Public Document Pack

COMMITTEE:	JOINT AUDIT AND STANDARDS COMMITTEE
DATE:	MONDAY, 17 MAY 2021 9.30 AM
VENUE:	KING EDMUND CHAMBER, ENDEAVOUR HOUSE, 8 RUSSELL ROAD, IPSWICH

BABERGH MEMBERS

Conservative Group	Green Group	Independent Group	Liberal Democrat Group
Mick Fraser Mary McLaren	Robert Lindsay	Alastair McCraw	Bryn Hurren (Co-Chair)

MID SUFFOLK MEMBERS

Conservative and Independent Group	Green and Liberal Democrat Group
James Caston Dave Muller (Co-Chair)	Oliver Amorowson John Matthissen Mike Norris

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AGENDA

PART 1
MATTERS TO BE CONSIDERED WITH THE PRESS AND PUBLIC PRESENT

Page(s)

1 **SUBSTITUTES AND APOLOGIES**

Any Member attending as an approved substitute to report giving his/her name and the name of the Member being substituted.

To receive apologies for absence.

2 **DECLARATION OF INTERESTS**

Members to declare any interests as appropriate in respect of items to be considered at this meeting.

Date and Time of next meeting

Please note that the next meeting is scheduled for Monday, 26 July 2021 at 9.30 am.

Webcasting/ Live Streaming

The Webcast of the meeting will be available to view on the Councils YouTube page: https://www.youtube.com/channel/UCSWf_0D13zmegAf5Qv_aZSg

For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact the Committee Officer, Committee Services on: 01449 724684 or Email: Committees@baberghmidsuffolk.gov.uk

Introduction to Public Meetings

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2. Follow the signs directing you to the Fire Exits at each end of the floor.

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BABERGH AND MID SUFFOLK DISTRICT COUNCILS

Minutes of the meeting of the **JOINT AUDIT AND STANDARDS COMMITTEE** held as a Virtual Teams Meeting on Monday, 29 March 2021 at 9.30am

PRESENT:

Councillor:	David Muller (Co-Chair) Bryn Hurren (Co-Chair)	
Councillors:	Oliver Amorowson Robert Lindsay Alastair McCraw Mike Norris	Mick Fraser John Matthissen Mary McLaren

In attendance:

Officers:	Assistant Director – Corporate Resources (KS) Corporate Manager – Internal Audit and Data Protection (JS) Assistant Manager, Financial Accountant (RH) Monitoring Officer (EY)
Guests	Ernst and Young Auditors (SP) Ernst and Young Auditors (VC)

Apologies:

James Caston

20 DECLARATION OF INTERESTS

20.1 There were no declarations of interests.

21 JAC/20/12 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 25 JANUARY 2021

It was RESOLVED:-

That the Minutes of the meeting held on 25th January 2021 be confirmed as a true record and signed at the next practicable opportunity.

22 TO RECEIVE NOTIFICATION OF PETITIONS IN ACCORDANCE WITH THE COUNCIL'S PETITION SCHEME

22.1 None received.

23 QUESTIONS BY THE PUBLIC

23.1 None received.

24 QUESTIONS BY COUNCILLORS

24.1 None received.

25 JAC/20/13 MANAGING THE RISK OF FRAUD AND CORRUPTION ANNUAL REPORT 2020/2021

25.1 John Snell – Corporate Manager Internal Audit and Data Protection and Data Protection introduced report JAC/20/13 which detailed the arrangements in place and the works undertaken to deter, prevent and detect fraud and corruption.

25.2 Councillor McLaren enquired if the representation on the Suffolk Counter Fraud Group was an officer and if they produced any reports.

25.3 The Corporate Manager – Internal Audit and Data Protection and Data Protection stated that no reports were produced, the main benefit of the representation was knowledge and best practise sharing.

25.4 Councillor McLaren noted that most of the fraud investigations were Housing related and asked if the Tenant Services team had enough resources to cope.

25.5 The Corporate Manager – Internal Audit and Data Protection and Data Protection replied that although the pandemic had made identifying fraud more difficult, he was not aware from the Tenant Services team that they were under resourced.

25.6 Councillor Matthissen enquired if a report from the Suffolk Counter Fraud Group could be added to the Joint Audit and Standards Forward Plan.

25.7 The Corporate Manager – Internal Audit and Data Protection and Data Protection stated that the Managing Risk of Fraud and Corruption report was brought to Joint Audit and Standards annually and any major issues in between would be reported to the Chairs of this Committee and the Section 151 Officer for attention.

25.8 Councillor Matthissen asked if a statement specific to the discussions of the Suffolk Counter Fraud Group could be included in the next annual report to Joint Audit, which the Corporate Manager – Internal Audit and Data Protection and Data Protection agreed would be done.

25.9 Councillor McCraw queried the performance figures which the Corporate Manager – Internal Audit and Data Protection and Data Protection stated in his introduction to the report as they differed to the figures in the report.

25.10 The Corporate Manager – Internal Audit and Data Protection and Data Protection confirmed that the figures within the report were correct.

25.11 Councillor McCraw asked for confirmation that the amounts stated in the report for claims and over payments were correct as they seemed to be relatively small.

25.12 The Corporate Manager – Internal Audit and Data Protection and Data Protection confirmed that the amounts within the report were correct.

It was RESOLVED:-

That the contents of report JAC/20/13 detailing the progress made in ensuring there are effective arrangements and measures in place across both Councils to minimise the risk of fraud and corruption be noted.

26 JAC/20/14 INTERNAL AUDIT AND DATA PROTECTION PLAN 2021/2022

26.1 John Snell – Corporate Manager Internal Audit and Data Protection introduced report JAC/20/14 highlighting the key facts and works to be undertaken.

26.2 Councillor McLaren enquired if the days allocated to Deputy Monitoring Officer duties was sufficient.

26.3 The Corporate Manager – Internal Audit and Data Protection stated that there were 3 Officers in the Monitoring Officer team and resources were resilient.

26.4 Councillor McLaren asked if her previous concerns regarding the procurement processes had been addressed.

26.5 The Corporate Manager – Internal Audit and Data Protection stated that the proposed audit work around the procurement processes had been deferred to 2021/22 because a report had been anticipated from the East of England LGA which had been delayed. It was therefore, agreed with management to carry forward the number of days to review the external report and carry out a health check against those recommendations.

26.6 Councillor Matthissen sought reassurance that as there were three officers in the Monitoring Officer team, a Monitoring Officer or Deputy Monitoring Officer would always be available.

26.7 The Corporate Manager – Internal Audit and Data Protection replied that there were sufficient resources to provide cover 5 days a week.

26.8 Councillor Matthissen enquired what the current Internal Audit and Data Protection staffing arrangements were.

26.9 The Corporate Manager – Internal Audit and Data Protection stated that currently there were 2 full time members of staff, together with an external audit provider providing a number of audit days.

26.10 Councillor Hurren asked how the work programme was developed and why planning did not appear within the programme.

26.11 The Corporate Manager – Internal Audit and Data Protection replied that there was a robust process in place to develop the plan, including conversations with senior management to identify areas of concern and the Professional Lead for Growth and Planning had flagged planning enforcement as an area of concern which is why this was in the programme.

26.12 Councillor Lindsay enquired what the work on the Environment stated in paragraph 5.5 entailed.

26.13 The Corporate Manager – Internal Audit and Data Protection stated that there are a set of priorities in the form of an action plan and the Internal Audit and Data Protection team would carry out a health check of that action plan and produce a RAG status of the action plan.

It was RESOLVED:-

That the contents of the Internal Audit and Data Protection report JAC/20/14, supported by Appendix A, be noted.

27 JAC/20/15 STATEMENT OF ACCOUNTS AND AUDITORS REPORT 2019/20

27.1 Rebecca Hewitt – Assistant Manager, Financial Accountant introduced report JAC/20/15 explained what was contained in the Appendices of the report before asking Suresh Patel from Ernst and Young Auditors to present the Auditors Report.

27.2 Suresh Patel presented an overview of the audit report contained in JAC/20/15 and explained that the 2019/20 audit was still in progress however an unqualified opinion was likely to be given with a statement of material uncertainty which was not uncommon for 2019/20.

27.3 Vicky Chong from Ernst and Young Auditors provided an explanation of issues with property valuations which were detailed within the audit report.

27.4 Suresh Patel provided an explanation of the fees position and stated that the audit was planned to be complete by the end of April but achieving this would depend upon property valuations as this was reliant on external information.

27.5 Councillor Lindsay asked what checks were done on valuation information regarding CIFCO properties considering the issues identified with properties within Mid Suffolk and why those issues had not been identified previously.

27.6 Suresh Patel stated that it would be the responsibility of the CIFCO auditors to review their property valuation information, but the CIFCO auditors work had been reviewed with no concerns raised and that there had been a change of valuers for Mid Suffolk and the issues identified had been due to the information used by the new valuers.

27.7 Councillor Matthissen enquired whose decision it was to change valuer and the reason why.

27.8 Katherine Steel, Assistant Director - Corporate Resources explained that the previous valuer was a small organisation and they were not big enough to undertake the Councils work within the required timescales.

27.9 Councillor Matthissen asked if these issues had been ironed out for 2020/21.

27.10 Suresh Patel stated that the issues had been good learning and as there was to be no change in valuer for 2020/21 all issues should be resolved.

27.11 Katherine Steel, Assistant Director Corporate Resources added that the finance team had been working with the auditors and improvements were being put into practice.

27.12 Councillor Matthissen queried if the CIL administration fee monies could be put in reserves and asked what would happen if there were any rule changes.

27.13 Rebecca Hewitt, Assistant Manager Financial Accountant stated that previous years were being investigated to analyse what should have happened and what did happen.

27.14 Councillor McCraw asked if there would be any impact on the budget.

27.15 Katherine Steel, Assistant Manager Corporate Resources stated that the budgets were set in the correct way so there would be no impact.

27.16 Councillor Lindsay enquired if the CIFCO valuer had been changed and who the auditor was for CIFCO.

27.17 Katherine Steel, Assistant Director Corporate Resources replied that it was the responsibility of the CIFCO Board to appoint valuers and she believed the auditors for CIFCO was Ensors and that Emily Atack the Assistant Director – Assets and Investments would be able to provide further information.

27.18 Emily Yule, Monitoring Officer stated that CIFCO reported to the Council and the full Council meeting would be the correct place to raise any issues.

27.19 Recommendations 3.1 and 3.2 were **PROPOSED** by Councillor McCraw and **SECONDED** by Councillor Hurren. By 8 votes for and 1 against.

It was RESOLVED:-

1.1 That delegation be given to the Councils' S151 Officer and the Chairs to sign the accounts (including the auditors unqualified opinion) once completed. This will include:

1.2 That, once complete, the joint external auditor's report for 2019/20 be approved.

27.20 Recommendation 3.3 was **PROPOSED** by Councillor Hurren and **SECONDED** by Councillor McCraw. By 5 votes for.

It was RESOLVED:-

1.3 That the Statement of Accounts for 2019/20 for Babergh District Council, produced following the completion of the audit be approved.

27.21 Recommendation 3.4 was **PROPOSED** by Councillor Muller and **SECONDED** by Councillor Matthissen. By 4 votes for.

It was RESOLVED:-

1.4 That the Statement of Accounts for 2019/20 for Mid Suffolk District Council, produced following the completion of the audit be approved.

28 JAC/20/16 COMPLAINTS MONITORING REPORT

28.1 Emily Yule, Monitoring Officer introduced report JAC/20/16 which provided an update on Code of Conduct complaints received or determined since last reported to the Committee.

28.2 Councillor Hurren asked if the complainants were made aware of complaints made against them.

28.3 The Monitoring Officer replied that it depended on the nature of the complaint made. The complainant would normally be made aware unless it had been determined that the complaint was a code of conduct complaint or if anonymity had been requested.

28.4 Councillor McLaren noted the difference between Babergh and Mid Suffolk Councils and asked where the complaints against district councillors usually came from.

28.5 The Monitoring Officer stated that complaints could be received from other Councillors or members of the public, but it would have no impact on how the complaints are dealt with.

28.6 Councillor McCraw asked if the Monitoring Officer could clarify the response to the LGA for the new model code of conduct regarding social media and its prevalent use.

28.7 The Monitoring Office replied that both councils responded in the Autumn of last year. With regards to social media the councils felt the new model code needed to provide greater clarity on acceptable behaviour on social media and the presumption of official capacity. However, this was not brought into the revised code.

28.8 A revised code had been published and was available for adoption but guidance was being produced for the LGA to provide further context about how the new model code could be applied and once that guidance had been received the revised model code of conduct would be taken to council.

28.9 Councillor McCraw asked when the revised model code of conduct would be brought to council and would it include any points regarding the use of social media from the public.

28.10 The Monitoring Officer replied initial indications were that the guidance was likely to be available in the latter half of the summer and the revised code would more than likely be brought to Council in July or September. With regards to public use of social media there was no way that the code of conduct or council could regulate public use however there was guidance and support available for councillors.

28.11 Councillor McLaren enquired if report JAC/20/16 would also be taken to Cabinet.

28.11 The Monitoring Officer replied that it would not as the remit for looking at code of conduct complaints sat with the Joint Audit and Standards committee.

It was RESOLVED:-

That the Code of Conduct Complaints monitoring information contained in report JAC/20/16 be noted.

29 JAC/20/17 FORWARD PLAN

29.1 The Assistant Director - Corporate Resources stated that changes were being made to the forward plan and a revised version would be circulated to Members. The items to be taken to the meeting in May were confirmed.

The business of the meeting was concluded at 11:20am.

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Chair

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Agenda Item 7

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: JOINT AUDIT AND STANDARDS COMMITTEE	**REPORT NUMBER: JAC/20/19**
FROM: Corporate Manager – Internal Audit and Data Protection	**DATE OF MEETING: 17 May 2021**
OFFICER: Corporate Manager – Internal Audit and Data Protection	**KEY DECISION REF NO. N/A**

ANNUAL INTERNAL AUDIT REPORT 2020/21

1. PURPOSE OF REPORT

1.1 The purpose of this report is to inform Councillors of the work undertaken within the Internal Audit Service for the year, 2020/21 and provides Councillors with a review of the variety and scope of projects and corporate activities which are supported through the work of the team.

2. OPTIONS CONSIDERED

2.1 This is a regulatory report and there are no options to consider.

3. RECOMMENDATIONS

3.1 That the contents of this Internal Audit report, supported by Appendix A, be agreed.

REASON FOR DECISION

For the Committee to agree the Internal Auditors annual report for 2020/21.

4. KEY INFORMATION

4.1 Requirement of Internal Audit - Public Sector Internal Audit Standards (PSIAS)

The PSIAS require the Corporate Manager – Internal Audit and Data Protection to report periodically to senior management and this Committee on Internal Audit's performance relative to its Internal Audit Plan including significant risk exposures and control issues where relevant, fraud risks and governance issues.

4.2 As the Councils' Delivery Programme continues and re-shapes and transforms its services the demand on Internal Audit's services to provide assurance, support and guidance on a diverse range of activities continues. The Corporate Manager – Internal Audit and Data Protection monitored requests, with a risk-based approach, for the re-allocation of Internal Audit resources from the approved 2020/21 Internal Audit Plan.

4.3 There was due consideration in conducting this year's audits to ensure that Internal Audit maintained its objectivity and independence. As further demonstration of organisational independence, the Corporate Manager – Internal Audit and Data

Protection can confirm that there has been no inappropriate scope or resource limitations placed upon him.

4.4 In line with the Councils' Internal Audit Charter the work was conducted to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion. In doing this it can be confirmed that the work conducted covered the following activities:

- Governance processes
- Monitoring
- Ethics
- Information and Information technology governance
- Risk Management
- Fraud management

4.5 Audits conducted (as opposed to Audit investigations) are also split into two types, 'Fundamental' and 'Risk' reviews. 'Fundamental' reviews are conducted in the latter half of the financial year to meet with External Audit testing requirements.

4.6 The Corporate Manager – Internal Audit and Data Protection is responsible for the delivery of an audit opinion and report that can be used by the Councils to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no significant weaknesses in the processes reviewed. In assessing the level of assurance to be given, the Corporate Manager – Internal Audit and Data Protection has based his opinion on:

- Written reports on all internal audits completed during the course of the year, both assurance and consultancy;

- Results of any follow up exercises undertaken in respect of previous years' internal audit work;

- The results of work of other review bodies where appropriate;

- The extent of resources available to deliver the internal audit work; and

- The quality and performance of the internal audit service and the extent of compliance with the Public Sector Internal Audit Standards (PSIAS).

- The impact of Covid-19 and the approach taken by management to evaluate the key governance processes that enable front line Services to operate within a framework of control.

- Looking at our Business Continuity arrangements and resilience generally.

Audit Opinion – the Corporate Manager – Internal Audit and Data Protection is satisfied that sufficient assurance work has been carried out to allow him to form a reasonable conclusion on the adequacy and effectiveness of each Council's internal control environment.

It is the Corporate Manager – Internal Audit and Data Protection's opinion that the Councils' framework of governance, risk management and internal control is '(Sufficient) – Reasonable Assurance' – the system, process or activity should achieve its objectives safely and effectively. However, whilst there are some control weaknesses most key controls are in place and operating effectively. Where weaknesses have been identified through internal audit review, Internal Audit have worked with management to agree appropriate corrective actions and a timescale for improvement.

5. LINKS TO CORPORATE PLAN

5.1 The delivery of a comprehensive Internal Audit service supports the Councils' objectives, in particular ensuring the right people are doing the right things, in the right way, at the right time, for the right reasons.

5.2 However, all Internal Audit work has been associated with the Councils' strategic themes and the attached report, Appendix A, provides a summary of the work undertaken by theme. This work will contribute to the 2020/21 overall Internal Audit opinion on the Councils' control environment provided by the Corporate Manager – Internal Audit and Data Protection, as required by the Accounts and Audit (England) Regulations 2015.

