support to all officers across all services. The Chief Finance Officer has specific responsibilities as Section 151 Officer, including ensuring assets are safeguarded and insurances in place, and the Head of Internal Audit takes an independent review of the governance of risks, however all Heads of Service ensure that risks within their area are recorded and managed appropriately, in line with the Risk Management Framework (Appendix C). This framework clearly identifies monitoring and reviewing risks; recording and reporting; and communication and consultation. CGG has overall responsibility to oversee the approach to risk management within the Council including its regular review and monitoring.
2.2	**Risk Management processes** Risk registers form part of performance reporting and are designed to be living documents, updated regularly. The CRR covers risks which affect our ability to achieve long-term Council objectives including those within the East Suffolk Strategic Plan and those which may affect service delivery or our district as a whole. 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."

	Governance arrangements for the East Suffolk Strategic Plan ensure that risks are identified for each theme and continue to be monitored and managed effectively ensuring high level risk reporting takes place across the Council. All risks within the ESC Risk Register clearly identify the Strategic Plan theme they relate to and are managed and monitored at the relevant Strategic Plan theme meeting. Risks can be escalated from service areas and Strategic Plan Theme meetings to CGG for consideration and inclusion in the CRR, this process also allows risks to be moved or lowered (e.g., a corporate risk to be moved to the theme risk register). The Risk Management Toolkit (Appendix B), developed with Zurich Insurance, is used to assess and manage corporate, operational, project and partnership risks. The Council's intranet has a dedicated Risk Management page containing useful information, including guidance, training presentations/documents, East Suffolk Risk and Opportunity Management Strategy, Corporate Risk Registers and CGG Terms of Reference.
2.3	**East Suffolk Risk and Opportunity Management Strategy** The East Suffolk Risk and Opportunity Management Strategy (Appendix A) has been developed further to provide comprehensive details on the governance and management of risks. Opportunities arising from risk management are clearly identified within the Strategy and the risk management process is demonstrated including risk escalation, monitoring and review; roles and responsibilities; aims and objectives and the Council's risk appetite. Independent experts, Zurich Insurance, undertook a health-check of the Strategy which was very positive and resulted in only minor amendments required, thus providing the Council with further validation that the Strategy is fit for purpose and meets good practice.
2.4	**Key Categories for Managing Risks** 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 Strategic Plan Theme Teams, Corporate Management Team and monitored by 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 at the relevant Strategic Plan Theme meeting and/or 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.

	• **Emergency Planning and Business Continuity** are the responsibility of the Head of Operations. Emergency Planning and internal Business Continuity Services for the Council are provided by the District Emergency Planning Officer and the 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
2.5	**Project Risks** Project risks are managed according to the risk management process toolkit. Details of risks are included in document templates for projects and business case appraisals. Links to the relevant documents are included in the Project Management Framework. Each significant project should have its own risk register allowing Project Managers to actively manage risks and Project Boards to monitor those risks.
2.6	**DEVELOPMENT AND PROGRESS IN MANAGING RISK** **Risk Management E-learning Module** The Risk Management e-learning module continues to form part of the induction process and is mandatory for all new staff to undertake training within one month of employment. Further training or guidance on risk management is available. **Risk Management Training Programme** As part of the Risk Management Training Programme the Council's insurance providers and advisors, Zurich Insurance Group, facilitated a 'Horizon Scanning and Corporate Risk Challenge' session for CMT (and nominated senior officers) on 1 November 2021. The session clearly demonstrated that risks relevant to the Council, and identified within the global risk report, are captured within the Corporate Risk Register (e.g. cyber-attacks). The session also reviews and challenges the existing corporate risk register and identifies potential risks. Following on from the session a full review of all corporate risks will be undertaken to ensure root causes are clearly identified and any relevant changes will follow the established reporting protocol (reported to CGG). **Project Management Framework Review** A full review of the existing Project Management Framework (including business cases appraisals) is underway and as part of this process Zurich Insurance Group will work with officers to deliver risk management training to officers.
2.7	**CORORATE RISKS** This section provides details on progress being undertaken to achieve specific targets, meet risk scores of existing corporate risks and includes new risks. There are currently 26 risks on the Corporate Risk Register • 3 red risks • 18 amber risks • 5 green risks The risk management toolkit/matrix (Appendix B) is used to assess risk scores and monitor and manage all risks.

Red Risks:

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

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. In Summer/Autumn 2021 work was taken to develop crisis response plans which will also involve regular review in future. Targeted actions include Coastal Partnership East producing an incident response protocol with incident response 'Civil Contingencies, Environmental Health and Building Control' (as appropriate with local authorities) and with others depending on flood risk sources. Due to the nature and uncertainty of this risk it cannot be eliminated, however, work continues to monitor and manage its impact. Target score is D4 (green).

High profile or major coastal erosion or coastal incident (Red B2, high likelihood, critical impact)

The current risk rating had improved (previously red A1) which reflects greater certainty from IRF and the ability to undertake broader community engagement and create adaptation options to manage impacts and reputation.
There remains 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. 'Peace-time' work is due to be undertaken with wider local authority teams to establish resources and responsibilities in an erosion event. Work continues on incident management with Building Control, Housing and Communities teams with the wider Council impacts from erosion requiring multi-team/agency response with homeowners, utilities and public. 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. Funding from our IRF bid will help with awareness raising and community planning. Target risk score is C3 (amber).

Lack of resources to deliver aims and ambitions to deliver the Strategic Plan priorities (Red B2, high likelihood, critical impact)

New risk added relating to the increasing pressure on resources to ensure delivery of aims and ambitions identified within the Strategic Plan to meet its priorities and the risk on the Council if these are not delivered. Factors contributing to this risk include pressure to meet aspirations and projects potentially requiring additional finance (impact of increased prices, additional staff/resources) which could potentially require use of reserves. The impact of this risk is also continuing to be monitored within the Financial Sustainability Theme meetings. Target risk score is C3 (amber) and work is ongoing to mitigate this risk further.

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)

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.

'Financial Sustainability' is one of the key themes within the East Suffolk Strategic Plan, and the group overseeing this theme has 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. Target score is D4 green (low likelihood and marginal impact).

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

Work continues to ensure Contract Management Procedures and documentation fully meet the needs of managing contracts effectively. The Constitution includes details on Contract Procedure Rules which require officers to play a more proactive role in understanding and monitoring contract performance. To this end, the Council carried out an extensive review of leisure contracts which led to a full procurement for a new leisure contractor. As a result, a leisure development contract was terminated, and the main functions rolled into the core leisure contract. Work started in 2020 and has continued into 2021 to undertake a full review of the Norse contract (due to end 2023), and the production of an options appraisal. An ARP Strategy Review is also underway involving all partners. 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, including from ESC and other authorities/organisations (Amber C2, significant likelihood, critical impact)

Risk that those who are vulnerable are unable to receive the help that they need due to not meeting (high) threshold criteria of the MASH and other organisations, despite being clearly vulnerable and in need of safeguarding. Important to learn lessons from safeguarding reviews in Suffolk and nationally and 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. Priority is to ensure that all safeguarding concerns are appropriately reported and feedback is received on the outcome of referrals. ESC is continuing to liaise with other authorities in Suffolk to try to address the gap in terms of thresholds and feedback loops. A corporate Services for All Group has been established to provide oversight of safeguarding and Equality and Diversity, and training has been held for staff and councillors to ensure compliance with policy and legislation and awareness of reporting procedures. It has been identified that additional resources are required to ensure ESC is tackling this risk effectively. The target score is green D4 (low likelihood, marginal impact) and the risk will be reviewed to assess progress.

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

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, and work is underway to construct the tidal flood walls and tidal barrier by 2029. The target score is green D4 (low likelihood, marginal impact) and although the project is progressing the risk will not be reduced until the scheme is in place.

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

Due to ongoing uncertainties regarding the impact of EU Exit, this remains a significant risk. New rules for EU imports are set to commence at a low level in January 2022 and then step up in July 2022. This will impact on our Felixstowe service as well as the import control services we operate under contract for neighbouring ports. DEFRA has not yet provided details of new official control requirements, but we continue to work closely with DEFRA and many government and trade stakeholders as part of our preparedness. The volume of EU trade which will be impacted by the new rules is also unknown, but we have used the best available information to plan and prepare, including the recruitment and training of a range of additional staff whilst making our services agile, with the ability to flex and respond to government requirements and trade patterns as required.

The local economy in line with the national economy is experiencing supply chain constraints and labour shortages which are in part related to Brexit. Labour shortages are particularly acute in some of our key sectors such as Hospitality, Logistics, Care and Agriculture. We are working with businesses and sector groups directly to provide business support services which can alleviate these challenges. The target risk is green D4, which will be reviewed in the new year.

Potential risks where Council is lead authority or Accountable Body (e.g. Freeport) (Amber C3, significant likelihood, major impact)

New risk added following discussion/agreement at CGG due to ESC becoming Lead Authority for Freeport East and the risk of failure to adequately undertake duties associated with Lead Authority status. In relation to Freeport East a Shadow Supervisory Board has been established which comprises all partners and also acts as a forum to report and provide oversight on delivering the requirements of the Lead Authority. The action relating to this will be to have agreement on permanent governance, capacity budget, delivery of the Outline and Full business case. Freeport East is due to be designated in January 2022 and shortly after the permanent governance structure will be implemented. The target score is amber E2 (very low likelihood, critical impact).

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

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 undertaken to develop a new contractual arrangement to take over from the existing Norse, where a break clause can be triggered in 2023. The target risk is D4 (green) and will be reviewed following further work on this project.

Failure to develop and exploit commercial opportunities (Amber C3, significant likelihood major impact)

Council unable to develop and exploit commercial opportunities including activation of Local Authority Trading Companies (LATCOs) and other in-house commercial opportunities. Risk that Government and professional sectoral guidance places restrictions on Council's ability to finance and deliver assets generating new income streams. Target score is D4 green (low likelihood, marginal impact).

Failure to effectively support 'communities and businesses' in recovery phase and future outbreaks of Covid-19 pandemic (Amber C3, significant likelihood, major impact)

The 'coronavirus' risk (previously identified at Red A2) has been separated into 'impact on communities and the economy' and 'impact to deliver council services'. This risk relates to failure to effectively support 'communities and businesses' in recovery phase and future outbreaks. Business continuity plans are in place and under constant review to ensure services continue to operate effectively, particularly to support the most vulnerable in the community to access essential services and basic necessities including shelter, food and warmth. The Communities Team works with the Customer Services Team to offer the Home But Not Alone service in East Suffolk which originally supported vulnerable people struggling with the impact of coronavirus to access food, prescriptions and support with loneliness.

Focus is now to help people on low incomes to access sustainable, ongoing sources of food, and enabling access to food and prescriptions for those who are isolating. The Council introduced innovative projects like the Grandpads and East Boxes to help combat isolation and loneliness in communities. A range of Covid-specific grants aimed at VCSE organisations and community groups have been delivered, including Covid-19 Community Fund, Bounce Back and Community Restart.

Support to businesses continues and the Council successfully delivered over £130m of business grants to ensure the survival of eligible businesses during lockdown and restrictions. In addition, we have recently established the Plan for the Future grant scheme which will provide £1m worth of grants to businesses who have been impacted by Covid trading restrictions and are seeking recovery investment. This funding will provide longer-term business support and will focus on the growth of recipient businesses.

Failure to manage impact of Sizewell C (Amber C3, significant likelihood, major impact)

Risk added due to impact of Sizewell C within East Suffolk which will impact on the area including environmentally, to the local economy and housing. Concerning the planning status we are awaiting the decision on the DCO application by April 2022 at the earliest. Deed of Obligation signed with the applicant to ensure there is a mitigation and compensation package in situ. This involves the need to recruit staff to various posts. Concerns on the recruitment to these posts if the consent is granted and the developer wishes to commence in mid/late 2022 The target score is green D4 (low likelihood, marginal impact).

Failure to manage environmental impact of oil deposits on Gunton Beach (Amber C3, significant likelihood, major impact)

Recently added as corporate risk, escalated from Environment Theme due to the potential impact of remediation costs on the council's finances, as well as potential environmental and reputational consequences. Due to increased exposure of oil deposits on Gunton Beach following oil spill from a collision between an oil tanker and an ore carrier 43 years ago. Part removal of contamination carried out at the time, the remainder was left in situ. Coastal erosion likely to further expose oil deposits with situation likely to worsen over next two years. Remediation work could potentially accelerate erosion and exacerbate the risk of Anglian Water sewer pipes becoming exposed to damage by the sea. Also implications if WWI/II bombs/ mines present. Regular monitoring of beach required to assess immediate risks arising day to day, resulting from high tides or stormy weather. Survey of beach undertaken in October 2021 by engineering experts, procured to investigate and advise on next steps. Target score green F5 (almost impossible likelihood, negligible impact).

Failure to control escalating cost of waste collection/services (Amber C3, significant likelihood, major impact)

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). In addition, there are areas of concern in the existing service that are causing cost pressures in the waste collection budget – for example, the impact of contamination in central Lowestoft. A new Waste Manager has been appointed and is in post to assist with delivering improvements to processes such as round collections, and to lead on the council's response to the RAWS Strategy. The target score is green D4.

Cyber-attacks including failure of ICT (Cyber security/resilience) (Amber D2, low likelihood, critical impact)

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 Cloud facilities solutions continue to provide additional resilience. PSN accreditation provides assurance that ICT infrastructure, systems and processes are operating to industry best practice. Target score D2 amber (low likelihood and critical impact) is being achieved.

Failure to deliver the East Suffolk Strategic Plan (Amber D3, low likelihood, major impact)

Work continues to ensure the delivery of the Strategic Plan and governance arrangements are in place to ensure effective management of corporate projects. Opportunities will continue to be developed to improve consistency and application of project management. The target score is E3 green (very low likelihood, major impact).