6. FINANCIAL IMPLICATIONS

6.1 There are no direct financial implications arising from this report. All Internal Audit recommendations must be considered in terms of their cost effectiveness.

7. LEGAL IMPLICATIONS

7.1 There are no direct legal implications arising from this report other than the statutory framework under which Internal Audit operates.

8. RISK MANAGEMENT

8.1 This report is not directly linked with any one of the Councils' Significant Risks. The key risk, however, is set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal controls within each Council may not be efficient and effective. As a result, each Council may not identify any significant weakness that could impact on the achievement of their aims and/or lead to fraud, financial loss or inefficiency.	Unlikely 2	Bad 3	Councillors receive and approve the internal audit work programme and other reports on internal controls throughout the year. The work programme is based on an assessment of risk for each system or operational area.

9. CONSULTATIONS

9.1 The 2020/21 Internal Audit Plan was delayed and revised due to COVID-19 and approved by the Joint Audit and Standards Committee on 30th November 2020 (Paper JAC/20/4), having previously been endorsed by the S151 Officer and the Senior Leadership Team.

As part of the preparation for this Plan, auditors engaged with senior management to identify their view of the coming year's risks linked to the Corporate Plan and Delivery Programme, and to gather and map management assurance across the Councils' functions.

9.2 The half year report on progress towards completion of this report was reported alongside the revised audit plan in November 2020. No significant comments were forthcoming.

9.3 Similarly, the preparation of this report followed the same consultation process.

10. EQUALITY ANALYSIS

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 There are no environmental implications arising from this report.

12. APPENDICES

Title	Location
(a) Appendix A - Overview of Internal Audit Work	Attached

13. BACKGROUND DOCUMENTS

13.1 Internal Audit Plan 2020/21 and Progress Report – Paper JAC/20/4.

Authorship:

John Snell
Corporate Manager – Internal Audit and Data Protection

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Appendix A

Overview of Internal Audit Activity, 12 Months to 31st March 2021

1. Introduction

1.1 The work completed by Internal Audit for the Financial Year 2020/21 is reported here to the Joint Audit and Standards Committee.

1.2 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and further revised on 1 April 2017.

2. Internal Audit reports with Adverse Opinions

2.1 One audit has been issued with an audit opinion of 'Limited Assurance' in this period, details of which are recorded in Section 6 below together with all the audits conducted.

The reviews that returned an audit opinion on the control environment of 'Limited Assurance' in the last financial year (2019/20) where actions were outstanding have been kept under review by audit and, where appropriate, the management actions have been reassessed with the appropriate manager. The status of these audits were reported to this Committee on 30th November 2020 – Paper JAC/20/4.

2.2 As well as conducting audit reviews Internal Audit had significant involvement within the period in a variety of different Council activities/issues, which included:

Section Reference:

3 Council Governance
4 Risk Management
5 Probity
6 Audits conducted
7 Business support activities (Covid and non-Covid related)

3 Council Governance

3.1 Annual Governance Statement (AGS)

Internal Audit has led on the production of the AGS which was completed again as at the end of the financial year 2020/21 and being presented to this Committee today.

3.2 Statutory Officers Working Group

The Corporate Manager – Internal Audit and Data Protection sits on this group to provide appropriate professional guidance and advice on a range of governance matters.

3.3 Deputy Monitoring Officer

The Corporate Manager - Internal Audit and Data Protection undertakes the role of Deputy Monitoring Officer for the Councils with the specific duty to ensure that the Councils, their officers, and Elected Councillors, maintain the highest standards of conduct in all they do, pursuant to Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000.

4 Risk Management

4.1 It is the role of the Audit and Risk Management Services team within the Councils to provide support, guidance, professional advice and the necessary tools and techniques to enable the Councils to take control of the risks that threaten delivery at a strategic and operational level. The role of the team is also to provide a level of challenge and scrutiny to the risk owners. The work of the team will be directed to affect the achievement of the following risk management objectives:

- Align the organisations' culture with the risk management framework.
- Integrate and embed the risk management framework across the organisations.
- Enable the organisations to recognise and manage the risks it faces.
- Minimise the cost of risk.
- Anticipate and respond to emerging risks, internal and external influences and a changing operating environment.
- Implement a consistent method of measuring risk.

4.2 As part of good governance, the Councils' manage and maintain a register of its Significant Risks and Operational Risks - assigning named individuals as responsible officers for ensuring the risks and their treatment measures are monitored and effectively managed. Full details of the Significant Risk Register and the work overseen by the Audit and Risk Management Services Team is subject to a separate report being presented to this Committee later in the year.

5 Probity

5.1 Full details of the anti-fraud and corruption work undertaken during the year is subject to a separate report that was presented to this Committee on 29th March 2021 (Paper JAC/20/13) entitled 'Managing the Risk of Fraud and Corruption'.

5.2 The data requirements and data specifications for the 2020/21 National Fraud Initiative (NFI) exercise commenced in October 2020 using the NFI's secure electronic upload facility. Elections and single person discounts data were uploaded in December 2020. This year, due to Covid business grants, additional data was uploaded in response to this.

5.3 The release of matches of information across all the contributor's data is managed on a risk-based approach by the system users, supported by Internal Audit. The system users access their data from the NFI and can investigate, in conjunction with the matched partner / contributor, to evaluate the potential fraud or error indicated by the match.

6 Audits conducted

6.1 In line with the 2020/21 Internal Audit Plan reporting of outcomes is associated with all the Councils' strategic themes and are reported below, with their associated audit opinion on the control environment.

6.1.1 Health of the Organisation

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
General Ledger	To review the controls in operation in both the structure and management of the operating system and the associated key reconciliations between the host and feeder systems to ensure that posting accuracy and financial integrity are assured.	Control accounts and reconciliations are mismanaged or ineffective and mis-posting may go unnoticed.	Reconciliations of the principal control accounts were at the time of testing found to be performed regularly and on a timely basis but lacked full evidence of a second officer sign-off. S151 reports have not been formally issued this financial year, although adequate alternative reports have been issued to provide s151 Assurances to Management and Members.	Reasonable Assurance
Payables	The overall objective of this audit was to provide assurance over the adequacy and effectiveness of the current controls and provide guidance on how to improve current controls going forwards; focussing on: • management oversight • performance • compliance activity	Payments are made when no goods or services are received. Payments are made, disputes dealt with, or refunds obtained, without appropriate authority. Monies are inappropriately moved or settled, giving rise to misleading financial reporting. Payments do not conform to Council policies and procedures or regulatory frameworks.	The Councils adhere to the 30-day payment policy. Refunds follow policy, has adequate separation of duties and are appropriately authorised. The Finance procedures ensure the appropriate controls within Integra to identify and correct any mis-codings. Appropriate reconciliations being carried out are evident but require formal sign off by management.	Reasonable Assurance
Income – Waste Service	The primary aim of the audit is to evaluate the adequacy of key controls in place to ensure that the Waste Team identify, bill, collect and account for sundry debt income on a timely basis.	Not all discretionary/chargeable waste collections have been identified and set up for billing. The charges levied do not accord with the Council's policy and prices. Debts are not collected in a timely manner, meaning the Council's income is at risk.	Brown bin retrieval notes are regularly kept up to date. Notes are well detailed and concise. All write offs process for both councils are followed correctly according to the Debt Monitoring and Recovery Policy.	Reasonable Assurance

			Due to COVID-19, procedures such as timeliness of invoicing for both brown bins and trade, and overall income have been impacted. The process for credit notes needs to be tightened to ensure that there is evidence of authorisation by an appropriate authorising officer within waste services. At the time of the audit, forecast income information was not available due to the uncertainty on businesses and the current lockdown position. A year-end review is needed to assess impact on processes and any future pricing for the trade waste service.	
Budgetary Control	To evaluate the internal controls that help determine how budgeting and budgetary control enables the Councils to plan, control, coordinate and appraise its' activities.	Council expenditure exceeds planned limits. This may lead to budgetary pressures and a lack of resources to provide satisfactory services to the public. Non-compliance with the Council's procedures. Where budget managers do not have clarity with regards to how their budgets are formed, this has potential to reduce the level of budgetary control, with managers unable to identify pressures within the budget therefore increasing the risk of potential over-spends. Further risks include fraud; misappropriation; material errors; legal and regulatory penalties; poor decision-making and reputational damage.	Work started although put on hold and deferred into 2021/22 following management's directive to focus on critical services in response to the COVID emergency.	
Financial Governance	The purpose of the review is to ensure that the Council is maintaining robust Financial Governance in relation to the new COVID-19 arrangements. The review will evaluate the adequacy of key controls around how the Councils collect, manage, monitor and report COVID-19 expenditure.	The risks of poor financial governance include fraud; misappropriation; material errors; legal and regulatory penalties; poor decision-making and reputational damage.	An update on COVID–19 Financial implications was provided to the Cabinet for each council in July 2020 and a decision log actions taken at Tactical Management Team is maintained and followed up. Forecast financial loss due to COVID has been estimated and source of funds to cover the gap identified and presented to the Cabinet. Testing confirmed that invoices and purchase orders were correctly approved, but a recommendation has been made to apply a	Substantial Assurance

			retrospective waiver process where urgent spending decisions were made. Changes in financial processes due to COVID 19 were properly communicated and COVID costs were separately identified and accounted for.	
Payroll	The audit reviewed Payroll processes to confirm the controls in place are adequate, including the workarounds / detective controls designed to identify and address known issues. The following areas were included: • Starters, Pay Changes & Leavers.	Payment approval process is ineffective. Changes to payroll standing data may not be adequately controlled and processed promptly. Starters and Leavers may not be properly added or removed from the payroll system in a timely manner. Recovery of employee debt.	Testing of new starters showed that all employees had complete and accurate records on file and payment was as agreed in their contract. All employees had been given their HR induction promptly. All controls relating to the Leavers process was found to be prompt and accurate, including the removal of IT access. Pay rate master files can only be undertaken by SCC IT upon request from HR. Any unauthorised changes to the system would get picked up in the monthly payroll checks performed by HR staff. Overtime testing highlighted some staff had been paid at the incorrect rate resulting in an underpayment, which has subsequently been corrected.	Reasonable Assurance
Business Grant payments – Support Central Government various Grant Funding Schemes	To provide assurance to Senior Management that BMSDC are following Discretionary Business Grant policy implemented to manage Central Government Business grants, during Covid – 19 pandemic.	First party application fraud – the risk that an applicant may misrepresent their circumstances to quality for a government grant or scheme; Third party impersonation fraud – the risk that a third party may impersonate a business to extract grant funding from the government.	Adequate controls are in place for the processing of business grants and to help prevent fraud and possible errors. The audit identified one mis-payment due to an administrative error and three miscoding's had occurred within Integra where the grant category had incorrectly applied (which have now been corrected). Recovery of the mis-payment has commenced – the applicant subsequently qualified for a discretionary grant and the initial grant payment was offset against that.	Reasonable Assurance

Discretionary Business Grants - Support Central Government various Grant Funding Schemes			Post payment validation checks were found to be sound in order to mitigate fraud and errors and satisfy the criteria for financial assurance – no errors were found.	Substantial Assurance
Risk Management	The broad objective of the audit is to evaluate whether there is a Risk Management Framework (RMF) in place which can enable the risk management process to be carried out and developed in a comprehensive manner, whereby all significant risks are identified, evaluated, controlled, monitored, and reported in accordance with best practice.	Poor Governance and “Tone of the Organization”. Reckless Risk-Taking. Inability to Implement Effective Enterprise Risk Management (ERM) processes. Non-existent, Ineffective or Inefficient Risk Assessment Not integrating Risk Management with Strategy-Setting and Performance Management	Work in progress	-

6.1.2 Housing

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Disabled Facilities Grants	This audit focused on the administration function to ensure grants are awarded in accordance with the Councils’ criteria and the conditions set by Central Government.	Funding is not given to the correct people, meeting the correct criteria or reclaimed appropriately.	The conditions attached to the Disabled Facilities Capital Grant Determination (2018-19) No [31/3337] have been complied with.	Prescribed declaration presented to the Ministry for Housing, Communities and Local Government via the administrating authority, Suffolk County Council.

Housing – Health & Safety	Ascertain and report on whether the Organisation has appropriate policy/procedures to ensure actual compliance (in terms of completion of the statutory checks) with both statutory and regulatory health and safety requirements/best practice.	A lack in effective management through an improvement plan may lead to failure in providing sufficient compliance assurance. Weak communications and monitoring of performance may lead to failure in identifying opportunities for improvements. Failure to implement an agreed Compliancy Action Plan may lead to a lack of focus and critical deadlines for compliance improvements being missed.	Recommendations have been made to further strengthen governance and oversight. A compliance dashboard is being developed which will assist in addressing this issue. Most of the issues identified are included within a compliance action plan which is being developed. A full set of Housing Health & Safety Policies need to be finalised, approved and regularly reviewed to ensure they remain fit for purpose. The operational risk register needs to be updated with risks highlighted within the Consultant's building services update report.	Limited Assurance (to be followed up early next year)

6.1.3 Customers and Wellbeing

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Cyber Security review	The review considers the Cyber Security controls in place at the Councils using the National Cyber Security Centre's "10 steps to Cyber Security" framework covering the following areas: Risk Management Regime; Network Security; User Education and Awareness; Malware Prevention; Removable Media Controls; Secure Configuration; Managing User Privileges; Incident Management; Home and Mobile Working; and Monitoring	Malware – malicious software that includes viruses, Trojans, worms or any code or content that could have an adverse impact on organisations or individuals. Ransomware – a kind of malware that locks victims out of their data or systems and only allows access once money is paid. Phishing – emails purporting to come from a public agency to extract sensitive information from members of the public.	Work started although put on hold and deferred into 2021/22 following management's directive to focus on critical services in response to the COVID emergency.	
Shared Revenues Partnership (SRP) – 2019/20 Audit Review	**Note:** This work is undertaken by Ipswich Borough Council's Internal Audit Section as the Partnerships' host authority. The objective of the audit was to ascertain the extent to which the identified risks have been managed and to evaluate whether effective controls to mitigate the risks have been established and have been operating effectively throughout the period under review relating to Council Tax, National	<u>Council Tax</u> Failure to ensure precepts are entered accurately may result in inaccurate liabilities and reputational damage. Council Tax monies received or refunded may be incorrectly posted resulting in misstatement of entries in the main financial system.	Key findings for both Councils – The Council Tax & NNDR precepts and annual rateable value multiplier have been input to NRB correctly and reviewed for accuracy.	Opinion for both Councils across the three elements: Good (All controls are being applied consistently and effectively. This means that all the control areas

	Non-Domestic Rates and Housing Benefits.	NNDR Incorrect multipliers may be used when calculating business rate bills resulting in under or over charging customers which may lead to reputational damage and financial loss. Failure to review exemptions and discounts in a timely manner may result in financial loss. Rates due to the Council may not be correctly identified and collected resulting in loss of revenue to the Council. Housing Benefits Claims may be paid incorrectly resulting in irrecoverable overpayments made to customers. Unauthorised payments may be made resulting in misappropriation which may lead to financial loss. Overpayments may be incorrectly calculated which may result in financial loss.	Appropriate segregation of duties exists. The benefits system has been reconciled to the general ledger and independently reviewed on a timely basis.	in the audit are being properly managed and the associated risks are being mitigated).

6.1.4 Assets and Investments

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Asset Management	To provide assurance over the adequacy and effectiveness of current controls over Asset Management and provide guidance on how to improve current the controls going forward.	There may be no formally documented asset management policy in place leading to inconsistencies in how Council assets are managed. There may be insufficient controls in place for recording and accounting for fixed asset additions and disposals resulting in incorrect accounting treatment and incomplete asset registers. There may be inadequate procedures in place in relation to the monitoring and safeguarding of Council assets leading to increased risk of misappropriation of assets. There may be insufficient insurance cover in relation to Council assets resulting in financial loss to the Council.	Work in progress	-
Capital Finance Projects	To ensure that the capital programme supports delivery of the Councils' priority outcomes. In summary, the scope will cover the following areas: Policies and Procedures, Governance arrangements, Allocation of Capital Programme Budget, Project Initiation, Monitoring, End of Project	The Capital Programme does not reflect the Councils' priorities. Policies and procedures, training and guidance do not provide sufficient understanding to manage capital projects.	All capital finance projects are aligned to the BMSDC strategic direction, evidenced by project documentation including the Project Initiation Document. The General Fund (GF) and Housing Revenue Account	Reasonable Assurance

	Evaluation and Tracking Realisation of Proposed Benefits.	Inadequate reporting arrangement over the project operation and financial progress leading to overspends. Lack of clearly defined/stated benefits.	(HRA) Budgets were approved by the Councils in February 2020, which included the Capital Programme. The approval signatory, project office sign off checks and supporting finance information had not been completed or made available on all key project deliverable documents reviewed. Post Implementation Reviews had not been carried out on all closed projects reviewed.	

6.2 In undertaking this work there was due consideration to ensure that Internal Audit maintained its objectivity and independence. The prioritisation of work took account of the requirements of the approved audit plan.

Objectivity was maintained in that the auditors had no personal or professional involvement with or allegiance to the area audited. The determination of appropriate parties to which the details of an impairment to independence or objectivity is disclosed was dependent upon the expectations of the activity and was expressed during the planning of each audit.

6.3 Work conducted during the year compared to the approved 2020/21 Audit Plan

The audit plan was approved by this Committee in November 2020 (Paper JAC/20/4) and initially Internal Audit work conducted is derived from this source. The Corporate Manager for Internal Audit and Data Protection exercised discretion at the time of drafting the specific audit briefs to ensure that the work was still appropriate and of a sufficient risk ranking to continue the review.

The Councils' response to the COVID-19 Emergency and reprioritisation of workloads exercise has had a significant impact on the Internal Audit resource and its ability to deliver normal internal audit work during the course of the year. From April 2020 Internal Audit has and continues to support the Councils' Tactical Management Team, Business Cell assisting in checking emergency grant applications and the Staff Matters Cell with particular responsibility for maintaining the 'Staff Redeployment List'. As a result, the Corporate Manager for Internal Audit and Data Protection has agreed with management to defer a number of audits into 2021/22, namely:

- Assets of Community Value
- Community Grant Funding
- Safeguarding
- Health and Safety
- Babergh and Mid Suffolk Holding Companies
- Babergh and Mid Suffolk Growth Companies

6.4 Performance review

6.4.1 Audit clients continue to express a high level of satisfaction with the service delivered. The latest figures are based on a 50% return of the completed customer satisfaction surveys.

	19/20	20/21
Before the Audit		
Were you given adequate notification of the audit?	100%	100%
Were you informed of the audit objectives?	100%	100%
Were you able to discuss with the auditor the risks you felt should be addressed?	100%	100%
Carrying out the Audit		
Did you feel that an environment of trust and confidence was achieved?	100%	100%
Was the audit carried out in an efficient and timely manner?	100%	100%
If not, were you kept informed of the progress towards final report?	100%	100%
Did the auditors work in a professional and helpful manner, with appropriate integrity?	100%	100%
Reporting the Audit		
Were you given the opportunity to discuss the findings with the auditor throughout the audit as well as at draft report stage?	100%	100%
Were the findings adequately supported by evidence?	100%	100%
Were the recommendations in the final report practical?	100%	100%
Was the report issued in a timely manner following testing?	100%	100%
Will the audit improve internal controls?	80%	80%
Will the audit enable you to improve your service	80%	80%
Overall, how would rate the audit?		
Excellent	80%	85%
Good	10%	15%
Satisfactory	10%	
Poor		
Did the Auditor demonstrate the Councils' values?		
Our People		100%
Our Customers		100%
Being Open and Honest		100%
Taking Ownership		100%
Being Ambitious		100%

6.4.2 Internal Audit continue to perform well against the agreed Key Performance Indicators.

The reduced percentage of the audit plan delivered is as a result of responding to the Covid-19 emergency and resultant reprioritisation of workloads.

	Key Performance Indicator	Target	19/20	20/21
1	100% audit recommendations accepted by management.	90%	100%	100%
2	% high priority recommendations implemented.	100%	100%	100%
3	% of individual audit system reviews completed within target days or prior approved extension by the Corporate Manger – Internal Audit.	100%	100%	100%
4	Average Number of days between the issue of Internal audit briefs and commencement of audit fieldwork.	10 working days	5	6
5	Average Number of days between the completion of audit fieldwork and issue of draft report.	10 working days	5	7
6	Average Number of days between the issue of the draft and final report.	15 working days	9	8
7	The % of internal audits completed to the satisfaction of the auditee (source: returned Customer Surveys)	80% 'Satisfactory'	100%	100%
8	Percentage of the audit plan completed - (below target as a result of responding to the COVID-19 Emergency)	90%	73%	58%

7 Business support activity (Covid and non-Covid related)

7.1 Internal Audit have been part of the Councils' Tactical Management Team (TMT) responsible for managing emerging risks and directing resources to help ensure critical services are maintained across the two districts.

7.2 The Corporate Manager for Internal Audit and Data Protection is a member of the Staff Matters Cell responsible for taking a co-ordinated approach to different factors affecting staff during the pandemic and to look at the preparation of policies, procedures and protocols. In addition, the Cell is responsible for maintaining the 'Redeployment List' and advising on requests made for additional resources to support TMT decisions.

7.3 A member of the Internal Audit team is supporting the Councils' Business Cell by providing assurance over the administering of business grant schemes announced by Central Government. The work includes ensuring that the prescribed criteria in terms of eligibility is correctly applied and met and managing the risk of fraud using available digital assurance tools, such as Spotlight.

7.4 The Corporate Manager for Internal Audit and Data Protection is a member of a Public Realm Working Group tasked with reviewing the Councils' service provision with responsibility for providing advice and guidance on governance matters including risk.

8. Resources

8.1 The work of Internal Audit is resourced from existing staff and from an external audit partner. This arrangement still allows a direct internal provision plus the commissioning of external skills and capacity and provides a blend of resources from within the Councils and from an external partner of services.

8.2 The option of working with an external partner currently makes good sense in that management still retains control over the internal audit function while at the same time leveraging the internal audit resource of the third-party service provider. It provides access to valuable and diverse specialised skills as needed and achieves a level of flexibility which can be critical in effectively dealing with a range of operational issues.

9 Professional Practice

9.1 Membership of audit bodies

It is important to keep abreast of best professional practice. Internal Audit has strong links with audit colleagues both within Suffolk and nationally and are members of the Suffolk Working Audit Partnership (SWAPs) and the Midland Audit Group.

9.2 Public Sector Internal Audit Standards (PSIAS)

The team has fully reviewed their working practices to ensure that our Internal Audit documents and processes comply with, and can be evidenced to, the PSIAS.
This has resulted in a refining of the Internal Audit Charter Strategy; Internal Audit Services Manual; Internal Audit Risk Log; Quality Assurance and Improvement Programme; procedure notes; and working papers. These documents are published on the Councils' intranet, 'Connect', and remain subject to regular review.
Subsequent to this exercise the actions arising from the review are materially implemented.

9.3 Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.

The Corporate Manager – Internal Audit and Data Protection is also responsible for overseeing the risk management and more recently following the phase 2 management review data protection arrangements across both Councils. Each of these roles has an independent sponsor to champion reports and proposals. These are vested in the Assistant Director, Law & Governance and Monitoring Officer.

10 Audit opinion

10.1 The Corporate Manager – Internal Audit and Data Protection is responsible for the delivery of an audit opinion and report that can be used by the Councils to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

10.2 In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no significant weaknesses in the processes reviewed. In assessing the level of assurance to be given, the Corporate Manager – Internal Audit and Data Protection has based his opinion on:

- Written reports on all internal audits competed during the course of the year, both assurance and consultancy;
- Results of any follow up exercises undertaken in respect of previous years' internal audit work;

- The results of work of other review bodies where appropriate;
- The extent of resources available to deliver the internal audit work; and
- The quality and performance of the internal audit service and the extent of compliance with the Public Sector Internal Audit Standards (PSIAS).
- The impact of Covid-19 and the approach taken by management to evaluate the key governance processes that enable front line Services to operate within a framework of control.
- Looking at our Business Continuity arrangements and resilience generally.

In undertaking this assessment, a number of questions were directed at service managers to establish the extent of the impact COVID-19 has had on their service area. This assessment helped Internal Audit determine the key risk areas and direct their resources according. As a result of the reviews and discussions with service managers Internal Audit was able to draw the following conclusions:

1) There has not had to be significant variations to controls, and the control framework has transferred well to aspects such as remote working. This would indicate that the Council has a robust control framework that can adapt at a time of crisis.

2) Changes to working practices undoubtedly have occurred but these have not reduced control and, in some instances, have improved the efficiency of processes with automation often replacing previous manual / physical activity.

3) Where changes have been enforced, staff have maintained a clear understanding of the basis of control and, in most instances, created solutions which have maintained the integrity of the process. Resulting efficiency gains need to be recognised and maintained.

As the Head of Internal Audit I can, in principle, provide reasonable assurance that the general governance controls across the Councils have not been overly weakened because of the changes made to adjust to COVID19. There are areas that have been identified where the Council is potentially at a greater risk as a result of the pandemic and these have been included in the work undertaken and within the Audit Plan next year.

Audit Opinion – the Corporate Manager – Internal Audit and Data Protection is satisfied that sufficient assurance work has been carried out to allow him to form a reasonable conclusion on the adequacy and effectiveness of each Council’s internal control environment.

10.3 It is the Corporate Manager – Internal Audit and Data Protection's opinion that the Councils' framework of governance, risk management and internal control is '(Sufficient) – Reasonable Assurance' – i.e., the system, process or activity should achieve its objectives safely and effectively. However, whilst there are some control weaknesses most key controls are in place and operating effectively. Where weaknesses have been identified through internal audit review, Internal Audit have worked with management to agree appropriate corrective actions and a timescale for improvement.

11 Conclusions

The Corporate Manager – Internal Audit and Data Protection considers that there are no additional audit related issues that currently need to be brought to the attention of this committee.

Draft Circulation:

Dave Muller Chair of the Joint Audit and Standards Committee – Mid Suffolk
Bryn Hurren Chair of the Joint Audit and Standards Committee – Babergh
Lee Parker (Cabinet lead for Customers, Digital Transformation & Improvement – Babergh)
Suzie Morley (Cabinet lead for Customers, Digital Transformation & Improvement – Mid Suffolk)
Senior Leadership Team, which include Katherine Steel Assistant Director, Corporate Resources (S151 Officer)

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Agenda Item 8

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO:	**Joint Audit and Standards Committee**	**REPORT NUMBER: JAC/20/20**
OFFICER:	**John Snell – Corporate Manager – Internal Audit and Data Protection**	**DATE OF MEETING: 17 May 2021**

JOINT ANNUAL GOVERNANCE STATEMENT 2020/21

1. PURPOSE OF REPORT

1.1 This report reviews the Councils' Corporate Governance arrangements as required by the Accounts and Audit Regulations 2015.

1.2 The Joint Audit and Standards Committee has responsibility for being satisfied that the joint Annual Governance Statement (AGS), to accompany each Council's financial accounts 2019/20, properly reflects the risk environment and any actions required to improve it.

2. OPTIONS CONSIDERED

2.1 The Committee could request further information on which to base its views. Failure to act will weaken corporate governance and could have an impact on service delivery and lead to adverse comments from the External Auditor and other inspectorates and impact on how the Councils demonstrate good governance to its residents.

3. RECOMMENDATIONS

3.1 That Councillors satisfy themselves that the joint Annual Statement (AGS) 2020/21 (Appendix A to this report) properly reflects the governance environment and any actions to improve it.

3.2 That subject to 2.1 above, the AGS be endorsed subject to the Assistant Director – Law & Governance and Monitoring Officer being authorised to make any minor amendments and corrections prior to the Statement being finalised for publication.

3.3 Further that approval of any significant amendments identified by the Assistant Director – Law & Governance and Monitoring Officer be delegated to her in consultation with the Chairs of this Committee and the Leaders of each Council.

3.4 That it be noted that the finalised AGS will be signed by the Leader of each Council on behalf of the respective Council together with the Chief Executive on behalf of both Councils.

REASON FOR DECISION

The preparation and publication of the Annual Governance Statement will meet the statutory requirement of the Accounts and Audit Regulations 2015 which require an authority to, each financial year, conduct a review of the effectiveness of its system of internal control, and to prepare an annual governance statement.

It is the responsibility of the Audit Committee to review the Council's Corporate Governance arrangements.

4. KEY INFORMATION

4.1 The preparation and publication of an AGS is necessary to meet the statutory requirement set out in Regulation 6 of the Accounts and Audit Regulations 2015.

4.2 Governance is about how each Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems, processes, cultures and values, by which the Council is directed and controlled and through which it is accountable to, engages with and, where appropriate, leads communities.

4.3 This committee is responsible for overseeing each Council's work around corporate governance.

4.4 The Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE framework Delivering Good Governance in Local Government 2016.

4.5 The Annual Governance Statement explains how the Councils have complied with the Local Code and also meets the requirements of Regulation 6 (Part 2) of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

4.6 The core governance principles under the code are as follows:

a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;

b) Ensuring openness and comprehensive stakeholder engagement;

c) Defining outcomes in terms of sustainable economic, social and environmental benefits;

d) Determining the interventions necessary to optimise the achievement of the intended outcomes;

e) Developing the Council's capacity, including the capability of all of its officers and councillors for leadership;

f) Managing risks and performance through robust internal control and strong public financial management; and

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

4.7 The seven core principles each have a number of supporting subprinciples, which in turn have a range of specific requirements that apply across the Councils' business.

4.8 The Code incorporates the ‘three lines of defence’ model which has been used as the primary means to demonstrate structure, roles, responsibilities and accountabilities for decision making, risk and control to achieve effective governance and assurance.

4.9 **First Line of Defence** – The Councils are responsible for ensuring that a risk and control environment is established as part of day-to-day operations. Operational managers are responsible for, and thus should be adequately skilled in, making risk assessments (including proactive review, update and modification). The first line of defence provides management assurance and informs the Joint Audit and Standards Committee by identifying risks and organisational improvement actions, implementing controls, and reporting on progress.

4.10 **Second Line of Defence** – The Councils’ Oversight Functions (e.g. Finance; Human Resources (HR); Information Technology (IT); Assets and Investments; Information Governance; Procurement etc.) are responsible for designing policies, setting direction, introducing best practice, and providing assurance oversight for the Senior Leadership Team and Councillors.

4.11 **Third Line of Defence** – Independent assurance providers, including Internal Audit, External Audit and other inspectors, help the Councils by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. This entails independent challenge, the audit of key controls, formal reporting on assurance, and, where applicable, the audit of assurance providers’ controls.

4.12 All three lines of defence have specific tasks in the internal governance framework. This Committee has a role to maintain oversight and to monitor the effectiveness of internal controls and risk management processes as well as internal audit activities.

4.13 The outcome of this review forms the basis of the AGS which is prepared on behalf of the Leader of each Council and the Chief Executive. The committee must be satisfied that the AGS is supported by reliable evidence and accurately represents the internal control environment.

4.14 This committee receives this statement for consideration and review prior to it accompanying each Council’s 2020/21 Statement of Accounts which will be approved by this committee later in 2021. Any changes / comments this Committee wishes to make to the AGS will be made before it is signed.

4.15 To reflect the ‘three lines of defence’ model, the AGS also includes assurance statements from various officers representing the oversight functions, as well as the annual audit opinion from the Corporate Manager – Internal Audit and Data Protection.

4.16 The AGS provides an assurance of the effectiveness of the Councils’ system on internal control. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework. There have been no governance issues identified during the year that are considered significant in relation to each Council’s overall governance framework.

4.17 We are already addressing the key governance risks and challenges set out in this Annual Governance Statement and will continue to do so over the coming year to further strengthen our governance arrangements. We are satisfied that these steps will continue to address the need for any improvements that are required and that arrangements are in place to monitor the issues raised as part of each Council's annual review.

4.18 The Covid-19 emergency has meant that the Council has had to make a number of changes to its governance arrangements. This governance statement provides assurance over the governance arrangements that have been in place during 2020/21 and it also identifies through the assurance statements from officers the issues and changes that have been implemented in response to the emergency. The Councils' arrangements are under significant pressure but it is felt that they are still robust and sufficient for the current circumstances.

5. LINKS TO CORPORATE PLAN

5.1 Governance touches all aspects of the Councils' activities. To ensure the successful delivery of the Corporate Plan it is essential that the principles of good governance are applied consistently across the Councils.

6. FINANCIAL IMPLICATIONS

6.1 A sound system of internal controls forms a significant part of the framework and is essential to underpin the effective use of resources.

7. LEGAL IMPLICATIONS

7.1 Regulation 6 (Part 2) of the Accounts and Audit Regulations 2015 requires the Councils to conduct an annual review of its systems of internal control and following the review, the Councils must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

8. RISK MANAGEMENT

8.1 A strong internal control environment contributes to the overall effective management of each Council and will help minimise the risks of each Council failing to achieve its ambitions and priorities, and service improvements.

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to regularly monitor and improve the Council's arrangements could weaken corporate governance, have an impact on service delivery and lead to adverse comments from the External Auditor.	Highly Unlikely (1)	Bad (3)	Internal and External Audit help ensure a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

9. CONSULTATIONS

9.1 The AGS was prepared following input from key senior officers and those various officers representing the oversight functions, as well as the annual audit opinion from the Head of Internal Audit.

10. EQUALITY ANALYSIS

10.1 Equality and diversity implications have been considered within the AGS arrangements and an Equality Impact Assessment (EIA) is not required.

11. ENVIRONMENTAL IMPLICATIONS

11.1 There are no environmental implications associated with this report.

12. APPENDICES

Title	Location
(a) Joint Annual Governance Statement 2020/21	Attached

13. BACKGROUND DOCUMENTS

13.1 CIPFA/SOLACE framework – ‘Delivering good Governance in Local Government 2016’

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Appendix A

Annual Governance Statement

2020/21

This Annual Governance Statement is presented as a joint statement of Babergh District Council (BDC) and Mid Suffolk District Council (MSDC)

Contents Page

Introduction

Good governance is important in ensuring good decision making and leadership in local authorities. Weakness in governance can have far reaching implications for individual councils and the people they serve.

It is therefore important for councils to have a way to work through what good governance looks like for them, to understand how the risk of weak governance can be minimised and be fully aware of the attitude and behaviours that underpin this.

The Leaders of each Council and the Chief Executive all recognise the importance of having good rules, systems and information available to guide the Councils when managing and delivering services to the communities of Babergh and Mid Suffolk.

Each year the Councils are required to produce an Annual Governance Statement which describes how its corporate governance arrangements have been working.

What is Corporate Governance?

Corporate governance is both the policies and procedures in place and the values and behaviours that are needed to help ensure the Councils run effectively, can be held to account for its actions and delivers the best possible outcomes for the communities it serves with the resources available.

Babergh and Mid Suffolk District Councils have adopted a Local Code of Corporate Governance that sets out a commitment to corporate governance and summarises the governance arrangements and activities in place to which it is accountable to and engages with its communities.

The Local Code reflects the core and sub-principles outlined in the 2016 CIPFA/SOLACE* Framework, 'Delivering Good Governance in Local Government'.