Failure to deliver against our 2030 Carbon Neutral target (Amber D3, low likelihood, major impact)

Risk updated to reflect delivery need to meet the 2030 carbon neutral target, previously related to climate change. As part of this risk 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 meet legal requirements of Health and Safety of employees wellbeing (staff and members) (Amber D3, low likelihood, major impact)
Due to the significance of ensuring the council fully meets its statutory requirements relating to corporate health and safety, CGG agreed that this be added as a corporate risk. Target risk is green D4 (low likelihood and marginal impact).

Fire risk to exterior cladding at tower block St Peter's Court (Amber E1, very low likelihood, catastrophic impact)
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. Cabinet approval has been obtained (June 2020) to replace cladding and windows to St Peter's Court. A project management company, Michael Dyson Associates, was appointed to act on behalf of ESC to prepare specification and manage works. Further aspects of work are necessary to inform replacements. Structural building appraisal was awarded in March 20201 and architectural services awarded in May 2021.

Failure to deliver Housing Development Programme (Amber C3, significant likelihood, major impact)
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 were adopted. The target score is green D4 (low likelihood, marginal impact) and work is continuing on delivering against the Housing Development Programme.

Green Risks:

Physical and mental health wellbeing (staff and members) (Green D4, low likelihood, marginal impact)
Mental and physical wellbeing of staff and members continues to be a significant risk and included as a corporate risk. Controls and mitigations are in place to ensure support and counselling is available for all, including comprehensive details held on the Council's intranet and mental first aiders. The target score of D4 green has been achieved and this risk will continue to be reviewed.

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

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

The current risk relating to the impact of smaller service delivery contracts/ partnerships remained at its target score of green D4. Work continues to ensure these are effectively managed.

Coronavirus – impact of Covid-19 pandemic on service delivery (Green D4, low likelihood, marginal impact)

The impact of the Coronavirus continues to be a risk to the delivery of services by the Council, however, this element of risk has now been lowered to green, previously red risk (A2, very high likelihood, critical impact) and relates to managing the impact of any potential outbreaks. Business continuity plans are in place and are under constant review to ensure that services operate effectively. Target risk is green D4 (low likelihood, marginal impact).

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

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. Risk is cu target score of E4 green continues to be achieved.

Overview of Risk Ratings:

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

Risk	Theme	Current	Target	Direction of Travel
Incident management – flood risk	Environment	Red	Green	➔
High profile or major coastal erosion or coastal incident	Environment	Red	Amber	🡅
Resources to deliver Strategic Plan priorities	Financial Sustainability	Red	Amber	🡅
Medium Financial Strategy (MTFS) inc. Annual Budget	Financial Sustainability	Amber	Green	➔
Failure to effectively end/manage key contracts/ partnerships and realise financial benefits to council	Financial Sustainability	Amber	Green	➔
Service Delivery Contracts/Partnerships 'large/significant'	Financial Sustainability	Amber	Green	➔

Safeguarding – protect most vulnerable and ensure they receive appropriate help from other authorities/ organisations	Enabling Communities	Amber	Green	➔
Flooding/tidal surges (Lowestoft only)	Environment	Amber	Green	🡅
Brexit (Part 1) – Ports Brexit (Part II) – on wider economy	Economy	Amber	Green	➔
Potential risks where Council is lead authority or Accountable Body (e.g. Freeport)	Governance	Amber	Amber	➔
Commercial opportunities	Financial Sustainability	Amber	Green	➔
Coronavirus 'communities and businesses' - recovery phase and future outbreaks of Covid-19 pandemic	Governance (Enabling Communities & Economy)	Amber	Green	🡅
Housing Development Programme	Enabling Communities	Amber	Green	🡅
Sizewell C	Economy	Amber	Green	➔
Oil deposits on Gunton Beach	Environment	Amber	Green	➔
Escalating cost of waste collection/services	Environment	Amber	Green	🡇
Cyber Attacks including failure of ICT	Digital	Amber	Amber	🡅
East Suffolk Strategic Plan	Governance	Amber	Green	🡅
2030 Carbon Neutral target	Environment	Amber	Green	➔
Health and Safety of employees and others	Governance	Amber	Green	➔
Fire risk to exterior cladding at tower block St Peter's Court	Governance	Amber	Green	🡅
Physical & mental health & wellbeing (staff & members)	Governance	Green	Green	🡅
Capital Programme	Financial Sustainability	Green	Green	🡅
Coronavirus – Impact on service delivery	Governance	Green	Green	🡅
Service Delivery Contracts/Partnerships 'other'	Financial Sustainability	Green	Green	➔
Ethical Standards	Governance	Green	Green	➔

RISKS MOVED TO STRATEGIC THEMES:

Failure to deliver Digital Transformational Services (Amber D2, low likelihood, critical impact)
This risk is being managed within the Digital Transformation risk register and no longer a corporate risk. 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)
This risk was initially included as a corporate risk when GPDR was first introduced due to uncertainty and potential risk to the Council. However, following agreement by CGG this risk is being managed within the Strategic Plan Governance theme.
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 for Officers and Councillors. An appropriate Data Protection Officer and Deputy are in post. Target score of D4 green (low likelihood and marginal impact).

	COMPLETED / CLOSED Risk: **Impact of Migration to Universal Credit & Pension Credit Housing element (Green D4, low likelihood, marginal impact)** The impact of migration to Universal Credit and Pension Cred Housing element risk has now been removed. The measures in place to mitigate UC risk namely our RentSense software means that the risk of managed migration is negligible and many of our tenants have migrated naturally and due to Covid meant some received UC rather than heritage benefits. The Pension Credit element may be added if risks arise, however, this element has been quiet for some years. **Failure of assets to meet financial requirements** Following full review and discussion at the Financial Sustainability Theme meeting and approval by CGG, it was agreed that this is no longer a risk for the Council. An Asset Management Strategy is now in place (approved by Cabinet) which sets out management of assets which ensures 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.

3	How to address current situation
3.1	Ensure that robust risk management procedures and processes meet the needs of the Council in continuing to provide good governance, ensuring risk processes continue to manage risks and allow for identification of new and emerging risks.
3.2	Ongoing review and monitoring of corporate risks.
3.3	East Suffolk Risk and Opportunity Management Strategy is fully embedded within organisation.
3.4	Continue to deliver training on risk management as and when required.

4	Reason/s for recommendation
4.1	To provide assurance to members that good governance arrangements are in place to manage and monitor risks within the Council. Risks are reported regularly at Strategic Plan Delivery Board meetings. Training continues to be delivered on risk management including a Horizon Risk/Challenge session delivered by Zurich Insurance.
4.2	Members are fully informed of the current corporate risks within the Council and provided with information on what has been achieved and reasons as to why they are strategic risks, including current risks scores and target risk scores.
4.3	East Suffolk Risk and Opportunity Management Strategy has been updated.

Appendices

Appendices:	
Appendix A	East Suffolk Risk and Opportunity Management Strategy
Appendix B	Risk Management Process/Toolkit
Appendix C	Risk Management Framework

Background reference papers:
None.

East Suffolk Risk and Opportunity Management Strategy

Managing Risks and Opportunities

Contents

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Version Control

Date	Version	Summary of changes	Officer
08/09/2021	*Draft v1*	*Draft of Strategy to include opportunities and processes reported to CGG*	*S Ransby*
25/11/2021	v1	Final version – Approved by CGG on 25 November 2021	S Ransby

1. Introduction

A council, like any organisation, faces a variety of risks on a daily basis across all levels of the authority. These risks if not addressed can threaten our ability to meet our priorities and deliver quality, value for money services. There are also many opportunities to enhance the quality and efficiency of service delivery which are also highlighted during this process. Good risk management balances risks and opportunities. As a council we should not avoid all risk. Taking this approach would result in lost opportunities. We must, however, ensure that we are risk aware and that any risk which has a realistic potential to threaten success is robustly managed.

2. Risk and Opportunity Management Strategy

This Risk and Opportunity Management Strategy outlines East Suffolk Council's commitment to managing risk and opportunity in an effective and appropriate manner. It builds on previous strategies, lessons learned, and industry best practice (such as CIPFA and risk reporting at other businesses, and liaising with our insurers, Zurich Insurance) to continue to ensure that risk is effectively managed, and the interests of the council and wider district are protected.

It is intended to be used as the framework for the delivery of the risk and opportunity management function and provides guidance as routine process for all services. It will help improve strategic, operational and financial management, better decision making, improve compliance and provide better outcomes for the authority.

Effective risk management allows us to:

- increase confidence in achieving priorities
- constrain any threats to acceptable levels
- make informed decisions to maximise opportunities
- improve and safeguard our partnership working
- improve corporate governance
- improve value for money and service delivery

Corporate Governance Group is responsible for ensuring that effective processes are in place to manage risks, including overseeing the objectives and delivery of the Risk and Opportunity Management Strategy and reviewing periodically. Significant changes or issues to meet the objectives within the Strategy are reported to Audit and Governance Committee, as part of the Corporate Risk Report.

3. Overview

The Risk and Opportunity Management Strategy will ensure that:

- The management of risks and opportunities is linked to performance improvement and the Council's strategic objectives contained within the East Suffolk Strategic Plan.
- The Council's Corporate Governance Group lead, manage and support on risk and opportunity management.
- Ownership and accountability are clearly assigned for the management of risks and opportunities throughout the Council. Corporate risks are owned and managed by the SMT and CMT and it is their responsibility to ensure these are managed and monitored appropriately.

- There is a commitment to continue to embed risk and opportunity management into the Council's culture and organisational processes at all levels including identifying risks associated to each strategic theme of the East Suffolk Strategic Plan.
- Officers acknowledge and embrace the importance of risk and opportunity management as a process by which key risks and opportunities are identified, evaluated, managed and contribute towards good corporate governance.
- Effective monitoring and reporting mechanisms are in place to continuously review and manage the exposure to the risks and opportunities.
- Accountability to stakeholders is fully demonstrated through periodic progress reports to the Audit and Governance Committee meetings.
- The Council's approach to risk and opportunity management is regularly assessed by internal and external assessment.
- The Risk and Opportunity Management Strategy is regularly reviewed in line with developing needs and requirements.

4. Aims and Objectives

The aim is to safeguard our ability to deliver the priorities (as set out in the Strategic Plan) by managing threats, enhancing opportunities and creating a framework that adds value to ongoing operations. It aims to adopt best practices in the identification, evaluation, cost-effective control and monitoring of risks and opportunities across all processes to ensure that risks are reduced and opportunities are enhanced.

The objectives of the Strategy are to:

- Integrate risk management as a part of performance management into the culture of the organisation and the Council's strategic planning processes, including project management and business case appraisals.
- Embed risk and opportunity management as an integral part of strategic, information use, financial, business continuity and project planning and policy making, including being an integral part of delivering and aligning successful partnerships.
- Ensure processes for identifying, evaluating, controlling, reporting and reviewing risk are understood and communicated to staff and members.
- Monitor and develop risk management and encourage the use of good practice.
- Work with the appropriate committees, as required, to ensure members engage with risk management.
- Establish a standard systematic approach to risk identification, analysis, control and monitoring and reviewing.
- Provide a process for identifying threats or drawbacks that also include findings and considering opportunities.
- Provide a robust and systematic framework for identifying, managing and responding to risk.
- Anticipate and respond to changing external and internal environment.
- Embed risk and opportunity management as part of the Council's culture of governance, including providing training and workshops on risk when required.

5. Process for Managing Risks and Opportunities

The Council has an effective process for managing risks and opportunities.

The same processes to identify, score and manage risks are used for: strategic risk, operational risk, partnerships, projects and business cases.

Definitions

Risk: *"A combination of the probability of an event occurring and the consequence if it does occur."*
Issue: *"a relevant event that has happened, was not planned, and requires action".*
Opportunity: *"an uncertainty that could have a positive effect leading to benefits or rewards".*

Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Risk management is concerned with positive and negative aspects of risk. As well as managing things that could have an adverse impact it also looks at potential benefits. The Council will consider taking opportunities that benefit the Council as part of this process.

Risks and issues need to be identified, analysed, prioritised, mitigated, monitored and reviewed. The risk management toolkit can therefore be used as a guide to identify and manage risks and issues. The fundamental difference between a risk and an issue is that an issue is actually happening. This will affect the scoring. Risk registers are live documents which should be reviewed and revised regularly to support the relevant manager and team in managing and mitigating risk.

Risk Appetite

The Council recognises that risk is inherent in delivering and commissioning services and does not seek to avoid risk, but instead aims to have an 'open' approach to risk, appropriately balancing risk against reward, with risks managed in a proportionate manner. This approach allows flexibility and support for well-informed and considered risk taking, promoting transparency and effective risk management, while maintaining accountability. Risks defined as 'high' are to be managed down to a tolerable level wherever possible.
It is not realistic for the council, with its diverse range of services and duties, to have one definitive application of risk appetite across the entire organisation.

6. Identification and Escalation of Risks

The escalation of risks is fundamental to ensure that risks are identified and managed effectively and risks that could have a wider impact on the council are escalated through the robust systems in place, for example high level risks reported at a Strategic Plan Theme meeting would be reported at CGG and included on the Corporate Risk Register in appropriate. The Risk Management Framework (Appendix B) identifies different streams for reporting risks.

The levels of risks are:

i) **Strategic**
High level strategic risks with the potential to threaten the Council's ability to deliver the East Suffolk Strategic Plan are captured, monitored and managed in the Corporate Risk Register (CRR). The Corporate Governance Group (CGG) has overall responsibility for the CRR. Progress and significant emerging issues are reported or escalated to Audit and Governance Committee and Cabinet members at Strategic Plan Delivery Board meetings.

ii) **Strategic Plan Themes**
Each Strategic Plan Theme meeting reviews, monitors and updates risks relevant to that theme. Where significant updates are required to corporate risks or high-level risks emerge relating to that Strategic Plan Theme these are reported to CGG for approval and consideration on whether they should become corporate risks.

iii) **Service and operational risks**
Risks with the potential to threaten the effective overall delivery of a particular service are managed by service managers and team leaders through service risk registers which can be used in Service Plans. These should be escalated by Heads of Service to Corporate Governance Group (CGG) for inclusion in the Corporate Risk Register.

iv) **Partnerships**
Risks to the effective running of a partnership should be managed through partnership risk registers; individual partners should also consider managing any specific risks to their organisation as a result of the partnership. This register should be reviewed and revised regularly by the partnership board (or equivalent). These should be escalated by Heads of Service to CGG for inclusion in the Corporate Risk Register.

v) **Business cases**
Business cases should include a risk assessment to inform decision-making. The relevant approving body (this may be a Head of Service, Project Board, Cabinet Member, specific Management Team/Group or the relevant Committee/Cabinet) should review the risks when the business case analysis is approved and should recommend risks are escalated to the CCG as necessary.

vi) **Projects**
Risks with the potential to threaten the success of a project or initiative will have been identified during the business case appraisal and this process will continue throughout the project. A project risk register is used for this purpose. Where necessary, project risks are then added to the CRR.

vii) **Health and Safety**
Health and safety risks are managed within each team and escalated within the service as necessary. In the first instance they are escalated to the Health and Safety Advisor, who can bring issues to the Health and Safety Committee. Significant risks which are not addressed through this Committee are then escalated, via the Head of Service of Environmental Services and Port Health, to the CGG or appropriate Strategic Plan Theme delivery team.

7. Risk and Opportunity Management process

The Council will adopt the following key steps to identify and manage risks in all Council activities:

Risk management needs to be dynamic in order to capture and anticipate new risks and to assess the trade-off between risk and opportunity. It should be an ongoing cycle, that will help ensure that effective decisions are made, based on a sound understanding of the risks and opportunities.

Stages of risk management:

Step 1: Risk Identification

Identifying and understanding the hazards and risks facing the Council is crucial if informed decisions are to be made about policies or service delivery methods. The aim of risk identification is to identify possible risks that may affect, either negatively or positively, the objectives of the Council.

Step 2: Risk Analysis

Risks and opportunities need to be identified and assessed systematically and accurately using the Council's risk management toolkit/matrix. If a risk is considered unacceptable then steps need to be taken to control or respond to it. Risk analysis will determine which risks have a great consequence or impact than others, which allows senior management to focus resources on those risks that would significantly impact the Council. Risk analysis involves combining the possible consequences, or impact, of an event, with the likelihood of that event occurring. The result is a 'level of risk'.

When analysing/identifying risk the following areas should be considered:

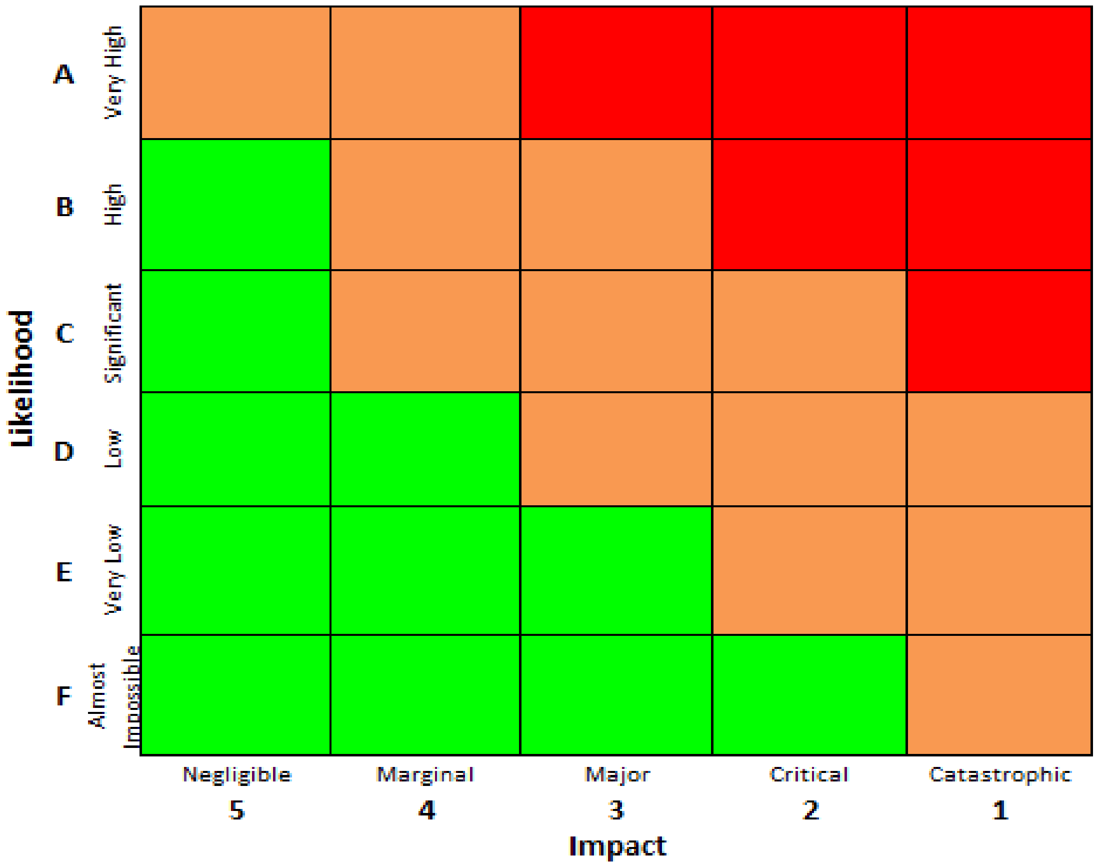
Types of risks and opportunities:

Category	Risk/opportunity (examples)
Assets	Property – land, buildings and equipment
Change Management	Low staff morale Improved efficiency
Communication	Failure of systems
Customers	Changes needs and expectations; poor quality/reduced service delivery; crime and disorder
Economic & Social	Recession, deprivation, population growth, ageing population, changing demographic of area
Environmental	Extreme weather conditions; floods; emergency planning; impact on planning; climate change; waste/recycling impacts
Financial	Impact on budget; financial management regulations; interest rate change; financial loss; financial management arrangements
Governance	Compliance requirements; controls; Constitution not being followed, resulting in breaches
Legal	Breach of contract; improved terms
Legislative or Regulatory	Fail to meet requirements; changes in law, legislation and internal policies/regulation (e.g. Health at Safety at Work Act, Data Protection, Freedom of Information, Human Rights, Employment law, environmental legislation, etc). Legal challenges, legal powers, judicial reviews or public interest reports
Partnerships	New initiatives, new ways of working, policies and procedures; new relationships – accountability issues/unclear roles and responsibilities; monitoring arrangements; managing change
Political	Change of political control locally or nationally
Resources (inc. HR, IT, Finance)	Staff sickness; succession planning; system failure; new software; budget management (cut); capacity issues (loss of key staff, retention issues); training issues
Roles & Responsibilities	Using staff skills; lack of qualified staff
Stakeholders & Relationships	Potential new partnerships Disagreements; changed priorities
Strategic/operational	Fail to meet Strategic Plan or team objectives; inability to fulfil obligations

Step 3: Prioritisation

The Council has a risk management process/toolkit to score the current risk and identify the target score (which could be achieved once mitigating and target actions have been implemented).

Council's risk matrix:



Step 4: Mitigation

The next stage is mitigation where current actions and controls need to be assessed to ensure they are adequate and include target actions where relevant which will contribute to the management of the risk and may assist to lower the risk to meet the target score identified.

Treating risks: There are four basic ways of treating risk:

Treat
- Ensuring effectiveness of existing controls and implementing new controls where considered necessary and cost effective

Transfer
- Involves another party bearing or sharing the risk (e.g. via insurance)

Tolerate
- Where it is not possible to treat or transfer consideration needs to be given to how the risk and consequences of such are to be managed should they occur

Terminate
- Deciding where possible not to continue or proceed with the activity in view of the level of risks involved

Opportunity risks: There are four basic ways of treating opportunity risks are:

Enhance
- Seek to increase the likelihood and/or impact of the opportunity in order to maximise the benefit

Ignore
- Minor opportunities can be ignored by adopting a reactive approach without taking any explicit actions

Share
- Seek partners/stakeholders able to manage the opportunity which can maximise the likelihood of it happening and increase potential benefits.

Exploit
- Seek to make the opportunity happen.
- Measure to ensure the benefits from the opportunity are realised.

Step 5: Monitor

The risk and opportunity management process does not finish with the risk control procedures in place. Their effectiveness in controlling risk must be monitored and reviewed. It is also important to assess whether the nature of the risk has changed over time.

No matter how good the process to identify and control risks is, it will not be effective unless the information gained from it is reported and used to influence other management issues/ processes. Therefore, it is essential that risks and opportunities are escalated to CGG in line with the Council's framework (Appendix B).

Risks should be reviewed regularly by risk managers and at team/operational and project meetings to ensure they are current, target actions reviewed/completed, and risk scores correct. Risks, relevant to each Strategic Plan theme, are regularly reviewed and monitored at one of the six Strategic Plan theme meetings including corporate and theme risks. Where appropriate, Strategic Plan theme teams can escalate significantly heightened risks to CGG for consideration and approval to be added onto the Corporate Risk Register. Horizon scanning/risk challenge sessions are held with CMT which further monitors existing risks and identifies risks for consideration to be added to risk registers.

8. Risk management roles and responsibilities

i. Cabinet

- Consider risk management when making decisions, including reviewing risks identified in the corporate impact assessment report template.
- Monitor and review Corporate Risks

ii. Audit and Governance Committee

- Review the risk management framework and East Suffolk Risk and Opportunity Management Strategy.
- Consider key corporate risks and make recommendations.

iii. Members

- Consider risk as part of their everyday activities.
- Have an understanding of risk management and undertake appropriate risk management training.

iv. Corporate Governance Group (CGG)

- Delivering and manage the East Suffolk and Opportunity Risk Management Strategy.
- Ensure effective processes are in place for managing and monitoring corporate risks and processes, including the effective reporting of these risks regularly to the Council's Corporate Management Team (CMT).
- Report corporate risk management issues to Members as appropriate.
- To manage the Corporate Risk Register and ensure suitable processes are in place to escalate risks into the Corporate Risk Register from service level, projects, or partnership registers, and to move risks down from the Corporate Risk Register.
- Consider high level risks in relation to each theme of the Strategic Plan.

- Ensure the Council has a suitable risk management framework to address, mitigate and manage existing and emerging risks at all organisational levels, including risks arising from projects and partnerships.
- Invite relevant officers or members to attend the CGG, as required, to consider particular risks or issues.

v. Strategic Plan Theme meetings

- Identify risks relating to the delivery of theme.
- Monitor and evaluate risks, implement mitigation of risks where appropriate.
- Escalate significant emerging risks to the CCG to determine if they should appear on the Corporate Risk Register.

vi. Strategic and Corporate Management Team

- Regularly reviewing all corporate risks and risks in service areas.
- Manage and monitor risks, including scrutinising and scoring them accordingly to likelihood and impact factors including a full review of the Corporate Risk Register.
- raise corporate risk issues and recommending escalation where corporate decisions are needed with Heads of Service (HoS) being responsible for identifying significant and high-level risks in their service area.
- Regularly review all corporate risks, including those arising from projects and partnerships, and horizon-scanning.
- Ensure staff are aware of their governance responsibilities and comply with Council requirements (e.g. in managing risk, projects, HR).

vii. Chief Finance Officer and Section 151 Officer responsibilities

- Supporting the effective governance of the authority through development of corporate governance arrangements, risk management and reporting framework.
- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance[1].

viii. Managers and Team Leaders

- To assess potential risks (health and safety, project, business case, partnerships, plans) and escalate to CRMG as required.
- To manage existing risks in their own service areas, including reviewing risks, monitoring actions and recording outcomes in service plans.
- To ensure staff understand their role in managing risk.
- As part of the corporate impact assessment template for committee reports identify associated risks which are captured to inform Cabinet of implications.

ix. Internal Audit

- Carry out Independent Assessments on the Council's Risk Management Framework.
- Review and advise on Corporate Risk Assessment arrangements.
- Review and advise on operational Risk Management arrangements.
- Provide general advice and guidance on all Risk Management issues.
- Report risks to CGG as identified in internal audit reviews.

[1] CIPFA Statement on the role of the Chief Financial Officer in Local Government – Core CFO Responsibilities

x. Strategic Plan Programme Management Team

- To co-ordinate risk management and promote it in the Council and to partners.
- To maintain the risk management framework.
- To work with Heads of Service to ensure risks are captured, escalated and managed appropriately, in line with the risk management framework.
- To produce reports for Management and Members.
- To compile and maintain a Corporate Risk Register.
- To provide training, advice and support on all Risk Management issues to members and staff.
- To liaise with the Council's Internal Audit team.
- To monitor developments in best practice and implement as appropriate.

xi. All Staff

- Consider risk as part of their everyday activities.
- Have an understanding of risk management and undertake appropriate Risk Management training.
- Manage risks through Council's framework (service and project plans, etc).

xii. Partners

- Co-operate in maintaining a consistent framework for the management of partnership risk.

9. Related documents

Guidance

- Risk Management
- Project Management
- Business Case Appraisals

Policies and plans

- Medium Term Financial Strategy
- East Suffolk Strategic Plan
- Human Resources
- Health and Safety

Other documents

- Risk toolkit (Appendix A)
- Risk Management Framework (Appendix B)

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 CGG. 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 Strategic plan/business plans, especially priorities. What might stop your team delivering the Council's 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 & regulations
- What opportunities are there?