(CIPFA – Chartered Institute of Public Finance and Accountancy, SOLACE – Society of Local Authority Chief Executives)*

The Councils' responsibility in relation to Corporate Governance

Babergh and Mid Suffolk District Councils are responsible for ensuring that its business is conducted in accordance with the law and to proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Councils also have a duty under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Babergh and Mid Suffolk District Councils are also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which include arrangements for the management of risk.

This Statement explains how the Councils have complied with the Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework, ‘Delivering Good Governance in Local Government’.

What is a Governance Assurance Framework?

Assurance provides confidence. Based on sufficient evidence, that internal controls are in place and are operating effectively and that priorities/objectives are being achieved. An Assurance Framework is a structure within which Councillors and Senior Management identify the principal risks to the Council meeting its key priorities, and through which they map out both the key controls to manage them and how they have gained sufficient assurance about the effectiveness of those controls. The assurance framework underpins the statements made within the Annual Governance Statement.

An assurance process is in place to provide a framework for the annual assessment of the effectiveness of the governance arrangements operating within the Councils. The key elements of the systems and processes that comprise the Councils’ governance arrangements are:

a) Members exercising strategic leadership by developing and keeping under review the corporate priorities of the Councils;

b) An established integrated planning process which ensures that services are delivered in accordance with the Councils’ objectives and represents the best use of resources;

c) Measuring performance in achieving objectives through the Councils’ performance management;

d) Having a written Constitution which specifies the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication;

e) Having developed and embedded Codes of Conduct which define the standards of behaviour for members and employees;

f) Setting out, within the Constitution, Schemes of Delegation to members and officers, Financial Procedure Rules and other supporting procedures which clearly define how decisions are taken and the processes and controls required to manage risks. Also, having in place arrangements to ensure these are reviewed regularly;

g) Having a Joint Audit and Standards Committee which promotes and maintains high standards in relation to the operation of the Councils’ Code of Corporate Governance, and ensures that the Councils operate within the law, in accordance with the Councils’ internal procedures. The Committee is also responsible for overseeing risk management and the associated control environment and ensuring that the Councils' financial performance is properly monitored;

h) Appointing statutory officers to support and monitor the Councils' governance arrangements, ensure expenditure is lawful and guarantee compliance with relevant laws and regulations, internal policies and procedures;

i) Having embedded arrangements for whistleblowing and for receiving and investigating complaints from the public, supporting the measurement of the quality of services for users; and

j) Having a programme of actions which aims to keep communities informed; support people to be involved in their local communities; promote local democracy; support communities in shaping places and services; improve the Councils' understanding of how communities work and coordinate community engagement activity.

Review of Effectiveness

The Councils have responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including its internal control system. The review of effectiveness is informed by the three lines of defence (i.e. from senior management within the Councils who have responsibility for the development and maintenance of the governance environment; the Corporate Manager responsible for Internal Audit; inspections made by external auditors and other review agencies and inspectorates).

Introduction from the Strategic Director

This statement sets out the management arrangement and opinions from key officers regarding the governance of Babergh and Mid Suffolk District Councils. Governance and Assurance has taken on an increased importance over the years. The Councils face a particularly difficult financial landscape and the report identifies the importance of appropriate arrangements for setting and managing budgets and the necessary control mechanisms to ensure compliance with the law and good practice.

Opinion of the Assistant Director – Law and Governance and Monitoring Officer

Overall Assurance Statement

The Monitoring Officer's overall assessment is that the Councils have complied with their Constitutions, governance arrangements and statutory obligations. The governance framework is sound and the Councils have adequate arrangements for making urgent, delegated decisions as demonstrated by the response to the Covid-19 pandemic. Councillors and Officers have access to adequate support and training to assist them with fulfilling their duties and ensuring the highest standards of conduct. The Councils have complied with the requirements for openness and transparency.

Governance Framework

The Councils have each adopted Constitutions which are based on the Model Constitution. A cross-party joint working group undertook an extensive review of the Constitutions in 2019, supported by the Monitoring Officer, with revised Constitutions being effective from 7 May 2019. The Councils have effectively adopted a joint Constitution with a few minor variations between the Councils. The Constitutions provide the ethical framework for lawful and transparent decision-making, including those decisions made by officers under delegation. The Constitutions also set out the conduct frameworks for Officers and Councillors.

Decisions are undertaken by the Full Council, Committees of the Council, the Cabinet (Executive functions) and Officers. All decisions are supported by formal written reports which include legal, financial, risk, equalities and environmental impact considerations. Formal minutes of the meetings are produced and published promptly after each meeting. In respect of Cabinet decisions, a decisions notice is produced within 24 hours of the meeting.

Statutory Officers

The Statutory Officers; Monitoring Officer, Head of Paid Service and S.151 Officer, meet bi-monthly to consider any issues relating to governance matters. This enables us to proactively identify any potential issues and share recent legislative and best practice updates.

Employee Induction

The Monitoring Officer runs a workshop on Political Awareness and Decision-Making as part of the Employee Induction Programme. This includes information about the constitution, the decision-making structure of the Councils, the employee code of ethics and working within a political environment.

Councillor Development

A Councillor development working group has been established including Councillors from both Councils and representing a range of political groups to oversee the year-round Councillor Development Programme. This programme includes a blend of internal and external training, e-learning, face to face training sessions and virtual training sessions.

Councillors that sit on regulatory (planning and licensing) committees are required to complete technical training at least every 2 years. We also hold regular Joint Councillor Briefings to help keep Councillors up to date with information to support them in their roles as decision makers and community leaders.

Transparency

The Councils are committed to the highest levels of openness and transparency in all their activities. The Forthcoming Decisions List is published weekly and includes not just Cabinet business but also upcoming Council decisions. Wherever possible meetings are held in the Council Chamber which enables the meeting to be recorded and audio-visual footage to be live streamed to the Councils' YouTube channel. This footage is available to be viewed again after the meetings. Live streaming has made the formal meetings of the Council, Cabinet and Committees much more accessible to the public. See paragraph below about virtual meetings under Covid-19.

Standards

The Councils promote the highest levels of ethical behaviour and conduct. In 2019 the Councils adopted a set of behavioural values for employees which have been incorporated into the Councils' annual performance reviews. The Constitution sets out a code of conduct for employees which includes requirements in respect of registering interests and gifts and hospitality.

The Councils have adopted a Suffolk-wide Code of Conduct which is upheld to its highest degree. The Monitoring Officer has appointed two deputies to assist with responding to code of conduct complaints and to provide advice and guidance to District Councillors and Town and Parish Councils about conduct matters.

In November 2020 the Councils' Joint Audit and Standards Committee approved a revised Code of Conduct Complaints procedure. This has made the complaints process clearer for complainants and for Councillors who are the subjects of complaints. It has also provided further clarification and guidance on aspects of the code of conduct such as bullying and harassment and has aided the Councils in complying with the Committee on Standards in Public Life's best practice recommendations.

Covid-19

In response to the Covid-19 pandemic the Councils have had to quickly adapt to a system of virtual meetings. All meetings have been held online using the MS Teams platform, enabling live streaming to the Councils' YouTube channel and allowing the public to participate in meetings. We have evolved from initially voting by roll call to now using an electronic voting app. Both Councils subsequently resolved to publish the results of all electronic votes on the Councils' websites.

The Constitution has required some minor amendments to accommodate virtual meetings and electronic voting, which have been made by the Monitoring Officer. The existing delegations contained with the Constitutions were used to make officer decisions wherever it was not possible to convene a meeting of councillors. All officer decisions have been published as required.

Opinion of the Assistant Directorate – Corporate Resources (S151 Officer)

The statutory role of the Chief Finance Officer (CFO) in relation to financial administration and stewardship of the Council and their role in the organisation are both key to ensuring that financial discipline and strong public financial management is maintained. Financial management arrangements conform to the governance requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on the Role of the Chief Financial Officer in Local Government (2016).

Local authorities are subject to a range of safeguards to ensure they do not over-commit themselves financially. These safeguards include the statutory duties of the CFO which are set out in the Financial Regulations that form part of the Councils' Constitution. The statutory duties include the requirement to report to Council if there is, or is likely to be, unlawful expenditure or an unbalanced budget (under Section 114 of the Local Government Act 1988).

Alongside the statutory role of the CFO, the Councils have in place several financial management policies and controls which are set out in the Financial Regulations. Internal financial controls include separation of duties, management supervision, relevant staffing structures including appropriately skilled, trained, or qualified staff, and a system of delegation and accountability.

Other safeguards which ensure that strong public financial management is in place include:

a) the statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment;

b) the balanced budget requirement of the Local Government Finance Act 1992 (Sections 32, 43 and 93); and

c) the external auditor's consideration of whether the authority has made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources (the value for money conclusion).

The Joint Audit and Standards Committee is responsible for undertaking the Councils' responsibilities in relation to financial governance issues, they support the CFO in their statutory role in connection with financial probity and they review and approve the Annual Statement of Accounts.

The published Annual Statement of Accounts is the statutory summary of each Councils' financial affairs for the financial year. Its purpose is to give clear information on the income and expenditure of the Councils and to demonstrate the Councils' stewardship of public money for the year.

The most recent Annual Audit Letter from Ernst & Young (EY) dated September 2020 gave the Councils an unqualified opinion on their 2018/19 statement of accounts and issued an unqualified value for money conclusion. The auditors were satisfied that the accounts had been prepared properly in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. There was a delay in getting the 2018/19 statement of accounts signed off by EY, but this resulted from resourcing issues within EY as opposed to any governance issues within the councils.

The delay with the 2018/19 audit had a knock-on impact to the audit of the 2019/20 accounts. An interim report was presented to the Joint Audit and Standards Committee on 29th March 2021. It is anticipated that the final report will be issued before the end of May 2021 and that an unqualified opinion on the accounts and value for money conclusion will again be the outcome.

The work to date on the audit of the 2019/20 accounts has identified some areas where there is scope for improvement in the preparation of the 2020/21 accounts. These relate to property valuations, Community Infrastructure Levy accounting and exit package disclosures. These will be addressed as part of the 2020/21 work along with any further recommendations coming from the remaining audit work.

The initial audit results report also outlined a challenge that was received from another local authority about the legality of the Councils' financing arrangements for an out of area purchase by the property investment company. The Councils provided full supporting information to the auditors who concluded that by using legal advice and making the appropriate disclosures in the Treasury Management Strategy that there was no evidence to suggest that the Councils had acted unlawfully.

Covid-19

The most significant impact on the Councils' financial governance arrangements for 2020/21 came from managing and responding to the Covid-19 pandemic. Making assumptions on which to base the impact on income and expenditure was challenging as nothing similar had been experienced before. The Suffolk CFO network has been used extensively as a place to share information and test theories, resulting in a degree of consistency of approach, which has strengthened governance arrangements both internally and across the County.

A Covid-19 reserve was established under CFO delegation for each Council in early May 2020 to enable critical unbudgeted expenditure to be made in the Councils' response to the pandemic.

Responding to requests for financial information from the Ministry for Housing, Communities and Local Government (MHCLG) meant that regular updates were provided to the Senior Leadership Team and the Cabinets, to monitor the financial impact and take any necessary action. From the combination of additional funding being provided to local government from MHCLG and savings identified across the Councils' operations during 2020/21, it is anticipated that both Councils will have a budget surplus at the end of the financial year.

The CFO was mindful that a Section 114 notice might have to be issued during 2020/21 resulting from the exceptional circumstances, but in the end, this was never a serious consideration due to the position shown in the regular financial reporting. The Councils also had to undertake a going concern assessment for the auditors, as part of finalising the audit of the 2018/19 and 2019/20 accounts, which demonstrated financial resilience during the pandemic.

The longer-term impact was also considered, with an assessment of how the Councils' finances would be impacted in 2021/22 and beyond. These assumptions were refined as more information became available during the budget setting process for 2021/22 and revision of the medium-term figures.

During the pandemic, each Council has administered over £30m of grants to date, which the Government has made available to local businesses. This has been through a combination of payments following Government guidance or the development of new discretionary policies. All discretionary policies have been approved in accordance with the Councils' Constitutions. On top of this, 100% business rates relief was also administered for the retail, hospitality and leisure sectors following a Government policy announcement. New arrangements have been put in place during the year to manage, monitor and report upon the range of grant schemes and business rates relief.

Internal Audit has maintained a financial governance assurance framework, to gain sufficient assurance on governance, risk management and control arrangements. The work of Internal Audit was reviewed during the year because of the pandemic and some resources re-assigned on a risk-based approach, ensuring that high risk areas continued to be reviewed. Some additional work was undertaken, resulting from the administration of the business grants, to minimise the risk of fraudulent claims being paid; and a further piece of work was commissioned to assess whether the Councils were maintaining robust financial governance in relation to the new Covid-19 arrangements. The report concluded that changes in financial processes due to Covid-19 were properly communicated, Covid costs were separately identified and accounted for, and testing confirmed that invoices and purchase orders were correctly approved. Internal Audit will be undertaking a budgetary control review in 2021/22 to provide further assurance of the budgetary management arrangements in place.

The Councils take an annual approach to business planning, allowing a close link between business and financial planning. The Joint Medium Financial Term Plan is used to align resources to key priorities and forms the basis of the annual budgeting process.

The Councils have a record of setting balanced budgets, no history of overspending, modest increases in council tax and no significant reductions in service levels during reductions in government funding. Further cost reductions or additional income was identified respectively for the 2021/22 budgets without again having any significant impact on the level of services provided to the public. This built on the process established in previous years, to identify cost savings and additional income from investing in commercial opportunities and to review, remodel and reinvent the way the Councils operate and was particularly challenging considering the impact and uncertainties arising from the Covid-19 pandemic.

Robust budget management arrangements are in place including regular monitoring and reporting to the Senior Leadership Team (SLT) and Cabinet. Within operational service Directorates, monthly forecasts are discussed, and with the support of the Finance Business Partners variances are challenged with the budget holder. Quarterly financial performance is also discussed with Assistant Directors, Portfolio Holder's, and Finance Business Partners.

During the budget preparation work for 2021/22, several briefings were held for councillors. This was to give them an opportunity to shape the proposals, but also to aid their understanding of the financial position of the two Councils before they undertook their key role in the financial governance of the two councils at the annual budget-setting Council meeting or via the budget scrutiny process.

In October 2019, CIPFA issued a new Financial Management Code, which includes principles of good financial management including several associated standards the Councils need to achieve. These are the benchmarks against which all financial management will be judged in future. Work to assess the Councils' current position against the standards during 2020/21 was impacted by the need to respond to the Covid-19 pandemic but will be assessed and an action plan put in place to ensure that all standards are being complied with during 2021/22, the effective date of the new Code.

The opinion of the Chief Finance Officer is that the Councils continue to operate robust internal controls and good public financial management, which has been especially important in this exceptional year. Action is being taken to manage the financial pressures and develop strategies to meet the immediate and long-term financial challenges that face the Councils because of the Covid-19 pandemic. This is evidenced by both internal and external audit reports, together with regular reporting on budgetary control. There has been no re-course for the CFO to exercise her statutory powers and the Councils comply with their financial regulations and procedures together with relevant codes of practice and guidance. The Finance Function continues to provide an effective and efficient service whilst enabling the Councils to meet their priorities within a robust financial framework.

Opinion of the Corporate Manager – Internal Audit and Data Protection

Internal Audit

Internal Audit is an independent and objective function with all audit work carried out in this capacity and in accordance with the Audit Charter, Code of Ethics and Public Sector Internal Audit Standards.

The work of Internal Audit is resourced from existing staff and from an external audit partner reporting directly to the Corporate Manager for Internal Audit and Data Protection. This arrangement still allows a direct internal provision plus the commissioning of external skills and capacity and provides a blend of resources from within the Councils and from an external partner of services.

The option of working with an external partner currently makes good sense in that management still retains control over the internal audit function while at the same time leveraging the internal audit resource of the third-party service provider. It provides access to valuable and diverse specialised skills as needed and achieves a level of flexibility which can be critical in effectively dealing with a range of operational issues.

The Corporate Manager for Internal Audit and Data Protection is required to provide an independent opinion on the overall adequacy and effectiveness of the Councils' governance, risk and control framework and therefore the extent to which the Councils can rely on it.

An internal audit review of the Councils' compliance to the seven core principles of good governance, underpinned by the risk management arrangements, assurance & governance audits, has shown that there are sound governance arrangements in place.

90% of internal audit work completed during 2020/21 has yielded either a 'Substantial' or (Sufficient) 'Reasonable Assurance' opinion over the design and operation of the services, systems and processes audited. For the one audit review that was assessed as having 'Limited Assurance', actions have been agreed with management to improve controls and are closely monitored until such a time they are addressed. This work will be followed up in early 2021/22. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit.

The Corporate Manager – Internal Audit and Data Protection is responsible for the delivery of an audit opinion and report that can be used by the Councils to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Although the Councils' response to the Covid19 emergency and reprioritisation of workloads has had a significant impact on the Internal Audit resource and its ability to deliver normal audit work during the course of the year the Corporate Manager for Internal Audit and Data Protection is satisfied that sufficient assurance work has been carried out to allow to form a reasonable conclusion.

The Corporate Manager for Internal and Data Protection has performed his duties in accordance with CIPFA's guidance on the Role of the Head of Internal Audit. In giving the audit opinion, it should be noted that assurance can never be absolute. The most that can be provided is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

In assessing the level of assurance to be given, the Corporate Manager – Internal Audit and Data Protection has based his opinion on:

- Written reports on all internal audits completed during the course of the year, both assurance and consultancy;
- Results of any follow up exercises undertaken in respect of previous years' internal audit work;
- The results of work of other review bodies where appropriate;
- The extent of resources available to deliver the internal audit work; and
- The quality and performance of the internal audit service and the extent of compliance with the Public Sector Internal Audit Standards (PSIAS).
- The impact of Covid-19 and the approach taken by management to evaluate the key governance processes that enable front line Services to operate within a framework of control.
- Looking at our Business Continuity arrangements and resilience generally.