Do this frequently

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

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

Political	Change of political control locally or nationally
External	Changes outside the council's control
Assets	Property – land, buildings, and equipment
Economic & Social	Recession, deprivation, population growth, ageing population, changing demographic of area
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, legislation
Customers	Changing needs and expectations; poor quality/reduced service delivery
Partnerships	New initiatives, ways of working, policies/procedures, new relationships
Financial	Impact on budget; financial management regulations; interest rate change; financial loss; arrangements
Strategic / operational	Fail to meet Strategic 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 & Relationships	Disagreements; changed priorities
Change Management	Low staff morale; improved efficiency

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

For information on risk management, performance & policy, contact Stacey.ransby@eastsuffolk.gov.uk 01394 444232, Digital and Programme Management
Updated: Sept 2021

Risk – and opportunity - management process and toolkit

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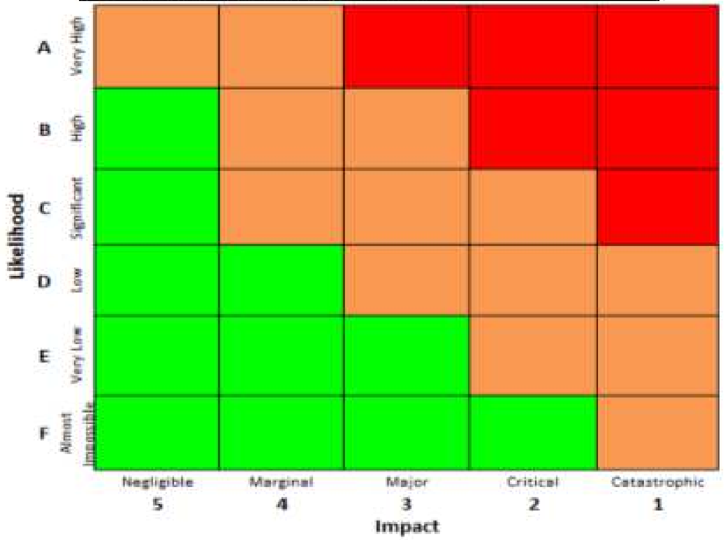
Step 5 - Monitor
Review the Register with colleagues (for example, as part of your Service Plan) at least quarterly
- What has changed?
- New risks or opportunities?
- Need to report or escalate risks?
- Have rankings changed?

Step 4 – Mitigate
- Assess current actions and controls: Are they adequate or more needed?

Treat – Accept -Terminate - 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 10yrs
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 authority's 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%.

Risk Management Framework

In accordance with ISO 31000:2018 guidance

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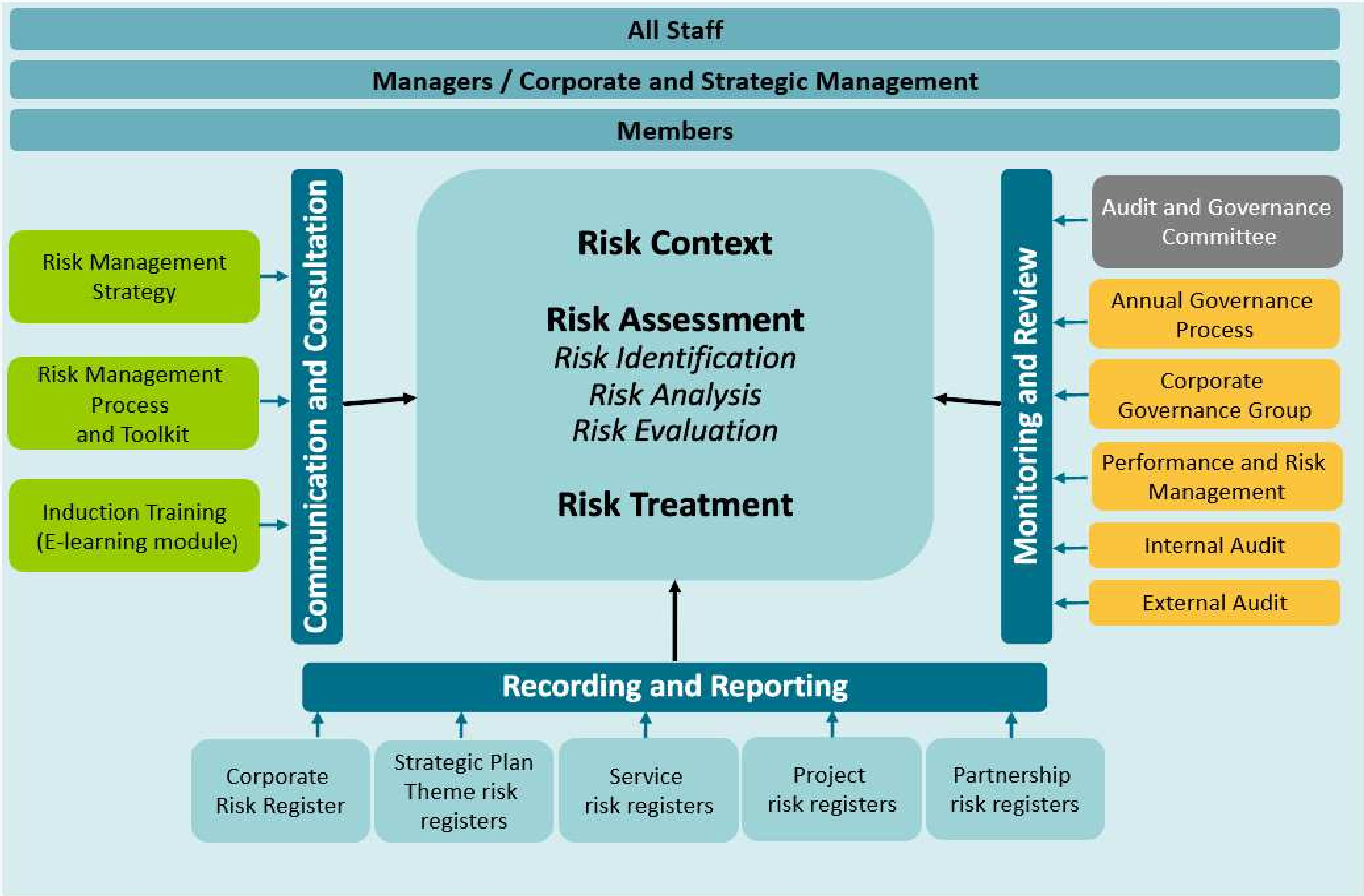

Agenda Item 8

ES/0976

AUDIT & GOVERNANCE COMMITTEE

Monday, 13 December 2021

Subject	Arrangements for the appointment of External Auditors
Report by	Councillor Edward Back, Assistant Cabinet Member for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk 01394 444571

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable.
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:
The purpose of this report is to update members on the appointment process for external auditors for the 5-year period from the financial year beginning 2023/24 and recommends continuing with the Public Sector Audit Appointments Ltd (PSAA) procurement route.
Options:
All options are detailed further in this report, but can be summarised as follows: 1. Procurement of external auditors via the PSAA route (recommended) 2. Form an East Suffolk Council Auditor Panel and conduct a stand-alone procurement exercise. 3. Join with other local authorities, establishing a Joint Auditor Panel and joint procurement.

Recommendation/s:
That the: 1. Arrangements and options for appointing External Auditors to audit the Final Accounts of the Council from 2023/24 for a 5-year period, and the practical deadline to opt-in of 11th March 2022, be noted 2. Committee recommend that Full Council to continue to 'opt-in' to the sector led body, Public Sector Audit Appointments Ltd (PSAA), for the independent appointment of the Council's external Auditor for 5 years from the financial year 2023/24.

Corporate Impact Assessment

Governance:
Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint an external auditor to audit its accounts for a financial year not later than 31 December in the preceding year.
ESC policies and strategies that directly apply to the proposal:
The appointment of external auditors does not link directly to the Council's policies and strategies, however through securing external assurance over the Council's governance, financial statements, and value for money, this will assist to achieve the priorities of the Strategic Plan.
Environmental:
No impact
Equalities and Diversity:
No impact
Financial:

The appointment method of external auditors will affect the fee charged to the Council.
Human Resources: No impact
ICT: No impact
Legal: No impact
Risk: Failure to appoint an external auditor in the timescales required. Section 12 of the Local Audit and Accountability Act 2014 (the Act) makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

External Consultees:	Public Sector Audit Appointments Ltd (PSAA) Suffolk Chief Finance Officers

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		**Primary priority**	**Secondary priorities**
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☐
P12	Being commercially astute	☐	☒
P13	Optimising our financial investments and grant opportunities	☐	☐

P14	Review service delivery with partners	☐	☒
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐

How does this proposal support the priorities selected?

A sector led body has the opportunity to negotiate contracts with firms nationally, maximising the opportunity for the most economic and efficient approach for procurement of external audit on behalf of East Suffolk Council.

Background and Justification for Recommendation

1	Background facts
1.1	The Local Audit and Accountability Act 2014 brought the Audit Commission to a close, with it formally closing on 31 March 2015. Transitional arrangements for the appointment of external auditors, and the setting of audit fees for all local government and NHS bodies in England were established, and at the end of the transitional arrangements, public bodies were asked to specify their preferred method of appointing external auditors. Following this a sector led body, the Public Sector Audit Appointments Ltd (PSAA) was chosen.
1.2	It was believed that a sector led body had the opportunity to negotiate contracts with firms nationally, maximising the opportunity for the most economic and efficient approach for procurement of external audit on behalf of the whole sector. The scheme was designed to save time and resources for local government bodies and, through collective procurement, secure the best prices without compromising on audit quality.
1.3	Legislation requires a resolution of Council if a local authority wishes to opt-in to the national arrangement with the PSAA. Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a

	local auditor. Section 8 provides that where a relevant authority is a local authority operating an executive arrangement, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements. • Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority. • Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.
1.4	East Suffolk Council agreed to use the PSAA as its route to select its external auditors, Ernst & Young, for the remaining term of the five years from 1 April 2019 (ending the financial year 2022/23).

2	**Current position**
2.1	East Suffolk Council now needs to decide how best to appoint its external auditors for the five-year period from 2022/23.
2.2	The Department of Levelling Up, Housing and Communities has confirmed that PSAA will continue in its role as the Appointing Person for the next appointment of external auditors. The proposed contract duration is five years, with an option to extend for a further one or two years with supplier agreement using a single tender, restricted procedure.
2.3	Indicative timescales for the PSAA process are as follows: Mar-22 — Deadline for eligible bodies to notify PSAA of their decision to opt in Jun-22 — PSAA will award new contracts Dec-22 — PSAA Board will confirm auditor appointments for 2023/24
2.4	The PSAA scheme aims to secure the delivery of an audit service of the required quality for every opted in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services. PSAA plans to provide: • a transparent and independent auditor appointment; • ongoing management of any independence issues; • proportionate PSAA costs and redistribution of any surpluses; • independent scrutiny of every additional fee proposal;

	• a sector led collaborative scheme as the way to get the best deal for the sector; • dedicated, experienced team; • key updates to all Section 151 officers and Audit Committee Chairs; • avoid the need to establish an auditor panel and undertake an auditor procurement; • same auditor appointment to significant collaborations or joint working initiatives. It is understood that the PSAA also have a number of initiatives it would like to consider as part of the upcoming national procurement in order to send a strong message to the market and to open up greater competition. The Local Government Association (LGA) will also continue to work with Public Sector Audit PSAA and government on the need for a better, more robust market for local audit with more qualified audit firms and greater numbers of qualified auditors. It also recognises that this is a long-term process and needs to be funded properly over the longer term. LGA's view is that the national framework remains the best option for councils. They believe that in a suppliers' market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.
2.5	It must be noted that the way the external audit procurement has operated over the last couple of years has been disappointing. There are a limited number of firms in the market to provide sufficient public sector audits and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed, as East Suffolk Council has experienced recently. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator, and the drive for audit quality has resulted in auditors needing more assurance. In turn this additional work has driven higher fees which is likely to continue.
2.6	As the client in the contract, East Suffolk also has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council.

3	How to address current situation
3.1	As well as opting-in with the PSAA, there are two other options to consider.
3.2	East Suffolk could make a **stand-alone appointment**. To do this the Council will need to set up an Auditor Panel. The members of the panel must be wholly (or a majority) independent members as defined by the Act. Independent members for this purpose are independent appointees; this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A

	new independent auditor panel established by the Council will be responsible for selecting the auditor. Advantages and disadvantages of this option are as follows: Advantages: - Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision. Disadvantages: - Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the region of £15,000, plus on-going expenses and allowances. - The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts. - The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.
3.3	The other option is for East Suffolk to set up a **Joint Auditor Panel** and establish local joint procurement arrangements. As with the stand-alone appointment option, this will need to be constituted of wholly (or a majority) independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council will need to liaise with other local authorities to assess the appetite for such an arrangement. Initial discussions between Suffolk Chief Finance Officers s have established that our neighbouring authorities do not intend to pursue such an arrangement at present. Advantages and disadvantages of this option are as follows: Advantages: - The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities. - There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the audit firms. Disadvantages: - The decision-making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used, or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved. - The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel selects a firm that is conflicted for this Council, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

4	Reason/s for recommendation
4.1	It is believed that the best option for East Suffolk is to coordinate our efforts through the national arrangements to ensure that our voice (as clients) is heard to tackle some of the challenges currently being experienced. It is therefore recommended that East Suffolk opt into the PSAA arrangements for the procurement appointing process. It is felt that this is our best option to work alongside other Councils and influence a particularly difficult market.

Appendices

Appendices:
None.

Background Papers:
None.

Agenda Item 9

ES/0977

EASTSUFFOLK COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday, 13 December 2021

Subject	CIPFA Financial Management Code
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk 01394 444571

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	None

Purpose and high-level overview

Purpose of Report:
The purpose of the report is to brief the Audit and Governance Committee on the Chartered Institute of Public Finance & Accountancy (CIPFA) Financial Management Code and to report on self-assessment against the requirements of the Code and progress to date.
Options:
Although compliance with the Code is not a legislative requirement, it is mandatory best practice, and consequently the option of not carrying out a self-assessment and ensuring compliance has not been considered.

Recommendation/s:

That

1. The CIPFA Financial Management Code attached as Appendix A be noted.
2. The Self-Assessment attached as Appendix B be noted.
3. An update on progress and compliance with the Code be considered by the Committee as part of its Work Programme in 2022/23.

Corporate Impact Assessment

Governance:
Implementation of, and continuous review of compliance with, the FM Code is an important element in the Council ensuring and demonstrating effective Corporate Governance.
ESC policies and strategies that directly apply to the proposal:
East Suffolk Strategic Plan Medium Term Financial Strategy General Fund Budget and Capital Programme HRA Budget and HRA Capital Programme Capital Strategy Treasury Management Strategy Financial Procedure Rules Statement of Accounts Annual Governance Statement
Environmental:
No impacts
Equalities and Diversity:
No impacts

Financial: Although concerned with financial governance and management, there are no direct financial impacts arising from this report.
Human Resources: No impacts
ICT: No impacts
Legal: No direct impacts as compliance with the Code is not a statutory duty in itself, but compliance is a feature of good governance and in some areas failure to comply could be indicative of a potential failure to meet existing statutory duties.
Risk: The FM Code is an important element in mitigating future financial risk and ensuring the financial sustainability of the Council.

External Consultees:	None

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		**Primary priority**	**Secondary priorities**
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☒
P11	Making best use of and investing in our assets	☐	☒
P12	Being commercially astute	☐	☒
P13	Optimising our financial investments and grant opportunities	☐	☒

P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐

How does this proposal support the priorities selected?

The Financial Management Code is intended to support sustainable financial management in local authorities and will constitute an important element in delivering the East Suffolk Strategic Plan theme of Maintaining Financial Sustainability and demonstrating effective Corporate Governance.

Background and Justification for Recommendation

1	Background facts
1.1	In October 2019, CIPFA published the Financial Management Code (FM Code), attached as **Appendix A,** which provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively.
1.2	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.

2	Current position
2.1	The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.
2.2	The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

	• Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture. • Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs. • Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making. • Adherence to professional standards is promoted by the leadership team and is evidenced. • Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection. • The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.
2.3	Explicit standards of financial management are also set out by the FM Code. These are the minimum standards which have to be complied with in order for the Council to demonstrate its compliance with the FM Code. The standards articulate the practical application of the principles of financial management based on the requirements of primary legislation, associated CIPFA codes and guidance on professional codes of practice and ethics.
2.4	The first full year of compliance with the FM Code was originally scheduled for 2021/22. However, in recognition of the pressures that have been placed on Local Authorities in dealing with the coronavirus pandemic, CIPFA has concluded that while the first year of compliance can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this means that adherence to some parts of the Code will demonstrate a direction of travel.
2.5	CIPFA consider that the Annual Governance Statement for 2020/21 should include the overall conclusion of an assessment of the organisation's compliance with the principles of the FM Code. Where there are outstanding matters or areas for improvement, these should be included in an action plan.

3	**How to address current situation**
3.1	Following on from the principles of the Code, it is then structured around 7 areas of focus: • The Responsibilities of the Chief Finance Officer and Leadership Team • Governance and Financial Management Style • Long to Medium Term Financial Management · The Annual Budget • Stakeholder Engagement and Business Plans • Monitoring Financial Performance • External Financial Reporting
3.2	Each of these areas is supported by a set of guidance standards against which Councils should be assessed. CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code and to meet its statutory responsibility for sound financial administration and fiduciary duties to taxpayers, customers and lenders.

3.3	Using these standards, and key questions within the guidance, the Chief Finance Officer has carried out a self-assessment of current processes, procedures and governance arrangements. This is attached as **Appendix B.**
3.4	Each Standard has been graded as follows: Grade — Level of Compliance Green — Fully Compliant Amber — Mostly / Partly Compliant Red — Non-Compliant
3.5	This self-assessment has rated the majority of standards to be currently fully compliant. No areas have been rated as non-compliant. Key questions rated as amber primarily involve the following areas of financial management: • Demonstration of value for money • Revision of Financial Procedure Rules and associated training • Development of a Long Term Financial Strategy and possible use of scenario planning • Development and embedding of options appraisal and business case methodology in projects.
3.6	Further actions have been identified in respect of all of these points in the self-assessment, the Annual Governance Statement for 2020/21 will include an assessment of the organisation's compliance with the principles of the FM Code. It is also recommended that update on progress and compliance with the Code be considered by the Committee as part of its Work Programme in 2022/23.

4	Reason/s for recommendation
4.1	To enable the Audit and Governance Committee to consider the implications of the CIPFA Financial Management Code; to consider the self-assessment of the current position; and to recommend further review of progress during the next financial year.

Appendices

Appendices:	
Appendix A	CIPFA Financial Management Code
Appendix B	CIPFA Financial Management Code Self-Assessment

Background reference papers:
None.

CIPFA The Chartered Institute of Public Finance & Accountancy

Agenda Item 9

ES/0977

financial management code

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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The Chartered Institute of Public Finance & Accountancy

financial management code

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Executive summary

The tightening fiscal landscape has placed the finances of local authorities under intense pressure. Where finance in local government works well there is often a common understanding and ownership of issues supported by good financial management.

While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

This publication has several components. The first is an introduction explaining how the FM Code applies a principles-based approach and how it relates to other statutory and good practice guidance on the subject. This is a good starting point for those new to the FM Code.

This introduction is followed by the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

CIPFA recognises that local authorities may need additional practical guidance on some aspects of the FM Code. Such 'hands on' guidance will be produced by CIPFA to meet practitioner demand.

Contents

Introduction

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

One of the strengths of UK local government is its diversity, with authorities having a different organisational culture – even those of the same size and type. It is this that allows a close relationship between local authorities and the communities that they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or generate trading income. This code is therefore not prescriptive.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Significantly, the FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The introduction of the Prudential Framework based on the CIPFA codes enabled local authorities to make their own capital finance decisions on matters that had hitherto been subject to central government control. The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making.

The CIPFA Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The FM Code has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

The applicability and structure of the Financial Management Code

CIPFA's intention is that the Financial Management Code (FM Code) will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003
- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with this code is not possible, adherence to the principles is still considered appropriate.

In addition to its alignment with the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), the FM Code also has links to the *Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note* (CIPFA, 2017) and the annual *Code of Practice on Local Authority Accounting in the United Kingdom*. In this way the FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.

Although it may be expressed differently across the different jurisdictions of the UK, the FM Code is also further supported by statutory requirement, or all local authorities to have sound financial management.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities.

In Northern Ireland, Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief finance officer."

CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

In addition to the requirements of primary legislation and associated CIPFA Codes, an authority's prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including:

- the CIPFA *Statements of Professional Practice (SOPP) (including ethics)*
- the CIPFA *Statement of the Role of the Chief Financial Officer*
- the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*
- the CIFFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable*.

CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA's understanding of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.

The code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. Where an overriding duty of value for money exists, this serves to give indirect statutory support to important elements of this code.

The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team.

CIPFA believes that this FM Code merits the type of statutory backing given to some other CIPFA codes and furthermore there is support for this approach within local government and its stakeholders. Equally, however, CIPFA recognises that such backing demands enabling primary legislation that at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the UK to provide statutory backing to the FM Code. At present it is difficult to envisage circumstances in which the absence of statutory backing for the FM Code would provide a reason for non-compliance.

APPLICATION DATE

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA has also considered the ambition within this code, the timescale and of course the wider resource challenges facing local authorities. Consequently 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. Earlier adoption is of course encouraged.

It is the duty of each local authority to adhere to the principles of financial management. To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority.

The structure of the FM Code

The CIPFA financial management standards are presented and explained in Sections 1 to 7 of the FM Code.

Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style. From a professional perspective, these factors are the most challenging to codify as they largely concern 'soft skills' and behaviours. Nonetheless, it will be seen that even for these factors, there are recognised standards of best practice that authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone, however, will not be sufficient if they do not promote the behaviours necessary for good financial management.

The remaining Sections 3 to 7 address the requirements of the financial management cycle, with Section 3 stating the need for a long-term approach to the evaluation of financial sustainability. To make well informed decisions all these elements of the cycle need to be fit for purpose. The development of a high-quality long-term financial strategy will not itself promote financial sustainability if, for example, the authority's annual budget setting process (Section 4), stakeholder engagement and business cases (Section 5) and performance monitoring arrangements (Section 6) are inadequate. The cycle is completed by Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code. It is again most important that practitioners recognise that, while compliance with the CIPFA financial management standards is obligatory, the FM Code is not prescriptive about how this is achieved.

In the accompanying guidance notes CIPFA sets out practices that local authorities can adopt to ensure compliance with the FM Code. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code. CIPFA may issue support and clarify application of the FM Code. Authorities can develop their own good practice and are encouraged to do so.

As high-level statements, the overarching CIPFA financial management standards apply to the police service. CIPFA recognises, however, that this type of organisation has in some respects different practices from other local authorities. In addition, the creation of bespoke combined authorities means that some flexibility is required in the application of the FM Code for their circumstances. This may be achieved by applying some standards to each of the component bodies and others directly to the combined authority itself. In all cases, when an authority has unique governance arrangements the CIPFA Principles of Financial Management should be used to resolve any doubt about the application of articular financial management standards.

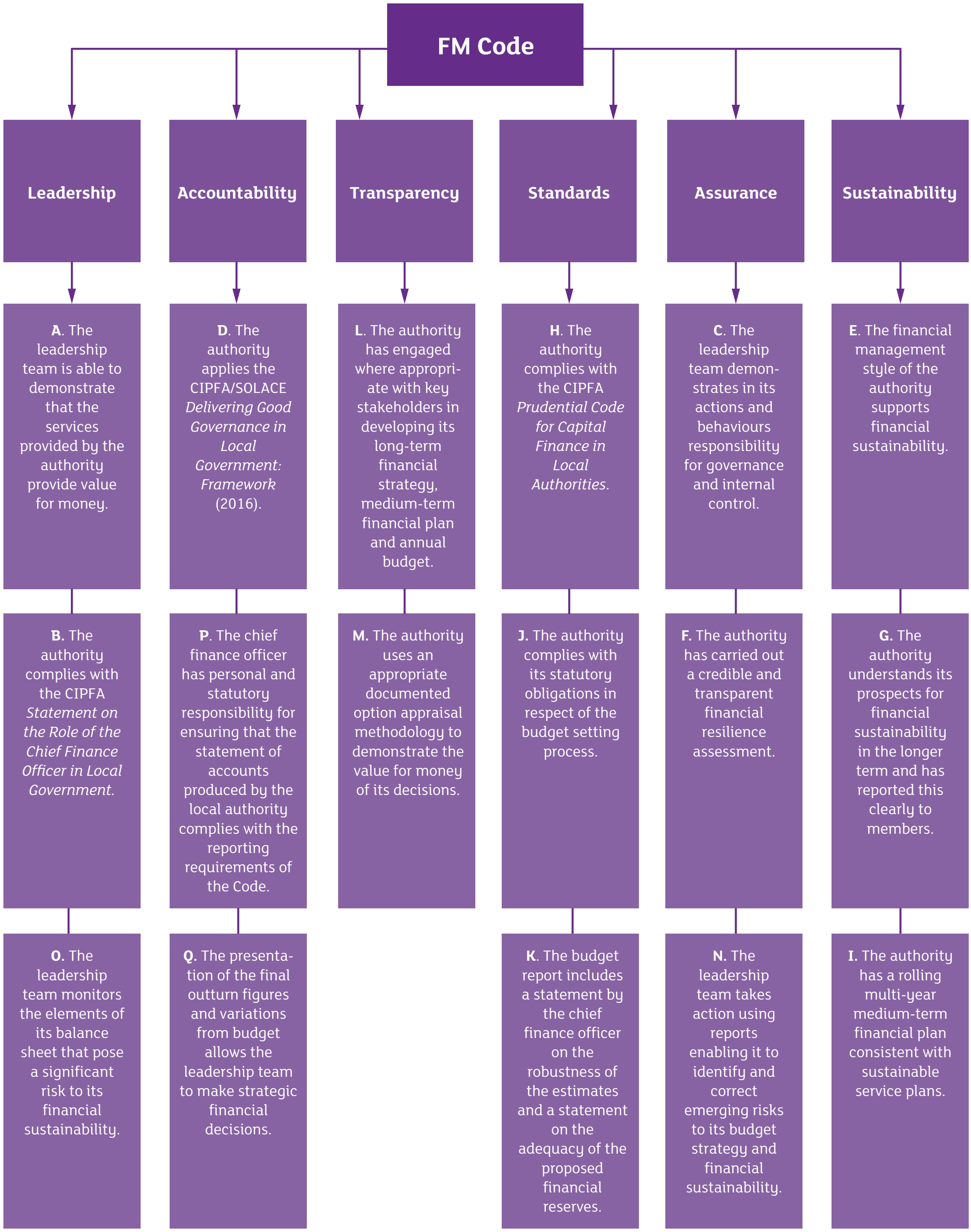
Financial management standards are to be guided by proportionality. It is appropriate for different financial management approaches to apply to high-value/high-risk items that alone may determine the financial sustainability of the organisation as distinct from low-value/low-risk items. In satisfying the demands of the financial management standards it may be appropriate to apply different standard practices according to the scale and risks of each category of income or expenditure. The intention is that authorities demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority.