In undertaking this assessment, a number of questions were directed at service managers to establish the extent of the impact COVID-19 has had on their service area. This assessment helped Internal Audit determine the key risk areas and direct their resources according. As a result of the reviews and discussions with service managers Internal Audit were able to draw the following conclusions:

1) There have not had to be significant variations to controls, and the control framework has transferred well to aspects such as remote working. This would indicate that the Council has a robust control framework that can adapt at a time of crisis.

2) Changes to working practices undoubtedly have occurred but these have not reduced control and, in some instances, have improved the efficiency of processes with automation often replacing previous manual / physical activity.

3) Where changes have been enforced, staff have maintained a clear understanding of the basis of control and, in most instances, created solutions which have maintained the integrity of the process. Resulting efficiency gains need to be recognised and maintained.

As the Head of Internal Audit I can, in principle, provide reasonable assurance that the general governance controls across the Councils have not been overly weakened because of the changes made to adjust to COVID19. There are areas that have been identified where the Council is potentially at a greater risk as a result of the pandemic and these have been included in the work undertaken and within the Audit Plan next year.

Audit Opinion – the Corporate Manager – Internal Audit and Data Protection is satisfied the sufficient assurance work has been carried out to allow him to form a reasonable conclusion on the adequacy and effectiveness of each Council's internal control environment.

It is the Corporate Manager – Internal Audit and Data Protection's opinion that the Councils' framework of governance, risk management and internal control is '(Sufficient) – Reasonable Assurance' – the system, process or activity should achieve its objectives safely and effectively. However, whilst there are some control weaknesses most key controls are in place and operating effectively. Where weaknesses have been identified through internal audit review, Internal Audit have worked with management to agree appropriate corrective actions and a timescale for improvement.

Anti-Fraud and Corruption

The Joint Audit and Standards Committee receive an annual report entitled 'Managing the Risk of Fraud and Corruption'. This report explains the current arrangements in place across both Councils to ensure there is a pro-active corporate approach to preventing fraud and corruption and creating a culture where fraud and corruption will not be tolerated. It also provides details of proactive work undertaken by Internal Audit to deter, prevent and detect fraud and corruption.

Internal Audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within an organisation. This is part of its normal role of supporting Management and the Joint Audit and Standards Committee oversight of risk management. However, it is not the job of Internal Audit directly to detect or prevent corrupt practices - this is the responsibility of management. Internal Audit's role includes promoting anti-fraud and anti-bribery best practice, testing and monitoring systems and advising on change where it is needed.

The Corporate Manager – Internal Audit and Data Protection is responsible for the development and maintenance of a Prevention of Financial Crime Policy and ensuring that Councillors and staff are aware of its content and ensuring that there is a proactive approach to fraud prevention, detection and investigation and promotes a council wide anti-fraud culture across both Councils.

Part of delivering good governance as defined by CIPFA/SOLACE is ensuring counter fraud arrangements are in place and operating effectively.

Internal Audit has produced a Fraud Risk Register, which contains a list of areas where Internal Audit and Corporate Managers believe the Councils are susceptible to fraud. The register enables the Councils to focus on suitable internal controls to mitigate any subsequent risk. The register also influences the audit planning process.

The Financial Regulations and Procedures within each Council's Constitution state that the Corporate Manager – Internal Audit and Data Protection is responsible for:

- the development and maintenance of a Prevention of Financial Crime Policy and ensuring that Councillors and staff are aware of its contents. Due to the variety of activities that can take place under the heading of financial crime the Councils have produced separate sections to support this policy, which include:

  Anti-Fraud and Corruption Policy
  Anti-Bribery Policy
  Anti-Money Laundering Policy
  Whistleblowing Policy (reporting suspicions)
  Financial Crime Response Plan
  Prevention of Financial Crime – roles and responsibilities

- ensuring that there is a pro-active approach to fraud prevention, detection and investigation and promote a council-wide anti-fraud culture across both organisations.

All officers are responsible for giving immediate notification to the Corporate Manager – Internal Audit and Data Protection on fraud matters where there are grounds to suggest that fraud or corruption have occurred.

The Corporate Manager – Internal Audit and Data Protection is the Money Laundering Reporting Officer (MLRO) and is responsible for ensuring that proper procedures are in place to combat the possibility of the Councils being used for money laundering purposes.

CIPFA's Code of Practice for Managing the Risk of Fraud and Corruption (the Code) sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response. The Councils use the Code annually to assess the adequacy of arrangements which are reported annually to the Joint Audit and Standards Committee and action is taken where weaknesses have been identified.

To help fight fraud and corruption locally each Council across Suffolk has nominated a representative to sit on the Suffolk Counter Fraud Group. This group meets every 3 to 4 months.

The objectives of the group are:

- Keep up to date with national developments in relation to fraud, e.g. Strategies, Counter Fraud Profession, what other Local Authorities are doing;
- Identify and share emerging national and local fraud risks;
- Explore possibility of sharing and matching data held by Local Authorities to identify possible fraud or error;
- Explore possibility of joint working and sharing resources for proactive exercises utilising limited resources across Suffolk Local Authorities;
- Share material/resources/ideas of promoting fraud awareness amongst staff and Councillors;
- Joint training of staff where appropriate and beneficial;
- Share best practice in relation to working arrangements, investigations and case management; and
- Investigate cases jointly where appropriate.

The National Fraud Initiative (NFI) is an exercise that matches electronic data held within, and between public and private sector bodies to prevent and detect fraud. All mandatory participants, including Councils, must provide data for matching with other organisations.

The NFI exercise takes place every two years, with the latest main data extraction being completed in October 2020, as part of the 2019/20 exercise. The Election and Single Discount Council tax data upload was completed in December 2020.

Internal Audit take a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) working across service areas to support staff in providing data and subsequently investigating and recording the results of matches. Resource levels do not allow all NFI matches to be investigated and an assessment of those that appear to be of a higher risk for examination are carried out.

Matches are due to be released shortly. Tenancy and Payroll matches were released early in February 2021 although have not yet been reviewed due to the COVID-19 Emergency and management's directive to reprioritise work during the last quarter 2020/21. Only High-Risk matches will be reviewed initially. Note: High Risk is defined as having a strong for match that identifies an individual, e.g. same Date of Birth and National Insurance number.

Business grants data has been added to this year's upload to NFI to assist in the detection of fraudulent applications. All matches are due in Quarter 1, 2021/22 In order to support the detection of fraud even further, NFI is proposing a consultation, ending in March 2021, on providing them with additional powers in terms of obtaining and analysing data within the private and public sector. If this proposal is accepted, it will become a mandatory exercise.

Although both Councils have traditionally encountered low levels of fraud and corruption, the risk of such losses both internally and externally is fully recognised as part of each Council's operations that need to be managed proactively and effectively.

Coronavirus

The UK Government is responding with measures to mitigate the economic and social impact of the COVID-19 pandemic. Sadly, fraudsters will try to take advantage of these emergency measures and as a result Government have issued guidance to local authorities that are administrating emergency payments on behalf of the Government.

Local authorities are committed to understanding these risks and taking action to reduce them, whilst dealing with the fraud that occurs where it can.

The fraud threat posed during emergency situations is higher than at other times, and all public bodies should be attuned to the risks facing their organisations and the public sector. Public bodies can reduce the threat of widespread fraud by integrating low-friction controls into payments where possible and carrying out post-event assurance work.

In response to the Government's commitment to financially support small businesses, including businesses which are in the retail, hospitality and leisure sectors Internal Audit have provided resources to the Councils' Business Cell to help ensure that adequate and robust internal controls are in place to prevent and detect potential fraudulent applications. Our review will focus on the end-to-end process of the business grant funding from receipt of application to issue of payment and any post-event assurance undertaken.

The opinion of the Corporate Manager – Internal Audit and Data Protection is that there are adequate arrangements in place to manage the risks of fraud and corruption, and further work is planned to strengthen these through the work of Internal Audit. This will be monitored, and progress reported.

Looking ahead/Future developments

Some areas where a focus can be expected for 2021/22 are as follows:

- Continue ongoing NFI exercise;
- Ongoing COVID-19 support work around business grants;
- Supporting both Councils to improve levels of awareness of fraud risks amongst staff; and
- Continue working with neighbouring councils to share knowledge and expertise on anti-fraud and corruption measures through the newly formed Suffolk Fraud Group.

Risk Management

Babergh and Mid Suffolk District Councils are committed to adopting good practice in their management of risk to ensure retained risk is of an acceptable and tolerable level in order to maximise opportunities and demonstrate it has made full consideration of the implications of risk to the delivery and achievement of outcomes.

The Councils are clear that the responsibility for managing risk belongs to everyone and that there needs to be an appropriate level of understanding of the nature of risk by all stakeholders and in particular the risk owners.

The Councils consider and counter risk across a broad range of areas supported by an approved Risk Management Strategy. As part of good governance, the Councils manage and maintain a register of its Significant risks which are linked to the Councils' priorities and reviewed and monitored regularly by the Senior Leadership Team and reported annually to the Joint Audit and Standards Committee. Operational and Project risk registers are in place and managed by the appropriate Corporate Manager. The relevant Assistant Director has oversight of these.

The risk registers are a critical tool for the service in capturing and reporting on risk activity and the organisations' risk profile. The risk registers are a working spreadsheet where new risks are captured, others are managed to extinction and some require close and regular monitoring.

The data within the registers is used to inform the business of the threats it faces in delivering outcomes and services to the Councils. It is part of the Councils' internal governance and performance frameworks and is used to ensure the organisation operates effectively.

The importance of establishing roles and responsibilities within the risk management framework is pivotal to successful delivery. The focus is on ensuring that consideration of risks is embedded into policy approval (Strategic) and into service delivery (Operational).

Babergh & Mid Suffolk District Councils operate 2 Holding Companies (BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd) and 5 trading companies. Each company is responsible for the management of their risks and the Holding Companies review these on a quarterly basis with the Councils' Corporate Manager for Internal Audit and Data Protection and the Assistant Director for Assets & Investments. The Holding companies also maintain a risk register to oversee and manage the cumulative risks of the trading companies.

It is the role of the Audit and Risk Management Services team within the Councils to provide support, guidance, professional advice and the necessary tools and techniques to enable the organisations to take control of the risks that threaten delivery. The role of the team is also to provide a level of challenge and scrutiny to the risk owners. The work of the team will be directed to affect the achievement of the following risk management objectives:

- Align the organisations' culture with the risk management framework.
- Integrate and embed the risk management framework across the organisations.
- Enable the organisations to recognise and manage the risks they face.
- Minimise the cost of risk.
- Anticipate and respond to emerging risks, internal & external influences and a changing operating environment.
- Implement a consistent method of measuring risk.

The Risk Management Strategy, guidance and training materials are under regular review to ensure they reflect the needs of the organisation and are compatible with the organisations' structure; having the flexibility to adapt to new and changing structures.

Guidance and support on risk management is available on the Councils' intranet (Connect).

Reporting to the Assistant Director – Law and Governance and Monitoring Officer the Councils' external internal audit provider has been tasked with undertaking a review of the Councils' risk management process. The broad objective of the audit is to evaluate whether there is a Risk Management Framework (RMF) in place which can enable the risk management process to be carried out and developed in a comprehensive manner, whereby all significant risks are identified, evaluated, controlled, monitored, and reported in accordance with best practice.

Coronavirus

The scale of the challenge that Councils are currently facing requires strong, responsive and resilient leadership.

The costs, both in terms of additional expenditure and loss of income, associated with the Coronavirus pandemic are putting Councils under extreme financial pressure while trying to support communities through these unprecedented times.

Whilst resources have been mobilised to produce organisational risk assessments at both a strategic and operational level the full impact of the pandemic is not yet fully understood and will require constant monitoring and reporting.

The opinion of the Corporate Manager – Internal Audit and Data Protection is that the Councils' arrangements for the management of risks at this current time are effective.

Opinion of the Corporate Manager – Finance (Procurement)

Both Councils total annual supplier spend is approximately £34m, of this 47.5% is with 10 suppliers and there are 86 contracts stored on the Councils central online contract register.

Effective contract management is crucial to the future success and stability of the Councils. Contract management is a delegated function undertaken within Service Directorates across the Councils, with the Commissioning and Procurement Team providing an overview and professional support.

During 2020/21 virtual training via Microsoft Teams in contract management and purchase to pay has been provided for any staff new to the organisation or who need refresher training in these areas.

The Commissioning and Procurement Business Partners (BPs) have brought an enhanced professional focus on the higher value and higher risk contract activities and several complex tenders have been awarded throughout the year. During 2020/21, the Business Partners have provided support to services undertaking quotations and tenders below the EU tender threshold. A range of guidance materials, templates and training via Microsoft Teams is available to help anyone undertaking their own procurement. This is backed up by professional advice and support from the Business Partners as required.

The Commissioning and Procurement (C&P) Team have now migrated all paper contracts to Suffolk Sourcing which is the software the Councils have opted to use for contract management. The system is now used to record and manage the tender process and capture the relevant documents predominantly by the C&P Team. The next phase is to roll out access to this system across the organisation so managers can obtain reminders well in advance of contract renewals to allow them time to plan for this, and to assist them with the tender process and contract management with support from the BPs on more complex contracts. This was planned for 2020/21 but was put on hold due to the Covid-19 emergency, where most of the team were partially redeployed for several months playing a vital role in distributing over £30m worth of Business Support Grants for each Council as well as playing a key role in sourcing a number of emergency purchases including personal protective equipment (PPE).

The team has set up over 400 new suppliers during 2020/21 after completing the necessary due diligence checks.

During 2020/21 the East of England Local Government Association concluded their review of the entire commissioning and procurement function of the Councils and issued their report and findings in the Autumn. An action plan will be developed as a result of this and will include a training programme for managers on effective contract management and establishing their responsibilities.

Other activities that have commenced in this area is a piece of work to establish and embed a social value policy and including climate change proposals within our supply chain and with our contractors, as well as establishing a procurement safeguarding policy.

Work is underway on reviewing the Councils annual spend data to ensure we have contracts in place for all areas of significant spend and looking for synergies across services. This will also involve working closely with Corporate Managers to review their plans for pipeline spend.

The Commissioning and Procurement Board is now well-established and consists of members from the Senior Leadership Team as well as the Corporate Manager for Finance and Commissioning and Procurement and the C&P BPs who meet every two months with the focus on:

- Making recommendations on requests over £150k;
- Review high value contracts (goods and services greater than £150k per year and works greater than £1m) at the end of stage 5 and at stage 9 of the Commissioning and Procurement Cycle;
- Oversee the development of the organisations' commissioning plan; and
- Oversee the development of revised procedures.

Covid-19 continued throughout 2020/21 and the Government issued a number of Procurement Policy Notes setting out guidance for public bodies to follow regarding payment to suppliers to ensure service continuity during and after the outbreak.

The key areas of the guidance were as follows:

- Urgently review their contract portfolio and inform suppliers who they believe are at risk that they will continue to be paid as normal (even if service delivery is disrupted or temporarily suspended).
- Put in place the most appropriate payment measures to support supplier cash flow; this might include a range of approaches such as forward ordering, payment in advance/pre-payment, interim payments, and payment on order (not receipt).

- If the contract involves payment by results then payment should be based on previous invoices, for example the average monthly payment over the previous three months.
- To qualify, suppliers should agree to act on an open book basis and make cost data available to the contracting authority during this period. They should continue to pay employees and flow down funding to their subcontractors.
- Ensure invoices submitted by suppliers are paid immediately on receipt (reconciliation can take place in slower time) to maintain cash flow in the supply chain and protect jobs.

The guidance was shared and discussed with key contract owners across the Councils and with the Senior Leadership Team to ensure the Councils were compliant and following the guidance. Discussions continued with suppliers as the situation changed and new burdens were placed on building contractors for example who needed to incur additional costs for PPE and social distancing measures to enable them to return to work and deliver their contractual obligations.

The Corporate Manager for Finance and Commissioning and Procurement is satisfied that procurement activities are undertaken effectively within the Council and that appropriate systems and processes are in place to enable contracts to be managed effectively.

Opinion of the Assistant Director – Assets and Investments

Babergh & Mid Suffolk District Councils operate 2 Holding Companies (BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd) and 5 trading companies. They are: 1) CIFCO Capital Ltd – a company owned jointly by BDC & MSDC (Suffolk Holdings) Ltd which invests in commercial property for an income return; 2) Gateway 14 Ltd, which is wholly owned by MSDC (Suffolk Holdings) Ltd which has acquired 150 acres of commercial development land on the outskirts of Stowmarket to bring forward a commercial development scheme; 3) Stowmarket Estates Limited, which is a dormant company, wholly owned by Gateway 14 Ltd to manage services for the completed Gateway 14 development in due course; 4) Babergh Growth Ltd, a jointly owned company established with Norse Group Holdings Ltd as the co-owner to deliver residential and commercial development within the district including the redevelopment of the former HQ premises in Hadleigh; 5) Mid Suffolk Growth Ltd, a jointly owned company established with Norse Group Holdings Limited as the co-owner to deliver residential and commercial development within the district including the redevelopment of the former HQ premises in Needham Market.

Each of the companies has a board of directors that are supported by a common Executive Team. The Holding Companies are there to oversee the trading companies' performance against business plans and key performance indicators and to support the growth, synergy opportunities and development of the companies in alignment with the Council Shareholders.

The Council companies trade and operate independently but remain closely linked with the Councils as the Shareholders. They each support key priorities of the Councils and provide income to the Councils by way of interest payments on loans and in due course via dividends. The Companies use Council staff and premises to deliver services, the costs of which are fairly apportioned by the Councils and recharged to the companies. Loan agreements and equity subscriptions between the Council shareholders and companies are documented and managed. During 19/20 the Councils' internal audit team undertook an audit of CIFCO Capital Ltd.'s governance and found it to be resilient. It is proposed that further audits will be undertaken in respect of the other trading companies over the next 2 years to focus on company performance against business plans.