Nonetheless, in acknowledging the need for proportionality in applying some aspects of the FM Code, an authority still needs to recognise that when aggregated, a failure to manage individual low-value/low-risk items may still threaten financial sustainability. The FM Code seeks to promote the good financial management of the standard, typical or familiar local authority activities just as much as it promotes the good financial management of the unusual, exceptional and unfamiliar. Essentially, the FM Code recognises that getting the routine business right is crucial for good financial management.

The CIPFA financial management standards

Summary table of CIPFA financial management standards

FM standard reference	CIPFA financial management standards
	Section 1: The responsibilities of the chief finance officer and leadership team
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
	Section 2: Governance and financial management style
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
E	The financial management style of the authority supports financial sustainability.
	Section 3: Long to medium-term financial management
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
	Section 4: The annual budget
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
	Section 5: Stakeholder engagement and business plans
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
	Section 6: Monitoring financial performance
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
	Section 7: External financial reporting
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.


FM Code
Leadership
Accountability
Transparency
Standards
Assurance
Sustainability
A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B. The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
D. The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
P. The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code.
Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.
L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
H. The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*
J. The authority complies with its statutory obligations in respect of the budget setting process.
K. The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
F. The authority has carried out a credible and transparent financial resilience assessment.
N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
E. The financial management style of the authority supports financial sustainability.
G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 1

The responsibilities of the chief finance officer and leadership team

Local authorities in the UK use different democratic models. While the committee and the cabinet system are the most common there are also a number of direct elected mayors in England. Regardless of the model, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.

While the legislative context differs across the different jurisdictions of the UK, all local authorities must deliver value for money. This is an overarching requirement that informs the application of the other financial management standards in the FM Code.

Financial Management Standard A

The leadership team is able to demonstrate that the services provided by the authority provide value for money.

The role of the leadership team

The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.

The FM Code follows the practice of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government* in referring to this collective group of elected member and officers with this collective financial responsibility as the leadership team. In local authorities, therefore, the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.

In the police service this leadership is provided by police and crime commissioners and chief constables, which operate jointly according to the policing protocol, which requires the maintenance of an efficient force.

The role of the chief finance officer

The statutory of the role of the chief finance officer (CFO) is a distinctive feature of local government in the UK (except in Northern Ireland). This role cannot be performed in isolation and requires the support of the other members of the leadership team.

The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened.

Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.

It is important to appreciate that while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

CIPFA has issued its *Statement on the Role of the Chief Financial Officer in Local Government*. This statement sets out CIPFA’s understanding of the role to support both the CFO and local authorities.

Financial Management Standard B

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner* and the *Chief Finance Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government.*

CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* describes the roles and responsibilities of the CFO. It sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties. The statement is designed to assist those carrying out the role to meet its specific responsibilities while at the same time reiterating CIPFA's *Statement of Professional Practice* with which all CIPFA members are required to comply. The statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's annual governance statement, together with how they deliver the same impact.

SECTION 2

Governance and financial management style

Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management.

Good governance

Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources.

The CFO is not the only officer with specific statutory responsibilities for good governance. The head of paid service (in practice the chief executive) is responsible for the proper recruitment and organisation of a local authority's staff. The monitoring officer has the specific duty to ensure that the council, its officers and its elected members maintain the highest standards of conduct in all they do (the legal basis of the head of paid service's role is found in Section 4 of the Local Government and Housing Act 1989 and that of the monitoring officer in Section 5 of the same act).

All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities.

Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.

The Committee on Standards in Public Life has set out *Seven Principles of Public Life* which it believes should apply to all in the public services (often referred to as the Nolan Principles). The last of the Nolan Principles – that holders of public office should promote and support these principles by leadership and example – is especially relevant to the leadership team.

Financial Management Standard C

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

By international standards, local government in the UK is distinguished by high standards of governance. Citizens expect financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption. These expectations are largely met, but local authorities should guard against complacency.

The CIPFA/IFAC *International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage sustainable service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. The application of this international framework in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance. The CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016 edition) supports local authorities in developing and maintaining their own codes of governance and to discharge their accountability for the proper conduct of business.

Financial Management Standard D

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.

Financial management style

The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three ‘financial management (FM) styles’:

- delivering accountability
- supporting performance
- enabling transformation.

These different styles are used in the CIPFA Financial Management Model to describe the different standards of financial management which may be found in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk. This is especially important as risks have increased for many local authorities; on the one hand reduced expenditure leaves less margin for error while on the other hand, in seeking to generate new income, local authorities take on unfamiliar risks.

This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money.

CIPFA recognises that while the highest standards of financial management should be the expectation, in practice some local authorities are at different stages of development. In these circumstances, compliance with the FM Code may initially be achieved by credible proposals to raise financial standards beyond the basic delivery of accountability.

The first two sections of this code have addressed the pre-conditions that must be satisfied for sound financial management. The following sections turn to the practical operation of the successive stages of the financial management cycle.

SECTION 3

Medium to long-term financial management

While the statutory local authority budget setting process continues to be on an annual basis (see Section 4) a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

CIPFA does not believe however that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central government. The greater the uncertainty about future central government policy then the greater the need to demonstrate the long-term financial resilience of the authority given the risks attached to its core funding.

An authority must ensure that while the formal publication of the medium-term financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151, to have a long-term financial view acknowledging financial pressures.

Authorities with a high level of capital investment and associated external borrowing should adopt a correspondingly long-term approach. The Prudential Code requires that a local authority capital strategy sets out the long-term context in which capital expenditure and investment decisions are made. For example all authorities with PFI, service contracts and other similar contractual arrangements will need to demonstrate their ability to finance these arrangements over the whole period of the contracts. Housing Revenue Account (HRA) business plans in England and Wales are already based on a 30-year time horizon.

Financial resilience and long-term financial strategy

If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed.

With an awareness that risks will vary, consideration should be given to tools such as the Financial Resilience Index that may help organisations identify these pressure points. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Financial Management Standard F

The authority has carried out a credible and transparent financial resilience assessment.

Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.

A key part of the strategy should be a visioning exercise to understand the potential shape of services in the future. It will need to be sufficiently comprehensive to offer a convincing demonstration that the authority has identified a way of achieving financial sustainability. At the same time it needs to provide a relatively fixed point of reference which is subject to periodic review and to revision and fundamental change only when it is no longer fit for purpose.

Financial Management Standard G

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

The Prudential Code for Capital Finance in Local Authorities

The statutory requirements of the Prudential Code underpins elements of the long and medium-term financial management considered in this section of the FM Code. While the minimum requirement is for three-year rolling capital and investment plans, *The Prudential Code for Capital Finance in Local Authorities* (2017 edition) stresses that a longer-term approach is necessary to ensure that capital strategy and asset management plans are sustainable.

Financial Management Standard H

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*

One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies.

A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.

Practical medium-term financial planning

CIPFA does not anticipate that a long-term financial strategy would provide sufficient detail to shape the annual budget setting process. Local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) for budget setting.

The MTFP is the mechanism or framework by which the annual budget process relates directly to the long-term strategy establishing the financial sustainability of the authority. While not prescriptive about time frame, the MTFP should support financially sustainable decision making.

Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information. By taking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

The MTFP should enable the leadership team to have confidence in its long-term strategy for its financial sustainability. Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.

Financial Management Standard I

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 4

The annual budget

One of the objectives of this FM Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

Local authorities need to ensure that they are familiar with the legislative requirements of the budget setting process. In times of routine business compliance this is relatively straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. These difficulties can be acute when council tax setting is reliant on decisions by independent precepting bodies. In these circumstances it is likely that the CFO will need to work closely with the chief executive, monitoring officer and the leadership team to ensure statutory processes and a timetable necessary to set a legal budget are understood. The monitoring officer is the custodian of the constitution, which acts as a safeguard to prevent councillors and officers from getting into legal difficulties in the exercise of their role and uphold and ensure fairness in decision making.

Financial Management Standard J

The authority complies with its statutory obligations in respect of the budget setting process.

The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO.

Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

Financial Management Standard K

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the FM Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks. These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The successful execution of the annual budget will depend on both the good governance and internal controls already codified in Section 2 as well as financial monitoring addressed in Section 6.

SECTION 5

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.

The leadership team needs to challenge not only how services are delivered, but also what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions.

Stakeholder engagement

Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Business cases

Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation reproduced in Annex B to this FM Code.

Financial Management Standard M

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.

SECTION 6

Performance monitoring

To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other non-financial performance measures, such as backlogs and other indications that current resources are not matching the expectations of service users. These trends should inform the decisions taken on the medium and long-term financial planning addressed by Section 3 of this code.

It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Legislation requires local authorities to maintain adequate accounting records of their assets and liabilities. Regulations also require that the appropriate (chief finance) officer certifies or confirms that the statements of accounts provide a true and fair view of the financial position (ie the amounts in the balance sheet) of the authority at 31 March in the year of account.

Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017).

SECTION 7

External financial reporting

Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:

- Discover how much is spent in a year on services and whether this has increased or decreased from previous years.
- Consider the indebtedness of an organisation and how that might impact on future taxpayers.
- Recognise the value and therefore usefulness of the assets that the organisations hold.
- Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out the chief finance officer's statutory responsibilities for producing the accounts and maintaining the financial records for those accounts. The CIPFA Statement requires that the statements of account are published on a timely basis to communicate the authority's activities and achievements, its financial position and performance. It also requires certification of the accounts by the chief finance officer. The confirmation that the accounts present a 'true and fair' view is one of the fundamental roles of the statutory chief finance officer. Across the UK the *Code of Practice on Local Authority Accounting in the United Kingdom* produced by the CIPFA/LASAAC Local Authority Code Board establishes proper (accounting) practices under which that 'true and fair' view will need to be confirmed/certified.

Financial Management Standard P

The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*

The statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate that they have a key part to play in accountability to taxpayers and other stakeholders in showing how public money is used. Financial reporting therefore should not take place in a vacuum. The financial statements provide the accountability link between planned performance, resources used and the outcomes – financial and more – that are achieved. The authority, its management and the CFO both in its financial statements and the narrative reports that accompany them must provide the user with the links between the consumption of resources and the value that has been created.

It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority (see Section 3).

Financial Management Standard Q

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Annex A

IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT)

Principles for good governance in the public sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Acting in the public interest requires:

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

B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

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 entity'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.

Annex B

IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

Extract from IFAC website.

Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

A. When appraising multi-period investments, where expected benefits and costs and related cash inflows and outflows arise over time, the time value of money should be taken into account in the respective period.

B. The time value of money should be represented by the opportunity cost of capital.

C. The discount rate used to calculate the NPV [net present value] in a DCF [discounted cash flow] analysis, should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organisation undertaking the project.

D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organisation’s strategy and its economic, social, environmental, and competitive position as well as market dynamics.

E. Project cash flows should be estimated incrementally, so that a DCF analysis should only consider expected cash flows that could change if the proposed investment is implemented. The value of an investment depends on all the additional and relevant changes to potential cash inflows and outflows that follow from accepting an investment.

F. All assumptions used in undertaking DCF analysis, and in evaluating proposed investment projects, should be supported by reasoned judgment, particularly where factors are difficult to predict and estimate. Using techniques such as sensitivity analysis to identify key variables and risks helps to reflect worst, most likely and best case scenarios, and therefore can support a reasoned judgment.

G. A post-completion review or audit of an investment decision should include an assessment of the decision making process and the results, benefits, and outcomes of the decision.

H. Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.

Glossary

Accounting standards	Rules set by the International Accounting Standards Boards that set out how transactions are to be shown in an organisation's accounts.
Annual statement of accounts	The statement of accounts presents the authority's transactions on an annual basis as of 31 March of the relevant year of account. The complete set of financial statements in the annual accounts for local authorities comprises: ■ comprehensive income and expenditure statement for the period ■ movement in reserves statement for the period ■ balance sheet as at the end of the period ■ cash flow statement for the period, and ■ notes, comprising significant accounting policies and other explanatory information.
Asset management plan	Asset management plans align the asset portfolio with the needs of the organisation.
Audit committee	A special committee of the council that reviews the financial management and accounts of the council.
Balance sheet	A financial statement presenting a summary of the authority's financial position as of 31 March each year. In its top half it contains the assets and liabilities held or accrued. As local authorities do not have equity shares, the bottom half is comprised of reserves that show the location of the authority's net worth between its usable and unusable reserves.
Capital budget	The money a council plans to spend on investing in new buildings, infrastructure and other equipment.
Capital financing charges	The amount a council has to pay to support its borrowing to pay for the purchase of major assets.
Capital receipt	The money a council receives for selling assets that can only be used to repay debt or for new capital expenditure.
Chief financial officer	The most senior finance person in a council responsible for ensuring the proper financial management of the council.
CIPFA FM Model	The CIPFA FM Model is the tool that helps public service organisations apply their financial resources to achieve their goals.
Code of Practice on Local Authority Accounting in the United Kingdom	A code produced by the CIPFA/LASAAC Local Authority Code Board. It specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures. The Local Authority Accounting Code is established as a proper practice by the four relevant administrations across the UK.
Earmarked reserve	Money set aside for future use on a specific area of expenditure. It remains a part of the general reserves of the authority.