Assurance and governance of the Companies is managed closely ensuring that Articles of Association are followed and robust decision making and recording. A code of conduct for Directors is in place across the company structures and further training provided in respect of directors' responsibilities and financial requirements. The trading companies report quarterly to the Holding Companies with updates and present updated business plans for approval by the holding companies annually. The Holding Companies also approve the appointment of any new directors to the boards of the trading companies and the drawdown of capital. Quarterly Holding Company meetings are attended by members of the Senior Leadership Team including the Chief Executive, Strategic Director, S151 Officer, Monitoring Officer and Assistant Director for Assets & Investments as required.

Cabinet Members for Finance, Asset & Investments and the Leaders of the Council are briefed monthly on Company activities and the Assistant Director for Assets & Investments reports Company performance quarterly to full Councils. The Councils approve the capital budget for each Company either as part of the annual budget setting or through individual Council reports for specific projects.

Each company is responsible for the management of their risks and the Holding Companies review these on a quarterly basis with the Councils Corporate Manager for Audit & Risk and the Assistant Director for Assets & Investments. The Holding companies also maintain a risk register to oversee and manage the cumulative risks of the trading companies.

The Company structure has been established to be agile and flexible and this has continued to be beneficial during COVID 19 where meetings have been held virtually and decisions can be made in writing. Whilst we anticipate the return of face-to-face meetings in due course, the companies will continue with virtual meetings where appropriate and effective to do so. Business as usual has continued for each of the companies with staff and directors able to work remotely.

The Council Companies are an integral part of the Councils' approach to generating income which is of increasing importance as we face the consequences of COVID 19 but also help to deliver a number of the Councils' key priorities such as to increase housing delivery and improve the availability of business premises within the districts. Governance and assurance arrangements continue to be transparent and robust.

Opinion of the Head of Human Resources and Organisation Development

In order to ensure compliance and guidance for our people, we have a comprehensive range of people policies and associated supporting guidance, and procedures. These are all available to staff and line managers through our intranet system, Connect, and are supported by toolkits providing useful information, templates and best practice. All of this information is regularly monitored to ensure that changes in legislation are incorporated and that they reflect and support the Councils' priorities.

Performance against relevant indicators such as absence is monitored and presented at the relevant Cabinet or Senior Leadership Team meetings. A further breakdown of individual departmental performance is shared with the respective Corporate Manager. Examples of areas monitored include days lost, numbers of people, long term and mental health related absence. During the pandemic, absence has been monitored daily to allow for support mechanisms to be put in place where required. Through this routine performance reporting, the Councils can identify areas of interest and concern. This allows for further scrutiny and for steps to be put in place, where appropriate, to mitigate any abnormal variances and to support our people.

We have a robust recruitment process in place and work to keep recruitment costs as low as possible and we regularly monitor spend relating to temporary and contract workers. Our right to work checks and referencing are thorough to ensure that we are working to the required legislation. We are a disability confident employer, and all of our recruitment policies and practices are inclusive to ensure fairness and consistency for all applicants.

We monitor and publish gender pay in line with legislation and have an action plan in place with the aim of reducing the pay gap across the organisation.

Our induction programme for new recruits is a virtual programme compiled of short sessions as a group, e-learning modules and individual meetings. Line Managers are supplied with all of the detail they require to ensure that their new starters are welcomed and inducted into the organisation. Links and modules are provided to ensure that some of the key learning areas around how we operate and our processes and policies, can be accessed and completed online. Our code of conduct and our values and behaviours are readily available to our people and are included in our employee induction process.

There is a People Strategy in place, and this outlines the strategic workforce priorities for the Councils. This includes the people transformation programme and incorporates how the Councils' values and behaviours will be embedded into the organisation. The strategy is underpinned by a 3-year action plan with associated timescales.

We have a performance review process in place that incorporates measurable objectives, with a thread from strategic priorities to service plans and individual objectives, as well as measures around the values and behaviours that have been developed by the Councils' employees. A behavioural framework has been developed for the purpose of providing the required guidance and is available on our intranet, Connect. Spot checks are carried out by the HR Team to ensure that regular 121's and reviews are taking place.

The Staff Survey at the end of 2019/20 showed overall positive results and highlighted increased engagement across the Councils with an engagement score of 65% against a national average of 45%. The survey identified areas of high performance along with areas that require focus, and the HR & OD Team is continuing to work with Directorates to ensure that action plans are in place to address some of the areas that require focus.

In addition to our comprehensive toolkits on our intranet, hands on support for teams to deliver their services is provided by Business Partners and Advisors in HR and Organisational Development and our HR Support Team for recruitment and transactional services. All our people have access to coaching and mentoring through the Suffolk partnership. The Leadership Development Programme commenced in mid-2020 for Cabinet, Senior Leaders and Corporate Managers and as part of the performance process, we agree learning and development plans with our people for the year ahead. The Councils have a Learning and Development Plan in place that sits as part of the People Strategy.

The Councils are working as part of the Suffolk wide apprenticeship group and are welcoming apprentices into the organisation, whilst also taking advantage of apprenticeship levy funds to support internal learning and development of our people. We also work with the partnership to recruit interns and graduates.

During lockdown, the Councils introduced a Wellbeing programme for all of our people with regular support sessions made available virtually with expert external facilitation. Feedback is monitored to understand further key areas of support and to ensure continual improvement. A Wellbeing Hub has been developed, available on our intranet system, Connect, that provides a plethora of support and signposts to relevant external agencies. Our employee assist programme has been developed and a more comprehensive offering has been put in place.

Impact of COVID

The Head of HR & OD is satisfied at this stage that there are sound processes and procedures in place to ensure that the workforce is managed effectively, however, recognises that as a result of COVID, policies and processes, some of which have already been amended to support the virtual working, will require continual review.

Communication and flexible, agile ways of working with policies, processes, tools and people development to support, will be key for the future and the People Strategy action plan is currently under review to ensure that we are prioritising our key pieces of work in order to support the Councils' overall vision and our people.

Opinion of the Project and Research Officer – Performance

Performance management requires a robust approach that is essential to providing efficient and effective services, to ensure the councils deliver services within budget and achieve the best outcomes for residents. Regular monitoring of performance against agreed outcomes and targets is vital, as well as being transparent and providing open and accessible information on performance.

Performance reporting is well-established throughout the councils, with reporting being undertaken at all levels of the organisation.

Quarterly performance reporting has been developed in conjunction with the Senior Leadership Team (SLT), Corporate Managers and Cabinet Members, along with a suite of key performance indicators aligned to the Corporate Plan which allow for the monitoring of progress towards achieving those priorities and performance targets. These reports are also published on the Councils' joint website.

A further suite of reports based on the Councils' priorities and the health of the organisation have also been created to provide a monthly overview of performance for SLT, tracking both long and short term outcomes as well as providing timely insight on specific projects when required. This agile approach to reporting allows for flexibility in dealing with unforeseen events which may arise, as measures reflecting specific events can be tracked for varying timescales.

Each service area has its own performance reporting arrangements aligned to both specific business need and the overall corporate approach. The use of designated software programmes enables detailed benchmarking to be undertaken, with data and information being used to inform various reports.

A number of online benchmarking resources and tools provide comparative statistical data to help local authorities monitor and assess their performance. These include the LGA's 'LG Inform' service, and locally, the Suffolk Observatory holds a wealth of performance and statistical information and reports about Suffolk. Comparative data from such sources are incorporated into relevant performance reports.

The Councils are required to submit a number of statutory data returns to Government, which often support regulatory and inspection processes. The data used in statutory returns provides a reliable source of information that can be benchmarked with other areas.

The Councils publish data and information as part of their obligations under the Local Government Code of Transparency, including information on staff salaries and structures; councillor allowances; finance, expenditure and contracts; and fraud. Furthermore, the Freedom of Information Act requires every council to produce a publication scheme, approved by the Information Commissioner, and to publish information covered by the scheme.

As part of the wider collaboration agenda across public services in Suffolk, the Council's work in partnership with other district and borough councils, NHS and the Police. A joint approach to information, intelligence and insight is adopted whenever possible through partnership bodies (such as the Suffolk Office for Data Analytics), and co-ordinated activities are commissioned as required.

Opinion of the Corporate Manager – Information and Computer Technology

The IT Strategy for Babergh and Mid Suffolk District Councils was formally adopted in November 2020 and enables the wider ambitions of the two organisations, but also focusses on delivering the underlying capabilities that will be needed to support staff and residents as a result of the Covid-19 pandemic.

The strategy is aligned with the Information Technology (IT) Strategy of our key provider, Suffolk County Council. As part of our ongoing collaboration with others within the sector, our residents continue to benefit from initiatives such as Better Broadband for Suffolk, and we achieve clarity of system wide information provision through our membership of groups such as the Suffolk Office of Data Analytics, and the work they undertook in regards Covid infection data across Suffolk.

These relationships with key partners are vital to the ongoing success of our organisations. As an example, the ability to rapidly roll out improved online collaboration toolsets such as MS Teams, have enabled our staff and teams to continue to work collaboratively from separate and distinct locations. It is technologies such as these that will continue to support the aspiration of staff in terms of future work styles, whilst ensuring that the organisation remains productive.

A constant and consistent approach to financial rigour around IT provision and asset management has enabled further savings to be made in 2020/21 whilst also remaining a key principle in systems replacement decision making. One example of this is our planned move to a new online payments system, which not only provides greater financial value and will reduce revenue spend in 2021/22 but also further improves the support we are able to afford customers by providing Babergh and Mid Suffolk District Councils with the ability to directly contact customers who appear to need support with the online payments process.

This focus on improving digital access (Better Broadband for Suffolk, Improved Online Payments systems etc) has directly supported the needs of residents during the pandemic and provided firm foundations to continue to support both staff and residents. We have been able to rapidly deliver the online forms that gave residents and business owners the ability to apply for Covid related grants in a safe and secure manner.

An unfortunate effect of the pandemic, as more people have worked from home, has been a global increase in cyber-attacks which can be evidenced locally by an increase in the number of phishing and spam emails stopped by our cybersecurity defences. We continue to take cyber security very seriously and gained our latest Public Services Network Accreditation (PSN) in December 2020. In addition to our PSN compliance, our ongoing NHS Digital and Data Security & Protection compliance continues to enable us to share data that supports our response to the pandemic.

It is the opinion of the Corporate Manager for IT that technology assets of the Councils' are run effectively, efficiently and economically.

Opinion of the Information Governance Officer

Information governance in Babergh and Mid Suffolk District Councils is overseen by the Councils' Statutory Officers Group which meet every two months. The primary purpose of the meeting is to drive and oversee the ongoing development of strategies to ensure the Council has effective information governance and assurance arrangements in place. The forum for this reporting is now in a state of transition which will entail in future the IGO presenting to the Senior Leadership Team (SLT).

The Council has key individuals who have specific roles and responsibilities with regard to information governance, including:

- Corporate Manager - Internal Audit and Data Protection who leads the Information Governance team that develops the overall information policy and assurance framework, provides advice, guidance and training for staff, and monitors compliance.
- Senior Information Risk Owner – Assistant Director – Corporate Resources with overall responsibility for the organisation's information risk policy
- Data Protection Officer – responsible for overseeing data protection strategy and ensuring compliance with legislative requirements.
- Information Governance Officer - Provides a comprehensive advice service to Babergh and Mid Suffolk District Councils in respect of Data Management, Freedom of Information, Environmental Information Regulations and Data Protection issues

The Councils also have an informal network of representatives across the organisation who promote and encourage best practice within their service areas on information management. They also act as the liaison officers for their service areas for the processing of Freedom of Information (FOI), Environmental Information Regulations (EIR) requests and maintaining and updating their datasets in the Information Asset Register. Training for them is provided on an ongoing basis.

Advice and guidance relating to different aspects of information governance is available on the Councils' intranet and internet, and bespoke advice is available for members and staff from the Information Governance Officer.

The Information Governance Officer also works closely with colleagues from other Suffolk local authorities and partners via the Suffolk Information Governance Group and the Suffolk Office of Data Analytics (SODA) to ensure that information can be shared safely and appropriately between organisations with a consistent approach to data protection being followed across the Suffolk Local Authorities.

Information governance continues to hold a higher profile than ever before since the implementation of new data protection legislation which came into force in May 2018, the Councils continue to drive improvements to data security, handling and information requests.

Examples of specific activities undertaken throughout the year are;

- Continuing mandatory e-learning training on information management and security for all staff and Members - the first implementation of a two-yearly compulsory online training refresher for all staff.
- Ongoing data protection guidance for all staff and District Councillors.
- Joint working with SODA and all Suffolk public authorities (SIGG) to provide an ongoing joined up approach to data driven service improvements, projects and latterly Covid-19 data sharing models between all Suffolk Local Authorities.
- New automated information request system introduced by Customer Services to reduce manual handling, improve productivity and provide automated follow up of Freedom of Information (FOI) and Environmental Information (EIR) requests.
- The Information Governance Team has worked closely with the Councils' Health and Safety Business Partner to review the Councils Customer Alert List (CAL) processes and regulatory compliance, as a result the Information Governance team has become the point of contact for resident's notifications and queries.

The increasing awareness of the rights of citizens to access information about themselves or organisations is resulting year on year in an increasing number of Subject Access Requests (SARs) and FOI / EIR requests received by the Councils, in order to maintain performance and productivity a new automated handling system has been deployed.

FOI / EIR, SAR and security incidents compliance has been monitored regularly by the Statutory Officers bi-monthly review although these reviews have been less frequent during the Covid 19 emergency. Information when available has also been reported regularly to the Statutory Officers Group meeting.

During the change over from the manual process to automatic FOI handling there have been some issues with collecting statistical information, consequently a reporting "work around" has been used for the last 6 months although a long-term solution is currently being developed internally to automatically compile the required reports. The new reporting tool is currently forecast to be available during May 2021.

The Information Governance Officer is satisfied that the information governance arrangements in place are effective in protecting the Councils' information assets.

Opinion of the Assistant Communications Manager

Highlights - what has happened during 2020/21

The COVID-19 pandemic had a significant impact on the communications and engagement activity planned for, and delivered by, the councils in 2020/21.

In response to the major incident being declared, the councils worked with partners as part of a multi-agency resilience forum communications cell delivering consistent and cohesive communications and campaigning activities at local level. This has included contributing to integrated business to business and business to consumer campaigns to support public health messaging, making use of behavioural insights techniques and all available communications channels.

We have also supported urgent public health messaging in the event of local outbreaks – for example in Hadleigh – using a combination of corporate communication channels and local community 'voices' to help issue clear and urgent information to our residents and communities.

These demands absorbed much of the available capacity within the councils' communications team in 2020/21.

Despite the demands of Covid, the team has also continued to provide communications support to the councils' priorities during 2020/21 including environmental developments – such as the councils' biodiversity action plan and carbon reduction management plan; economic developments, such as the progressions of town visions and development of our Virtual High Streets and innovation awards and networks; investment in social housing; customer improvements through use of digital technology; submission of our Joint Local Plan; setting the councils 2021/22 budget and high profile investments; as well as ongoing 'business as usual' communications requirements from teams across the councils.

Priorities for coming year / areas for improvement

We will continue to support the councils through the impact of the pandemic in terms of communicating all changes to our delivery of services, the funding and logistical consequences and new areas of activity as a result.

Our communications priorities will be broadly aligned to our corporate priorities: Economic, Environment, Housing, Communities, Customers, and an increased focus on Wellbeing – to reflect the councils' desire to address the inequalities exacerbated by the COVID-19 pandemic within our districts.

We will continue to help the councils' administration to articulate these priorities and demonstrate how they are delivering our vision of *'building great communities with bright and healthy futures that everyone is proud to call home'.*

This will include a wide range of creative and transparent communications and engagement approaches and activities throughout the year.

The development of our Communications Strategy, delayed last year due to the impact of the pandemic, is now a priority for 2021/22. This will lay out our approach to communication and audience engagement, with opportunity for genuine dialogue fundamental to the councils' ability to not only speak, but also listen, learn and then lead.

Supporting our districts' recovery from the impact of the pandemic and helping our communities to live with the longer-term implications of Covid will be an ongoing priority. Our communications will continue to help people in Babergh and Mid Suffolk stay safe and access help when they need it. Alongside this, if the Government's lockdown easing roadmap goes to plan, we will continue work already started with partners to help the districts to rebuild, with focus on economic recovery, communities and wellbeing.

A key part of this will be the determination of our Joint Local Plan, as well as the ongoing delivery of our visions for our key towns – with further regeneration and development, working with a range of local partners and stakeholders.

We will also continue to support the work in response to the climate emergency and our councils' work, with partners, to make the county carbon neutral by 2030. This incorporates the roll out of the councils' biodiversity action place and carbon reduction management plan – including the conversion of the councils' waste fleet to Hydrotreated Vegetable Oil (HVO).

Opinion – the level of assurance that can be provided.

I am satisfied that Babergh and Mid Suffolk District Council is effective at communicating with a range of audiences, ensuring they are aware of council services and developments, and have the understanding they need, in order to help our communities to thrive.

The councils use a range of channels to engage with audiences, which include residents, community groups, customers, businesses, tenants, partners, councillors and employees.

Examples of channels used include website, press releases, social media, e-newsletters, face-to-face engagement, meetings, printed materials and letters, emails, film and/or community events and exhibitions if and where safe and appropriate.

Considerable thought is given when crafting messages and deciding which channels to use to be most effective to each relevant audience, based wherever possible on audience and behavioural insight. Barriers are considered when designing communications activities – for example, an audience's capacity for understanding complex information or competing demands for their attention – and steps are taken to ensure effectiveness and maximise engagement levels.