Financial management	Financial management encompasses all the activities within an organisation that are concerned with the use of resources and that have a financial impact. CIPFA has defined financial management for public bodies as "the system by which the financial aspects of a public body's business are directed and controlled to support the delivery of the organisation's goals".
General fund balance (also council fund or police fund)	The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. The general fund balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.
Governance	The framework by which a council can gain assurance that it is setting and achieving its objectives and ensuring value for money in the proper way.
Housing Revenue Account (HRA)	An account used to record the income and expenditure related to council housing.
IFAC (International Federation of Accountants)	IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. CIPFA is a member.
Internal audit	An internal review of the organisation's systems to give assurance that they are appropriate and being complied with.
Leadership team	Executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. In the police service this leadership is provided by police and crime commissioners and chief constables.
Non-domestic rates	A tax paid by local businesses to their council.
Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
Provision	A provision is a present liability whose timing or amount of settlement is uncertain. For example, it may be a charge for liabilities that are known to exist, but have to be estimated.
Prudential Code	A code produced by CIPFA that councils are required to follow when deciding upon their programme for capital expenditure.
Revenue budget	The amount that a council spends on its day-to-day running of services through the financial year.
Ringfencing	A term for the earmarking of money (eg a grant or fund) for one particular purpose, so as to restrict its use to that purpose.
Society of Local Authority Chief Executives (SOLACE)	SOLACE's purpose is to develop the highest standards of leadership in local government and the wider public sector.
Treasury management	CIPFA has adopted the following as its definition of treasury management activities: ▪ the management of the organisation's borrowing, investments and cash flows ▪ its banking ▪ money market and capital market transactions ▪ the effective control of the risks associated with those activities ▪ the pursuit of optimum performance consistent with those risks.

Treasury Management Code	A professional and statutory code produced by CIPFA that councils are required to follow in managing their treasury management activity.
Treasury management strategy	An annual document approved by full council that sets out how a council will manage its cash and borrowings.

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INVESTORS IN PEOPLE

CIPFA Financial Management Code - East Suffolk Council Self-Assessment November 2021

Key Question	Summary	Compliant	Further actions required to achieve full compliance / development to improve on current practice
The responsibilities of the CFO and Leadership Team			
A - The leadership team is able to demonstrate that the services provided by the authority provide value for money			
Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team?	SMT and CMT keep services under continuous review/ review of service delivery arrangements, ensuring services are accessible to all. Financial Sustainability Group works to achieve VFM and sustainability as part of the Strategic Plan. Performance Reporting attempts to link performance and finance.	Partly	Financial Sustainability annual Strategic Plan report to include focus on achevement of VFM. Encourage reference to VFM in Council reports.
Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services?	As above.	Partly	As above. Increased provision of templates and toolkits to officers.
Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved?	Yes - Demonstrated through documents such as: Annual Governance Statement; external audit opinion on VFM; East Suffolk Strategic Plan Annual Report; Statement of Accounts Narrative Report, etc.	Mostly	Increase VFM referencing in Council reports and Strategic Plan annual report.
B - The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government			
Is the authority's CFO a key member of the leadership team, involved in, and able to bring influence to bear on, all material business decisions?	Yes - part of CMT, Financial Sustainability Group, Corporate Governance Group, and Designated Officer Group, and reports directly to Chief Executive.	Fully	
Does the CFO lead and champion the promotion and delivery of good financial management across the authority?	Quarterly reporting to Cabinet Sign off all Cabinet reports for financial considerations and risks. Compliance for financial regulations and procedures and relevant codes of practice and guidance. Open door policy for all members/officers Reports directly to Chief Executive, monthly one-to-one meetings. Monthly CMT meetings and regular attendance at SMT meetings. Monthly meetings with Resources Portfolio Holder.	Fully	
Is the CFO suitably qualified and experienced?	CIPFA qualified and IRRV Affiliate member. 39 years local government finance experience and in fourth S151 Officer role.	Fully	

Is the finance team suitably resourced and fit for purpose?	Finance Compliance Manager and Finance Planning Manager posts recruited in September 2020 to support Deputy Chief Finance Officer. Report to Cabinet in June 2021 to further strengthen Financial Services resourcing.	Fully	
Governance and financial management style			
C - The leadership team demonstrates in its actions and behaviours responsibility for governance andinternal control			
Does the leadership team espouse the Nolan principles?	Council has a clear framework for governance and internal control. Audit Regulations are statutory requirment to conduct review of effectiveness of internal controls and report to Audit and Governance Committee. Annual Governance Statement is supported by assurance statements from SMT and all Heads of Service highlighting key actions and areas of good governance.	Fully	
Does the authority have in place a clear framework for governance and internal control?			
Has the leadership put in place effective arrangements for assurance, internal audit and internal accountability?			
Does the leadership team espouse high standards of governance and internal control?			
Does the leadership team nurture a culture of effective governance and robust internal control across the authority?			
D - The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)			
Has the authority sought to apply the principles, behaviour and actions set out in the framework to its own governance arrangements?	Code of Corporate Governance approved by Council as part of the Constitution and which is consistent with principles of this framework Development of internal audit plan and regular reporting to Audit and Governance Committee	Fully	
Does the authority have in place a suitable local code of governance?		Fully	
Does the authority have a robust assurance process to support its AGS?	AGS is considered at SMT, Corporate Governance Group, and Audit and Governance Committee, and is signed off by Leader and Chief Executive.	Fully	
E - The financial management style of the authority supports financial sustainability			
Does the authority have in place an effective framework of financial accountability?	Financial Regulations, Budget Reports collectively set out the approach. S151 report on robustness of estimates and adequacy of reserves is considered as part of the annual budget report.	Fully	

Is the authority committed to continuous improvement in terms of the economy, efficiency, effectiveness and equity of its services?	This Council is committed to this and it is a key objective in the Financial Sustainability theme of the Strategic Plan.	Fully	
Does the authority's finance team have appropriate input into the development of strategic and operational plans?	CFO and Deputy CFO are members of the Financial Sustainability and Corporate Governance Groups. Finance Team involved in combined service planning and budget meetings for 2022/23 budget.	Fully	Finance Team to be involved in combined service planning and budget meetings for 2022/23 budget.
Do managers across the authority possess sufficient financial literacy to deliver services cost effectively and to be held accountable for doing so?	Heads of service and budget managers are financially literate. Some gaps in knowledge and competence to be addressed, especially on business case preparation and analysis.	Mostly	Further training to be undertaken as part of corporate training programme.
Do individuals with governance and financial management responsibilities have suitable delegated powers and appropriate skills and training to fulfil these responsibilities?	Financial Procedure Rules incorporate delegated powers. Rules in the process of being reviewed and revised and further training will be required to implement this review.	Mostly	Further training to be undertaken following revision.
Has the authority sought an external view on its financial style, for example through a process of peer review?	Peer Review to be conducted in Autumn 2021 / Spring 2022.	Partly	Governance including financial management to be reviewed Spring 2022.
Medium to long-term financial management			
F: The authority has carried out a credible and transparent financial resilience assessment			
Has the authority undertaken a financial resilience assessment?	The Council undertakes resilience review as part of annual budget setting process (CIPFA resilience index)	Mostly	More robust review required and more reference to be made to CIPFA resilience index - limited use previously due to recent establishment of ESC and lack of comparators.
Has the assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios?	Different scenarios are considered as part of the Council's MTFS and budget processes. However, once a central scenario has been established this becomes the planning assumption underpinining the MTFS and budget, and there is no routine or formal comparison to alternative scenarios.	Partly	Consideration to be given as to whether there is any practical value in testing resilence against a range of alternative scenarios.
Has the authority taken appropriate action to address any risks identified as part of the assessment?	Financial risks are assessed and reviewed quarterly. These reflect the issues identified as part of the assessment of financial resilience carried out as part of budget preparation. The corporate risk register reflects financial risks which are monitored by the CFO. Update of risk register included in quarterly reporting. Horizon scanning session undertaken with council insurers.	Mostly	Corporate risk register to be further reviewed following horizon scanning session.
G: The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members			

Does the authority have a sufficiently robust understanding of the risks to its financial sustainability?	The annual Going Concern assessment provides a comprehensive analysis of the risks concerning the Council's financial sustainability. Financial risk is a significant factor in the reserves requirement analysis carried out as part of the budget process	Fully	
Does the authority have a strategic plan and long-term financial strategy that adequately address these risks?	Issues relating to longer term resilience highlighted in budget reports,regular discussions at leadership teams, response to government consultations/engagment. Strategic Plan Financial Sustainability group has the role of overseeing delivery of this objective in the medium and longer term.	Mostly	Development of sustainable Long Term Financial Strategy (LTFS).
Has the authority sought to understand the impact on its future financial sustainability of the strategic, operational and financial challenges that it might face (eg using a technique such as scenario planning)?	Different scenarios are considered as part of the Council's MTFS and budget processes. However, once a central scenario has been established this becomes the planning assumption underpinining the MTFS and budget, and there is no routine or formal comparison to alternative scenarios.	Partly	Consideration to be given as to whether there is any practical value in using techniques such as scenario planning and testing resilence against a range of alternative scenarios.
Has the authority reported effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short and medium-term decision making?	Issues relating to longer term resilience highlighted in budget reports,regular discussions at leadership teams, response to government consultations/engagment. Strategic Plan Financial Sustainability group has the role of overseeing delivery of this objective in the medium and longer term.	Mostly	Development of sustainable Long Term Financial Strategy (LTFS).
H. The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities			
Has the authority prepared a suitable capital strategy?	Yes, Capital Strategy produced annually and reviewed by Audit and Governance Committee before approval by Full Council.	Fully	
Has the authority set prudential indicators in line with the Prudential Code?	Yes. Reported to Audit and Governance Committee for review prior to approval by Full Council in advance of financial year. Mid year and outturn reports reported to Audit and Governance Committee.	Fully	
Does the authority have in place suitable mechanisms for monitoring its performance against the prudential indicators that it has set?	As above.	Fully	
I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans			
Does the authority have in place an agreed medium-term financial plan?	Yes, a four-year MTFS is produced each year.	Fully	

Is the medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy?	Yes, the MTFS reflects the Strategic Plan and integrates into service plans and the Capital Strategy.	Fully	
Has the medium-term financial plan been prepared on the basis of a robust assessment of relevant drivers of cost and demand?	Yes, MTFS is prepared on this basis, with Scrutiny Committee given the opportunity to challenge these assumptions.	Fully	
Has the medium-term financial plan been tested for resilience against realistic potential variations in key drivers of cost and demand?	The MTFS is considered to be resilient in respect of key drivers of cost and demand. The Council maintains an extensive range of Earmarked Reserves to accommodate year to year variances.	Fully	
Does the authority have in place a suitable asset management plan that seeks to ensure that its property, plant and equipment including infrastructure assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims?	The Council has an up to date Asset Management Plan and Asset Strategy in place.	Fully	
The annual budget			
J. The authority complies with its statutory obligations in respect of the budget setting process			
Is the authority aware of its statutory obligations in respect of the budget-setting process?	Yes	Fully	
Has the authority set a balanced budget for the current year?	Yes	Fully	
Is the authority aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so?	Yes	Fully	
K. The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves			
Does the authority's most recent budget report include a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves?	Yes	Fully	
Does this report accurately identify and consider the most significant estimates used to prepare the budget, the potential for these estimates being incorrect and the impact should this be the case?	Yes	Fully	

Does the authority have sufficient reserves to ensure its financial sustainability for the foreseeable future?	Yes	Fully	
Does the report set out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is to take to address any shortfall?	Yes	Fully	
Stakeholder engagement and business cases			
L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget			
How has the authority sought to engage with key stakeholders in developing its long-term financial strategy, its medium-term financial plan and its annual budget?	The Council engages with its stakeholders in the delivery of its services and undertakes budget consulation activity.	Mostly	Links to be strengthened between engagement and long-term financial strategy.
How effective has this engagement been?			
What action does the authority plan to take to improve its engagement with key stakeholders?			
M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions			
Does the authority have a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal?	Asset Management Group provides forum for discussion on schemes and recommendation for inclusion. All key decisions require separate Cabinet paper detailing business case. Standard option appraisal methodology not generally used at present. Standard project appraisal methodologies increasingly being used as required by Government and external various funding providers.	Mostly	Capital Strategy to be revised to reflect amended guidance and standardised options appraisal process to be rolled out in authority where appropriate.
Does the authority offer guidance to officers as to when an option appraisal should be undertaken?	New report format requires appraisal of options for all matters being considered by Councillors. Support is provided by Finance where options appraisals need to be carried out and evaluated in order to make a decision, where the decision is significant and requires Cabinet approval	Mostly	To be developed as above.
Does the authority's approach to option appraisal include appropriate techniques for the qualitative and quantitative assessment of options?	Options appraisals are carried out for major projects as part of the approval process. These will be bespoke to the project, and reviewed by Finance, rather than following a common approach	Mostly	To be developed as above.

Does the authority's approach to option appraisal include suitable mechanisms to address risk and uncertainty?	Yes, but on ad hoc project by project basis.	Mostly	To be developed as above.
Does the authority report the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s)?	Yes, in relevant Cabinet reports.	Fully	
Monitoring Financial Performance			
N. The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability			
Does the authority provide the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability?	SMT, CMT, and the Cabinet are involved in budget setting and MTFS review throughout, with reports and presentations taken to meetings regularly throughout the year. These l incorporate consideration of emerging risks to the Council's budget strategy and financial sustainability, and recently have in particular focussed on impacts of the Covid-19 pandemic.	Fully	
Do the reports cover both forward and backward-looking information in respect of financial and operational performance?	SMT and CMT are provided with information concerning the budget and MTFS, and quarterly monitoring reports including historical information.	Fully	
Are there mechanisms in place to report the performance of the authority's significant delivery partnerships such a contract monitoring data? Are the reports provided to the leadership team in a timely manner and in a suitable format? Is the leadership team happy with the reports that it receives and with its ability to use these reports to take appropriate action?	Major review has been carried out in respect of the Council's key delivery partnerships, with actions including establishment of robust contract review meetings and termination of arrangements in some areas. Resources being recruited to strenghten partnership contract monitoring.	Mostly	Contract management and monitoring arrangements to be embedded. Memorandum reporting on partnerships to be included in quarterly reporting.
O. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability			
Has the authority identified the elements of its balance sheet that are most critical to its financial sustainability? Has the authority put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet? Is the authority taking action to mitigate any risks identified?	Key elements of the Balance Sheet position, e.g. collection fund and treasury management closely monitored and reported monthly. Debtor and reserves positions shared widely with relevant services.	Fully	

Is the monitoring of balance sheet risks integrated into the authority's management accounts reporting processes?	The risks around reserve levels are integrated into the quarterly budget monitoring process.		
Does the authority report unplanned use of its reserves to the leadership team in a timely manner?	Forecast use of reserves is reported quarterly to Cabinet.	Fully	
External Financial Reporting			
P .The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom			
Is the authority's CFO aware of their responsibilities in terms of the preparation of the annual financial statements?	Yes, CFO fully aware of responsibilities	Fully	
Are these responsibilities included in the CFO's role description, personal objectives and other relevant performance management mechanisms?	Yes.	Fully	
Have the authority's financial statements hitherto been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom?	Yes, financial statements are prepared on time and in accordance with the Code of Practice	Fully	
Q. The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions			
Is the authority's leadership team provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget?	Cabinet is provided with a comprehensive report detailing financial outturn and significant variations from the budget. Information is prepared working with SMT and CMT ensuring that it is relevant and presented effectively.	Fully	
Is the information in these reports presented effectively?			
Are these reports focused on information that is of interest and relevance to the leadership team?			
Does the leadership team feel that the reports support it in making strategic financial decisions?			

EASTSUFFOLK COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday, 13 December 2021

Subject	Revised Internal Audit Plan 2021-22
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources Councillor Edward Back, Assistant Cabinet Member for Resources
Supporting Officer	Mrs Siobhan Martin Head of Internal Audit siobhan.martin@eastsuffolk.gov.uk 01394 444254

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:
This report presents the proposed revised Internal Audit Plan for East Suffolk Council 2021-22. Each Head of Service has been informed of the amendment to the plan in their relevant area.
Options:
The use of consultants or agency staff to undertake some of the planned work has been considered, but at this stage is deemed as not a viable option. Utilising partner Council resources is not feasible since they are also facing staff vacancy issues.

Recommendation:
That the revisions made to the Internal Audit Plan 2021-22 be commented upon and approved.

Corporate Impact Assessment

Governance:
Internal Audit reports, advice and recommendations all aim to create and foster a robust corporate governance foundation to support sustainable services for all stakeholders. As a consequence, the Internal Audit Service aims to mitigate the risk of losses arising from error, irregularity and fraud. In addition, efficiency, effectiveness and economy reviews form part of the work undertaken, and this represents a fundamental function in delivering the Council's corporate governance responsibilities.
ESC policies and strategies that directly apply to the proposal:
The Audit and Governance Committee is directly responsible for supporting good governance arrangements and practices at the Council, which underpin the Council's entire strategic and operational workings including the East Suffolk Strategic Plan. The Internal Audit Plan of work provides independent, fact-based evidence to senior management and the Audit and Governance Committee on the actual effectiveness of Council activities which support the East Suffolk Strategic Plan. The implications and benefits of agreed recommendations produced by the Internal Audit Service contribute to the Council's overall objectives by improving controls and processes, which contribute towards efficient and effective management of services.
Environmental:
This report does not require a Sustainability Impact Assessment.
Equalities and Diversity:
This report does not require an Equality Impact Assessment.
Financial:
The Local Government Act 1972 and the Accounts and Audit Regulations 2015 require principal local authorities to '…undertake an adequate and effective internal audit of its

accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control'.
Human Resources: There are no direct human resources implications to this report.
ICT: There are no direct ICT implications to this report.
Legal: The Local Government Act 1972 and the Accounts and Audit Regulations 2015 require a relevant authority to '…undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
Risk: A crucial element within the Council's risk environment is the implementation of the recommendations put forward by Internal Audit and agreed by Management.

External Consultees:	No external parties were consulted in the preparation of this report.

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		Primary priority	Secondary priorities
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☐
P12	Being commercially astute	☐	☐
P13	Optimising our financial investments and grant opportunities	☐	☐
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐

How does this proposal support the priorities selected?

Internal Audit supports a robust corporate governance framework. The work of Internal Audit Service via the Internal Audit Plan represents a fundamental function in delivering the Council’s Corporate Governance responsibilities.

Background and Justification for Recommendation

1	Background facts
1.1	This report is being presented to the Audit & Governance Committee in accordance with the Committee's terms of reference which stipulate that the Committee is to 'approve, (but not direct) internal audit's work plan.' Also 'to promote the value of the audit process.'
1.2	The Audit and Governance Committee is responsible for overseeing the application of audit resources and monitoring performance of the audit function.
1.3	Internal Audit Services acts in accordance with the Accounts and Audit Regulations (2015) and aims to follow the Public Sector Internal Audit Standards (PSIA) and Local Government Application Note (2013). This report has been prepared in accordance with our Audit Charter.
1.4	The work of the Internal Audit Service is to provide independent assurance and report upon the effective and efficient application of internal controls, governance arrangements and value for money at the Council. All Internal Audit reports form part of the crucial evidence to enable the Chief Executive and Leader of the Council to sign the Annual Governance Statement (the obligatory statement along with the Annual Accounts.) External Audit may also consider Internal Audit work to ensure that system controls are adequate and effective.
1.5	Internal Audit work aims to ensure services comply with the Council's Constitution and Code of Corporate Governance. Internal Audit reports make recommendations to address any weaknesses identified and give direction on how to support continual improvement by providing professional advice and guidance.

2	Current position
2.1	This report presents a revised risk-based Internal Audit Plan for 2021-22 as agreed with the Chief Executive and relevant Senior Officers.
2.2	The risk based Internal Audit Plan is influenced by the resources made available by the Council for Internal Audit work. A careful balance must be achieved in terms of keeping audit costs at a realistic level, whilst recognising that there is a minimum level of coverage that must be undertaken to ensure good governance and internal controls are in operation. In this respect, the Internal Audit Plan for 2021-22 that was agreed by Audit & Governance Committee on 15 March 2021 was at that time considered to have been a realistic plan of action.
2.3	Since the Internal Audit Plan 2021-22 was approved a number of additional audits have been necessary to add to the Plan, and a number of changes affecting available resources have needed to be accommodated.
2.4	**Impact of continuous COVID-19** The impact of the COVID-19 pandemic on all public services has been considerable and resulted in a significant level of strain being placed on normal procedures and control arrangements, and the level of impact continues to change as the situation develops. Demands on Internal Audit remain high, and a flexible approach is being taken to ensure coverage of emerging high-risk areas as the COVID- 19 pandemic continues.

	The Internal Audit Service has also contributed to specific COVID-19 pandemic grant award processes to ensure good governance and continues to provide ongoing support to the Service Areas. Internal Audit Services have undertaken risk assessments to identify and assess any changes to the Council's control environment given the Council's emergency response to the COVID-19 pandemic and this work continues.
2.5	**Staff resources** Internal Audit are reducing from January 2022 due to a senior member of staff leaving the organisation. This role will go out to advertisement in January 2022 but will probably not be filled until the new financial year. Therefore there will be a vacancy of a senior FTE for a three month period. IT auditing is provided as part of the SLA Partnership between Ipswich Borough Council and East Suffolk Council. The role of IT Auditor has been vacant since April 2020 due to unsuccessful recruitment.
2.6	**Service Area changes** The Internal Audit Plan 2021-22 is designed to engage with service areas at an appropriate time, aligning with their work plans and risks whilst ensuring that the audit process has minimal impact on their day-to-day operation. Where service area work plans change, e.g. system implementations are rescheduled, or the timing of an audit would be detrimental to service delivery, the Head of Internal Audit will consider the assurance benefit of the proposed audit and the need for assurance to support the Annual Audit Opinion. Where appropriate, and the balance of risk and good governance allows, the Head of Internal Audit may recommend the deferral of an audit review.
2.7	The Head of Internal Audit, using a risk-based approach, has revised the 2021-22 Internal Audit Plan by deferring several assurance audits into the 2022-23 plan. The revised Internal Audit Plan 2021-22 coverage detailed in the table below should be sufficient to enable the Head of Internal Audit to issue an opinion upon the governance arrangements at the Council.

Revisions to the Internal Audit Plan since April 2021 (Service Area Assurance and Consultancy Activity)

Service Area	Audit	Status	Comments
Corporate and Cross-Cutting	COVID-19 Business Grant counter-fraud support	In Progress	
	COVID-19 Grants (Local Grants)	Pending	
	BEIS Post Payment Assurance	Addition	Emergent requirement to coordinate the Council's Post Payment Assurance to central Government on the LRSG and ARG schemes
	Payroll (system migration)	Deferred	System migration has been rescheduled to December 2021. Testing needs to be commenced once the system is established.
Economic Regeneration	New Towns Fund Governance (Lowestoft)	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6
Environmental Services and Port Health	Port Health PRS Project due diligence	In Progress	
	COVID-19 Test and Trace Service Support Grant Certification	Completed	Assurance opinion: Effective
	Local Authority Enforcement and Compliance Grant Certification	Addition / Completed	Assurance opinion: Reasonable Emergent requirement from an external funding body for the Head of Internal Audit to verify grant expenditure
	Port Health Cyber Essentials	Deferred	Awaiting recruitment of a qualified IT Auditor
Financial Services	Capital Accounting	In Progress	
	Key Financial Controls	Pending	
	Council Tax and Recovery of Housing Benefits Overpayments	In Progress	
	Council Tax Billing and Housing Benefits	In Progress	
	Bailiff Services	In Progress	
	Business Rates (NNDR)	In Progress	

Service Area	Audit	Status	Comments
	COVID-19 Restart Grant Certification	Addition	Emergent requirement from an external funding body for the Head of Internal Audit to verify grant expenditure
	COVID-19 Test and Trace Support Grant Certification	Addition	Emergent requirement from an external funding body for the Head of Internal Audit to verify grant expenditure
	New Financial Procedure Rules (Consultancy)	Addition	Emergent requirement to support the revision of the Council's Financial Procedure Rules
	Budget Monitoring	Pending	Key controls around budgeting will be included in the Key Financial Controls 2021-22 audit
	COVID-19 Grant Assurance (LRSG Funds and ARG)	Deferred	Staff resources will be reallocated to support the BEIS Post Payment Assurance audit addition.
Housing	Disabled Facilities Grant Certification	In Progress	
ICT	Remote Access and Security	Deferred	Awaiting recruitment of a qualified IT Auditor
	PCI DSS Follow-up	Deferred	Awaiting recruitment of a qualified IT Auditor
Legal and Democratic	Taxi Licensing	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6
	Declarations of Interests	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6
Operations	Commercial Rents (Income)	In Progress	
	Organic Green Waste	In Progress	
	Contracts and Procurement	Deferred	External assessment by EELGA is underway. Testing needs to be commenced once the EELGA review is completed
Planning and Coastal Management	Community Infrastructure Levy System Implementation	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6

Glossary				
Pending	In Progress	Addition	Deferred	Completed
These audits were part of the original 2021-22 Audit Plan and will be started in Q3/Q4	These audits were part of the original 2021-22 Audit Plan and are being tested and/or reported	Addition to the 2021-22 Audit Plan due to emergent requirement and risk-based need	Risk reassessed for 2021-22 and audit will be considered (subject to risk analysis) for the 2022-23 Audit Plan	These audits were part of the original 2021-22 Audit Plan and have been completed

3	How to address current situation
3.1	The revised Internal Audit work plan is aligned to the East Suffolk Business Plan – 'East Suffolk Means Business', where the vision is to maintain and sustainably improve the quality of life for everyone growing up in, living in, working in and visiting East Suffolk. Planned and emerging Internal Audit exercises will directly support the good governance and risk management approach to the Council's priorities: Enabling Communities; Economic Growth and Financial Self Sufficiency described in detail in the East Suffolk Business Plan.

4	Reasons for recommendation
4.1	To support the Council's overall governance arrangements and to ensure that the Audit and Governance Committee fulfils its terms of reference by reviewing the appropriateness of the refreshed risk based strategic Internal Audit Plan for 2021-22.

Appendices

Appendices:
None.

Background reference papers:		
Date	**Type**	**Available From**
March 2021	Internal Audit Plan 2021-22 (Original)	Head of Internal Audit siobhan.martin@eastsuffolk.gov.uk
2020 - 2024	East Suffolk Strategic Plan	
March 2017	Public Sector Internal Audit Standards	
2019	Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards	

Agenda Item 11

AUDIT AND GOVERNANCE COMMITTEE

WORK PROGRAMME 2021/22

14 March 2022

Open:
Minutes (AS)
2020/21 Audited Statement of Accounts (BM)
2020/21 Audit Results Report (EY)
Changes to the Constitution (CB)
New model Code of Conduct (CB)
Changes to the Financial Procedure Rules in Constitution (BM)
2020/21 Annual Governance Statement (BM/SM)
Annual Senior Information Risk Owner (SIRO) Report (SM)
Internal Audit Plan 2022-23 (SM)
Anti-Money Laundering Policy – Refreshed (SM)
Annual Senior Information Risk Owner (SIRO) Report (SM)
Fraud and Corruption Strategy – Refresh (SM)
Corporate Anti-Fraud Plan 2022-23 (SM)
Internal Audit Reports Recently Issued (Open) (SM)
Code of Corporate Governance (SM)
Internal Audit Charter – Refresh (SM)
Committee's Draft Work Programme 2022/23 (BM/SM/HJS/AS)

Confidential:
Minutes (Exempt) (AS)
Internal Audit: Status of Actions (SM)
Internal Audit Reports Recently Issued (Exempt) (SM)

Reports to come before the Committee on a date to be confirmed

None at this time.