This includes emphasis on clear, concise language, infographics and increasing level of visual content in line with our audiences' changing preferences to receiving information.

The events of 2020/21 and continued need for change makes clarity and consistency of messages more important than ever.

By continuing to invest in our communications, we can ensure that our communities understand our direction, our vision and the rationale for future proposals, and have awareness of the opportunities available for them to have their say as part of a fully transparent democratic process.

Opinion of the Project and Research Officer – Equalities

As a public authority, the Councils have a duty to comply with our legal duties under Section 149 of the Equality Act 2010, the Public Sector Equality Duty (PSED); and the Equality Act 2010 (Specific Duties) Regulations 2011. The Senior Leadership Team receive and discuss updates and has oversight of the Councils' activities for this area of work.

In order to ensure the Councils are paying due regard to the PSED, the Equality Impact Assessment (EQIA) process is used to support good decision-making by ensuring the Councils consider how different people will be affected by our activities, helping to deliver policies and services which are efficient and effective; accessible to all; and which meet different people's needs. EQIAs are reviewed, and advice provided to EQIA authors, by the Equality and Diversity lead officer.

The Equality and Diversity officer monitors the EQIA's that are submitted. Annual data is provided on training numbers, number of training sessions and type of sessions. The Equality and Diversity Officer and Programme Boards monitor and ensure that the EQIA process is part of planning for service and policy changes. EQIAs are published on our website alongside the Cabinet and Committees papers.

The PSED is non-delegable, so always remains the responsibility of the Councils. Guidance has been provided to commissioners to include the PSED requirements during commissioning, procurement and contract management to ensure that the service provider has due regard to the obligations contemplated by section 149 of the Equality Act 2010 to eliminate discrimination, advance equality of opportunity and foster good relations, proportionate to the service being delivered as set out in the contract.

The specific duties require the Councils to publish relevant, proportionate information demonstrating compliance with the Equality Duty; and to set specific, measurable equality objectives. The Councils have consulted on three new corporate equality objectives which are detailed below.

a) Babergh and Mid Suffolk officers and Councillors to understand and ensure that the legal obligations under the public sector Equality Duty are delivered.
b) To improve services and organisation delivery in order to better facilitate compliance with the public sector Equality Duty in relation to residents, visitors, businesses, and officers.
c) To ensure that our communities equality needs are met and support community cohesion.

The Workforce Equality Information Report is published in May each year, setting out the profile of the Councils' workforce.

The Assistant Director of Customers, Digital Transformation and Improvement is satisfied that processes are in place to enable the Councils to meet the requirements of the Equality Act 2010.

Equalities governance issues reflecting the challenges from Covid 19

Some governance issues will arise in 2021/22 as a result of Coronavirus. A planned audit of our Equalities and Diversity activity has been delayed due to pandemic related work pressures and is now due during 2021/22. This timing does however provide some benefits in enabling the work to:

- Be informed by information from services and partners about any differential impact and or legacy from Coronavirus on those with protected characteristics.
- Enable the Councils' Equalities action plan refresh to be informed by these broader considerations.
- Be concluded at a point when the Council has recruited a new Corporate Manager Strategic Policy, Performance & Insight, whose remit includes specific responsibility for Equalities.

Opinion of the Corporate Manager for Health & Safety, Emergency Planning and Business Continuity

Governance Arrangements: to meet the requirements of Section 2(7) of the Health & Safety at Work etc. Act 1974, the councils have a Health & Safety Board (H&SB). This is chaired by the Chief Executive Officer and includes members of the Senior Leadership Team, Trades Union representatives and the Health and Safety Team.

The H&SB oversees and reviews the measures taken to ensure the health, safety and wellbeing of staff and those affected by the Councils' activities on behalf of the Senior Leadership Team. In particular it agrees the H&S Service Plan. This sets the strategic direction for H&S along with a more detailed work programme for the next 12 months. The H&SB normally monitors progress of this on a quarterly basis. There has been some disruption to this oversight as a result of the covid-19 pandemic. Any new significant H&S issues are shared with the board along with plans for remedial action. Performance measures are reported to the H&SB and the Senior Leadership Team. This is then summarised in an end of year Annual Report.

In addition to the H&SB, the councils operate a Health and Safety Workgroup. This is a consultative body with the recognised trade unions and with non-union staff. The H&S Workgroup are consulted on major H&S policies and they are advised of the main H&S issues and the H&S Service Plan is also shared with them.

The Health & Safety service provides the competent advice to the Councils as required by Regulation 7 of the Management of Health and Safety at Work Regulations 1999.

The Councils' health and safety management function is subject to Health and Safety Executive (HSE) scrutiny. Any reportable incident including accidents, injuries and near misses are captured and reported via the RIDDOR system. During 2020/21 there has been four RIDDORS submitted by the Councils to the HSE. These related to carpel tunnel symptoms which can be associated with hand arm vibration (HAVs). The HSE followed up on these RIDDOR reports and were satisfied with the councils HAVs arrangements.

The Corporate Manager for Health & Safety is satisfied that governance arrangement for H&S are suitable and sufficient. The H&S work programme highlights the specific aspects which require on-going improvement. A key element of this is the continued development of the H&S culture within the organisation.

This statement focuses on 2020/21 which has been dominated by the organisation's response to the COVID-19 pandemic. As a consequence in the first 6 months of the year the normal governance pattern was disrupted as was much of the planned work programme. Resources within the team were mobilised to produce organisational COVID-19 risk assessments, safe systems of work and to provide support to services to adjust their way of working and to develop new service risk assessments and safe systems of work. Covid secure arrangements have been established at each work site and at the time of writing support is being provided to assist services in the establishment of new ways of working as some restrictions ease.

One specific consequence of the restrictions and the repositioning of resources has been the reduction in reassurance activity – in particular the site visits and short notice inspections. This will be addressed as restrictions are eased and the draw on the team's time for the pandemic related activity reduces.

The Service Plan has been revised to reflect this repositioning of resources and amended into a rolling 3-year programme.

Actions moving forward

The Corporate Plan (2019-2027) – The Councils' existing "Refreshed Joint Strategic Plan" expired in 2020 and was replaced and agreed by both Cabinets in October 2019. The administrations agreed with the Chief Executive that the Councils need to focus upon providing more confident leadership of our places, through greater place-based working. In doing so the organisations will also need to be more deeply rooted in what we believe in, and common sense - in our values and our sense of public service - genuinely caring about our residents and places, and getting stuff done for people.

The Councils will continue to strive to be recognised as organisations that help make things happen and trusted to do the right thing - delivering outcomes that positively affect people's lives. The Councils will continue to work effectively in partnership with others and be more outward looking - seeking examples of best practice and opportunities beyond Suffolk.

A visualisation of the revised corporate plan (2019 – 2027) to replace the Joint Strategic Plan (2016 – 2020) is presented below:

Our Vision is to build: "Great communities with bright & healthy futures that everyone is proud to call home" Our Mission is to: "Provide strong, proud & inspirational leadership; striving for excellence, and together building great communities for everyone to live, work, visit & invest in" Our Strategic Priorities are the Environment, Economy, Housing, Wellbeing, our Customers and our Communities.

Covid-19

It is inevitable that there will be some disruption to some of these programmes as a result of the Covid-19 pandemic.

Services across the districts have and continue to adapt speedily to meet the latest Government guidance on the Coronavirus pandemic.

The crisis has had a major impact on the way the Councils deliver services and work with local communities, and every effort is being made to ensure people have access to the latest updates and information.

We are working to support our communities and continue to provide services during the rapidly evolving COVID-19/Coronavirus outbreak. The health and safety of our community and staff is our top priority and we strive to keep everyone informed.

Moving forward the Councils' priorities will be regularly reviewed as the restrictions around the pandemic are eased.

Areas where the Councils will look to focus on and develop more in the next 12 to 24 months include:

- Measuring performance in achieving objectives.
- Having a programme of actions which further help communities to grow and thrive.

Approval of the Annual Governance Statement

The Annual Governance Statement provides an assurance of the effectiveness of each Council's system on internal control. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework. There have been no governance issues identified during the year that are considered significant in relation to each Council's overall governance framework.

We are already addressing the key governance risks and challenges set out in this Annual Governance Statement and will continue to do so over the coming year to further strengthen our governance arrangements. We are satisfied that these steps will continue to address the need for any improvements that are required and that arrangements are in place to monitor the issues raised as part of each Council's annual review.

Signed ....

Arthur Charvonia, Chief Executive
Date ....

Signed ....

John Ward, Leader of Babergh DC
Date ....

Signed ....

Suzie Morley, Leader of Mid Suffolk DC

Date ....

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Agenda Item 9

BABERGH and MID SUFFOLK DISTRICT COUNCILS

COMMITTEE: Joint Audit and Standards Committee	**REPORT NUMBER: JAC/20/21**
FROM: Katherine Steel, Assistant Director, Corporate Resources	**DATE OF MEETING: 17 May 2021**
OFFICER: Melissa Evans, Corporate Manager, Finance, Commissioning & Procurement. Rebecca Hewitt, Assistant Manager – Financial Accountant	**KEY DECISION REF NO. N/A**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS FOR THE COUNCILS' JOINT TREASURY MANAGEMENT STRATEGY

1. PURPOSE OF REPORT

1.1 At its meeting on 25th January 2021, the Joint Standards and Audit Committee requested that a report on ESG Investments be brought to this meeting with a view to proposing recommendations to Council.

1.2 This report presents the key considerations for developing an ESG policy for the Councils in order to facilitate discussion on the preferred policy for the Councils.

1.3 The Councils declared a climate emergency in 2019 and committed to investigate ways to achieve their ambition of making the organisation carbon neutral by 2030. Suffolk Public Sector Leaders have also committed to work together towards the aspiration of making the county of Suffolk carbon neutral by 2030.

1.4 In light of climate change-related risks in particular, increasing attention is being given to responsible investment by investors globally, resulting in an increasing appreciation that assessing ESG factors is not only a moral issue to be addressed, but also a key part of understanding long-term investment risk.

1.5 In developing an ESG policy, the approach of the Councils current investments, alternative approaches to ESG, the financial performance of the Councils investments and ESG investments currently available in the market need to be considered.

2. OPTIONS CONSIDERED

2.1 No options were considered for recommendation.

3. RECOMMENDATION

3.1 That the key considerations for developing an ESG policy for treasury management investments be noted and discussed.

REASON FOR DECISION

Not relevant for this report.

4. KEY INFORMATION

Introduction

4.1 The Councils Joint Treasury Management Strategy for 2021/22 was approved for Babergh at its Council meeting on 18th February 2021 and for Mid Suffolk at its Council meeting on 23rd February 2021, following recommendation for approval by the Joint Audit and Standards Committee on 25th January 2021.

4.2 At its meeting on 25th January 2021 the Joint Audit and Standards Committee recommended that a report on ESG investments be brought to the meeting for the Committee in May, with a view to proposing recommendations to Council.

4.3 The Councils have declared a climate emergency and committed to work together with other members of the Suffolk Climate Change Partnership with the aim to make Suffolk carbon neutral by 2030.

4.4 This report considers how an ESG policy could incorporate environmental considerations into the Councils investment decisions to reflect this commitment and sets out the key considerations in developing an ESG policy for the Councils.

4.5 The principles of Security, Liquidity and Yield, as set out in the CIPFA Treasury Management Code and MHCLG Investment Guidance, remain at the heart of local authority treasury decisions and risk management. Incorporation of an ESG policy must not lead to a greater risk of incurring losses from defaults or of receiving unsuitably low investment income.

ESG considerations

4.6 ESG is an emerging theme within local authority treasury management and any policy adopted will require further refinement as further information emerges and the market matures.

4.7 There is increasing awareness and inclusion of ESG issues within investment products for two key reasons;

- Long-term investment risk: as Government policies and customer/investor preferences change to address climate change, companies who do not or cannot adapt to meet these changes could become unsustainable.

- Ethical considerations: investors are increasingly interested in the impact that their investments are having on the world, rather than only being concerned with the financial returns.

4.8 The United Nations has sought to bring some commonality to the consideration of ESG with its Principles for Responsible Investment (PRI). Its approach is outlined in six guiding principles for investors in their role as owners of assets:

(i) incorporation of ESG issues

(ii) active ownership

(iii) seeking appropriate disclosure on ESG issues from investee entities through the Global Reporting Initiative

(iv) wider promotion of the principles in the investment industry

(v) working together to enhance effectiveness and

(vi) investor reporting on activities and progress made.

4.9 Incorporation of ESG issues can be via one or a combination of three approaches:

(i) **Integration:** explicitly building the impact of ESG factors into investment analysis, assessing how these factors impact the valuation of security and a company's balance sheet strength.

(ii) **Screening:** non-financial filters based on the investor's preference, values or ethics which are applied to the investable universe to determine eligible securities.

(iii) **Thematic:** identifying challenges and opportunities and allocating capital that will contribute towards particular goals and which have measurable outcomes. Impact investing is a subset of thematic investing with the purpose of achieving meaningful, additional environmental or social outcomes which, in the absence of that investment, would not have been achieved.

4.10 The UN views active ownership – often referred to as 'stewardship' - as one of the key principles of responsible investing. Its report How ESG Engagement Creates Value for Investors and Companies states:

"the shift in institutional investor practices towards 'active' forms of ownership indicates that institutional investors recognise that their fiduciary duty to clients and beneficiaries should involve purposeful consideration, monitoring and intervention regarding ESG factors affecting investee companies".

4.11 A major focus for an ESG policy that seeks to address climate change in particular is fossil fuels. There are two main approaches to addressing investments relating to fossil fuels – to engage and to exclude.

4.12 There are two methods to implementing exclusion:

- Industry classification: defining exclusions based on the company's sector classification.

- Proportionate exposure: By focusing on companies' actual exposure to specific activities by share of revenues, investors can take a more nuanced approach to companies whose revenues span a range of sectors.

4.13 For fossil fuel screens it needs to be considered whether exclusions apply only to extractors and producers or whether it extends further in the value chain to equipment and service providers, refiners, transporters and end of chain sellers such as supermarkets. Alternatively, a revenue threshold can be applied. Fund managers often use the 'no more than x% share of revenue' approach for screening, typically deeming a 5%-10% of revenues threshold as being appropriate.

4.14 Divesting fossil fuel investments may not be the most effective solution to combat climate change. By remaining shareholders investors can preserve their seat at the table and through dialogue and collaborative pressure influence change and demand tangible commitments and timelines from the energy and extractive industries in their transition to low carbon models.

4.15 There is a strong view that investors should shift their focus more to supporting companies that are helping the transition to net zero and using their ownership clout to force change at transgressors, rather than just screening out the climate problem from their portfolios.

4.16 Some of the large companies that would be excluded as part of an exclusion approach are taking significant steps to transition to cleaner energy. For example, BP is one of the leaders in the global energy transition and committed to reducing carbon emissions in line with the Paris Climate Agreement. It has a greater share of natural gas in its portfolio and is also investing in renewables similar to its peers. In February this year BP's new chief executive announced five aims to get BP to net zero by 2050 or sooner which include a commitment to net zero on carbon in BP's oil and gas production on an absolute basis, cutting the carbon intensity of products BP sells, increasing the proportion of investment into non-oil and gas businesses and focus on low carbon solutions.

4.17 In determining whether to engage or exclude, consideration must be given to the reasons for implementing the ESG policy. If the values of the Council and stakeholder pressure are the key driver an exclusion policy could be appropriate. If the aim is to encourage change, a policy of engagement may be more suitable.

4.18 Although regulations on ESG investments are gaining more clarity and standardisation, careful due diligence is required to ensure that a fund lives up to the claims being made and its ESG principles match the Councils priorities for environmental / ethical investing.

4.19 Fund management companies can sign up to the UN Principles of Responsible Investment (PRI) and can opt to file comprehensive reports annually through the PRI framework to be assessed and scored against the six guiding principles as set out in 4.7 above. These UN PRI assessment scores are widely considered to provide the most objective measure for assessing managers' approach to ESG.

Approach of existing funds

4.20 The Councils use Money Market Funds and the Government's Debt Management Office deposit account for short-term investment purposes and to manage daily cash flow requirements.

4.21 As bank securities make up the largest proportion of a Money Market Fund, governance is the dominant of the three ESG factors considered when deciding on an issuer's inclusion in a portfolio.

4.22 In recent years however, some Money Market Funds have been launched which apply exclusionary criteria, such as limiting exposure to fossil fuels. Given that most of a Money Market Fund's investments are with financial institutions, whose revenues from the excluded sectors are typically below the thresholds set, these exclusions are unlikely to make a substantial difference to a Money Market Fund's investable universe.

4.23 In addition to its Money Market Funds, each Council has £11m of externally managed strategic pooled equity, property and multi assets funds where short-term security and liquidity are lesser considerations and the primary objectives instead are regular revenue income and long-term price stability.

4.24 These funds are held with different counterparties and cover a range of asset classes to reduce risk. The funds in which the Councils are invested are detailed below.

Fund	**Asset class**	**Investment Amount**
CCLA: LAMIT Property Fund	Property	£5,000,000
Ninety One (Investec): Diversified Income Fund	Multi Asset	£2,000,000
Schroders: Income Maximiser Fund	UK Equity	£2,000,000
UBS: Multi Asset Income Fund	Multi Asset	£2,000,000

4.25 Each of the above fund management companies is a signatory to the UN PRI, files comprehensive reports annually through the PRI reporting framework and are scored on their submissions, with the top score being A+. The scores for each fund and the median score for 2020 are as follows:

UN PRI Transparency Report: Assessment scores 2020	**Median score**	**CCLA**	**Ninety One**	**Schroders**	**UBS**
Strategy & Governance	**A**	**A+**	**A+**	**A+**	**A+**
<u>Direct and Active Ownership</u>					
Listed Equity – active ownership	**B**	**A+**	**A+**	**A+**	**A+**
Incorporation - screening		A+	A+	A+	A
Incorporation – integration		A+	A+	A+	A
Individual engagement		A+	A+	A+	A+
Collaborative engagement		A+	A+	A+	A+
Proxy voting		A+	A+	A+	A
Fixed Income – Sovereigns, Supranational and Agencies (SSA)	**B**	**--**	**A+**	**A**	**A**
Fixed Income – Corporate Financial	**B**	**--**	**A+**	**A**	**A**
Fixed Income – Corporate Non-Financial	**B**	**--**	**A+**	**A**	**A**
Fixed Income – Securitised	**B**	**--**	**--**	**A**	**A**
Private Equity	**A**	**--**	**A**	**A+**	**--**
Property	**B**	**A+**	**--**	**A**	**A+**
Infrastructure	**A**	**--**	**A+**	**--**	**A+**

4.26 Extracts of the Fund Managers' ESG reporting in their UN PRI Transparency Reports are included in Appendix A. The overall approach of each is summarised below.

CCLA (Property)	CCLA incorporates the consideration of ESG factors prior to the acquisition of any property, during all refurbishments and in day-to-day management. CCLA seeks to be an active owner of property assets and sets an explicit target to reduce the footprint of the largest assets within the portfolio. This has required targeted interventions and detailed dialogue with occupiers.
Ninety One (Investec)	Ninety One has not phased out fossil fuel holdings but undertakes scenario analysis and/or modelling to assess future climate-related risks and opportunities, uses emissions data or analysis to inform investment decision making, seeks climate change integration by companies and has sought climate supportive policy from governments.
Schroders	Schroders integration approach spans ownership, engagement, voting and reporting. Equity, fixed income, ESG and data teams work together to identify areas that warrant discussion with companies. Schroders has been voting on climate change resolutions since 2000 and have recorded engagements on the topic since 2002. In their 'Aiming for A' investor coalition, Schroders has co-filed climate change resolutions at Anglo American, Glencore and Exxon and has supported the climate change resolutions filed at Shell and Rio Tinto. In 2018, they had more than 100 individual climate change-related engagements with companies identified in their research as being materially exposed to climate risk.
UBS	UBS believes that Sustainable and Impact Investing ('SI') can protect and enhance the value of clients' investments by adding value to portfolios within the same risk /return profile. UBS Group manages its environmental program through an Environmental Management System (EMS), in accordance with the ISO 14001 standard. The Group manages climate change risks and opportunities via this certified EMS and monitors implementation on an ongoing basis. The EMS helps to systematically reduce environmental risks, seize climate change / environment-related market opportunities and to continuously improve UBS's climate change/environmental performance and resource efficiency.

4.27 The CCLA, in which the Councils have the largest investment at £5m each, scores A+ in all areas against the PRI framework. The Councils invest in its property fund and therefore holdings in the fossil fuel industry are not a concern. However, ESG considerations and initiatives can play an important role in real estate and infrastructure ownership and management and the CCLA seeks to ensure it minimises the carbon footprint of its property investments.

4.28 The Councils other strategic funds, in each of which both Councils have invested £2m, have also scored well against the PRI framework, with A or A+ in each area. Although, none of these are badged specifically as ESG funds, they each take steps to analyse the ESG impact of their investments and engage with companies to address climate change risks.

Performance of ESG funds

4.29 An increasing number of ESG focussed funds are emerging that follow certain criteria for investments, such as abiding with the UN Principles of Responsible Investment, or not investing in certain industries such as weapons, fossil fuels or alcohol and tobacco.

4.30 The effect of screens on income strategies is pronounced as it reduces the range of investible high yielding stocks.

4.31 Oil and gas and utility companies have traditionally paid sizeable dividends and income funds are materially affected by their exclusion. Royal Dutch Shell, BP and HSBC have historically been among the top five UK dividend payers (although 2020 will have been different, as both Shell and BP cut their dividends and HSBC, like other banking institutions, was under regulatory pressure to defer dividends). Utilities and companies involved in mining and materials also often feature in the top 20-25 dividend paying stocks.

4.32 The Councils treasury adviser Arlingclose has advised that there are equity funds with income strategies that screen out fossil fuel extractors, or whose focus is on renewable energy and/or decarbonisation, but the income generated would be considerably lower than what the Councils receive from their existing funds.

4.33 The yield (i.e. income) for these funds ranges between 0.5% to 3.3%, with most in the lower to mid end of this range. The income returns for the Councils existing funds from 18th March 2020 to 18th March 2021 are shown below.

Fund	Investment	Income Yield
CCLA	£5m	4.34%
Ninety One (Investec)	£2m	4.18%
Schroders	£2m	9.31%
UBS	£2m	5.79%
Total	**£11m**	**5.2%**

4.34 The upper end of the range of 3.3% for the fossil screening funds is 1.9% lower than the average yield of the Councils existing funds of 5.2%. For the Councils £11m investment this would equate to a reduction in income of £209k per annum for each Council.

Cost of exiting pooled funds

4.35 The Councils strategic pooled funds are held as long-term investments. Although the total overall return for each of these funds since investment has been positive, they have incurred unrealised capital losses.

4.36 Since 2018/19 the International Financial Reporting Standards for pooled funds states that changes in valuations must be taken through the Comprehensive Income and Expenditure Statement (CIES). The MHCLG has granted a statutory override until 2022/23 so these changes will have no impact on the “bottom line” until 2023/24.

4.37 However, upon sale/redemption of these funds any unrealised capital loss has to be recognised in the CIES. This would be a real cost to the Councils and impact on revenue budgets.

4.38 The revenue cost to the Councils of redeeming the existing pooled funds, based on valuations at 31st March 2021 would be as shown below:

Babergh	**Purchase Price**	**Valuation at 31st March 2021**	**Cost to revenue**
CCLA – LAMIT Property Fund	£5,000,000	£4,790,694	£209,306
Ninety One (Investec) Diversified Income Fund	£2,000,000	£1,994,824	£5,176
Schroder Income Maximiser Fund	£2,000,000	£1,540,466	£459,534
UBS Multi Asset Income Fund	£2,000,000	£1,830,842	£169,158
Total	**£11,000,000**	**£10,156,826**	**£843,174**

Mid Suffolk	**Purchase Price**	**Valuation at 31st March 2021**	**Cost to revenue**
CCLA – LAMIT Property Fund	£5,000,000	£4,716,595	£283,405
Ninety One (Investec) Diversified Income Fund	£2,000,000	£1,994,824	£5,176
Schroder Income Maximiser Fund	£2,000,000	£1,540,466	£459,534
UBS Multi Asset Income Fund	£2,000,000	£1,827,607	£172,393
Total	**£11,000,000**	**£10,079,491**	**£920,509**

ESG policy considerations

4.39 In developing an ESG policy for the Councils investments, the following needs to be considered:

(i) The Councils key objective in holding strategic pooled funds – to generate a source of revenue income for the Councils.

(ii) The principles of Security, Liquidity and Yield.

(iii) The difference in yield for ESG funds and what an acceptable cost would be to move to these funds.

(iv) The costs of redemption of the Councils existing funds.

(v) Whether to exclude fossil fuels or focus on engagement with companies in the fossil fuel industry.

(vi) How the Councils existing investments score against the PRI framework and which, if any, of the existing funds should be retained.

(vii) Timescales for implementation and options for transition to a new policy.

5. LINKS TO THE JOINT CORPORATE PLAN

5.1 This report links to the ambition to be carbon neutral by 2030 in the Joint Corporate Plan. Adoption of an ESG policy would not directly reduce emissions in our districts, but would assist in changing conditions more widely. The fund managers for the

Councils strategic pooled funds are performing well with regards to the integration of ESG factors into their investment decisions and company engagement.

5.2 The income generated by the Councils pooled fund investments contributes to the resources available to the Councils to meet the ambitions of the Joint Corporate Plan.

6. FINANCIAL IMPLICATIONS

6.1 The Councils each generate approximately £500k per annum net of fees from its strategic pooled fund investments. This would reduce if the Councils invested in fossil fuel screening funds with the cost estimated to be in the region of £200k per annum, based on estimated returns as set out in paragraph 4.33.

6.2 If the existing pooled funds were redeemed to invest in alternative ESG investments, the Councils would incur a cost of approximately £840k to £920k as set out in paragraph 4.38.

7. LEGAL IMPLICATIONS

7.1 There are no legal implications arising from this report.

8. RISK MANAGEMENT

8.1 This report is most closely linked to significant risk No. 13 – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. 5E05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. Key risks are set out in the following table:

Risk Description	Likelihood	Impact	Mitigation Measures
If a strict ESG policy for treasury management investments is adopted the Councils could lose a significant amount of revenue income.	2-Unlikely	2-Noticeable	A policy that incorporates ESG into investment decision making, but also has parameters for the financial impacts of those decisions.

9. CONSULTATIONS

9.1 None.

10. EQUALITY ANALYSIS

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 All Council activities are being reviewed as part of the work recommended by the Climate Change Task Group and the subsequently agreed Action Plan to support the Councils ambition to be carbon neutral by 2030.

11.2 A key focus of this report is the consideration of the environmental impact of the Councils treasury management investments.

12. APPENDICES

Title	Location
A - Summary of current fund managers' approach to ESG in relation to fossil fuels / carbon reduction	Attached

Appendix A

SUMMARY OF CURRENT FUND MANAGERS' APPROACH TO ESG IN RELATION TO FOSSIL FUELS / CARBON REDUCTION

CCLA

General approach

Responsible investment and stewardship are at the core of the investment approach, its philosophy is based upon three principles:

(i) Over the long term, conventional financial modelling only gives part of the answer as to what makes a company a good investment. Companies in the most carbon intensive sectors or with either the poorest standards of corporate governance/other unmitigated ESG risks are likely to under-perform over the medium to long-term; strict processes identify and then restrict these companies from the investment universe. There is also an ongoing process of monitoring and engagement to improve investee companies' ESG risk management.

(ii) Investments will only be able to deliver sustainable, long-term, returns if they are in a healthy environment and stable society, therefore seeking to allocate capital for a positive environmental or societal benefit.

(iii) To invest in a manner that reflects clients' values.

Policy on controversial weapons: CCLA has an exclusion policy for companies involved in the production of weapons banned by international treaties (specifically landmines and cluster munition). CCLA believes that these products are unacceptable and place clients' reputations at risk.

CCLA's norms-based screening is guided by the UN Global Compact Principles.

Participation in Investor Initiatives

CCLA advocates stable progressive legislation that will accelerate the transition to a low carbon economy which includes their joint action with the UK and Canadian governments to create the Powering Past Coal Alliance which seeks to increase the pace of countries' attempts to phase out coal-fired electricity generation from their energy mix.

Recognising its duty to be at the forefront of institutional investors acting on climate change, CCLA was involved in the creation of the 'Aiming for A' investor initiative, the pre-cursor to the Climate Action 100+ initiative, to which CCLA is also a signatory, bringing together institutional investors to engage with UK-listed oil, gas and mining companies on the low carbon transition.

CCLA provides funding to and is on the Steering Group of the Transition Pathway Initiative, an initiative which provides a useful, and readily available tool for investors and asset owners to test the alignment of companies' against the transition to a low carbon economy.

Property

CCLA's Responsible Property Investment Policy applies to the selection, management and refurbishment of all property assets under their stewardship. Considerations prior to any purchase include:

- Environmental risk issues that may manifest as liabilities, for example contaminated land, flood risk, presence of hazardous substances etc
- Environmental audit scores and risk assessments, including energy use, water consumption, greenhouse gas emissions and waste management

- Social factors, such as the availability of public transport and the facilities available for tenants
- The ability to drive improvements through refurbishment.

Following purchase, CCLA seeks to be an active owner and see if they can refurbish to improve environmental and social performance. Among the managing agents' tasks are monitoring and setting targets for the reduction of energy use, water consumption, waste and CO_2 emissions and procuring energy from renewable sources.

Integrating ESG into property

CCLA incorporates the consideration of ESG factors prior to the acquisition of any property, during all refurbishments and in day-to-day management.

Recognising the need for specialist knowledge, CCLA has employed BNP Paribas Real Estate Services to provide additional due diligence and property management. This ensures that CCLA receives comprehensive information on properties' ESG standards, allowing them to properly assess the assets' value, and benefit from their network of service providers. This relationship is monitored through the Property Investment Committee and Quarterly Responsible Investment in Property meeting.

CCLA notes that a combination of legislation, regulation and tenant preferences are likely to penalise the worst ESG rated properties and for this reason have developed bespoke ESG criteria to be considered prior to property acquisition. This includes details such as, but not limited to

- flood risk,
- contaminated land risk (which can affect the value of the property asset and the health and safety of those working and living in and around the facility);
- energy efficiency (CCLA supports the government's Minimum Energy Efficiency Standards for property asset and also recognises that restrictions upon leasing the worst rated assets place the value of properties with poor EPC ratings at risk);
- building safety and materials: this is a core part of the due diligence process and has led to CCLA walking away from prospective investments in previous years
- health safety and wellbeing (properties are assessed on a wellbeing metric prior to acquisition);
- public transport (when reviewing office assets CCLA reviews the ability for tenants' employees to travel via public transport or other environmentally conscious modes of transport).

Other considerations include sustainable construction materials, water efficiency requirements, waste management plans at sites.

CCLA also screens prospective tenants against their anti-corruption and bribery criteria.

CCLA believes that ESG criteria are likely to affect the long-term value of property assets. They will reject investment opportunities where they believe that poor ESG standards place value at risk. They place specific covenants within lease agreements and alter the price of their investments. They sometimes identify ESG risks that they do not believe pose a threat to invested value. These are logged and prioritised for remediation through refurbishment (where possible).

CCLA seeks to be an active owner of property assets. The approach ranges from taking general steps to improve the performance of buildings to concentrating on specific assets where key issues have been identified.

Sustainability information is included in occupier handbooks that are distributed at multi-let properties and sustainability is a standing agenda item for all occupier meetings which they hope will gradually improve the day-to-day performance of their buildings.

CCLA sets an explicit target to reduce the footprint of the largest assets within the portfolio. This has required targeted interventions and detailed dialogue with occupiers.

CCLA once again wrote to all 78 Local Authorities within which it owned buildings expressing desire to work collaboratively to improve the ESG performance of buildings and to reduce CCLA’s negative footprint in the local community.

Ninety One (previously Investec)

General approach

Ninety One has adopted an integrated approach to economic and social challenges and operates within a financial system that is orientated towards long-term outcomes.

The broad thrust is to invest responsibly for a more sustainable future, focus engagement to shape sustainable development, taking direct responsibility for Ninety One’s environmental and social impact (“work starts at home”) with the aim of preserving and growing the real purchasing power of the assets entrusted to the firm by clients over the long term.

Ninety One supports a long-term investment perspective by integrating, engaging, escalating and monitoring material ESG issues, address internal governance of effective stewardship, and exercise its ownership rights responsibly including engagement and voting rights, act alongside other investors and disclose through publicly available policies and reporting how it discharges its stewardship duties.

Policy on controversial weapons: Ninety One has an exclusion policy for manufacturers of cluster munitions, anti-personnel mines, chemical and biological weapons.

Ninety One’s norms-based screening is guided by the UN Global Compact Principles (a voluntary initiative based on CEO commitments to implement universal sustainability principles and to undertake partnerships in support of UN goals).

Active Ownership (Stewardship)

Active ownership is not outsourced to service providers.

Climate change is a focus area within their engagement activities. Escalation strategies for engagement include filing/submitting a shareholder resolution, collaborating with other investors and voting against the board of directors or the annual financial report.

Engagement during the 2019-20 reporting period on E, S or G issues include**:** Acacia Mining, Anglogold Ashanti Ltd, BHP Billiton PLC, China National Petroleum Corp, First Solar Inc, Osisko Mining Corp, Taiwan Semiconductor Manufacturing, Tullow Oil, Valero Energy Corp.

For the upcoming year, Ninety One will lead engagement with 40 companies and act as co-signatories for a further 80 companies.

Objectives also focus on improving disclosure so that Ninety One can better understand the inherent risks and opportunities. Ninety One requires investee companies, which are part of industries that generate high emissions, to participate in the Carbon Disclosure Project (CDP), alongside encouraging them to make use of the Task Force on Climate-Related Financial Disclosures (TCFD) framework. This helps Ninety One to better understand how their strategy, governance, risk management and measurement systems are positioned to respond to the risks and opportunities of climate change.

As investor members of Carbon Disclosure Project since 2010, they share the goal to make environmental reporting and risk management a business norm, and to drive disclosure, insight and action towards a sustainable economy.

Participation in Investor Initiatives

Ninety One is also a supporter of a number of climate related advocacy groups including the Climate Action 100+ and the Institutional Investors Group on Climate Change (IIGCC). Ninety One state they have led on a number of Climate Action 100+ engagements.

They have joined the Transition Pathway Initiative, signed the Just Transition Statement and are a founding supporter of the Impact Investing Institute in the UK.

Integrating ESG into fixed income

Sovereigns: there is an evaluation of several factors:

- − Environmental (policy on climate action, resource strategy, land and water management),
- − Social policy (build environment, human capital, inclusive growth),
- − Governance (institutional capacity, economic policy)

which feed into an ESG impact score which is complemented by a political risk score that captures near-term governance shifts which can potentially impact longer-term ESG trends.

Corporates: Fundamental analysis of corporate debt is undertaken in which the credit which will be scored, resulting in a note that will consist of a credit profile, key drivers, strengths and weaknesses (and here ESG factors are highlighted), any covenant issues, as well as a peer comparison and construction of a financial model:

- − Environment: structural shifts in supply and demand; impact on cost/competition and changes in regulation/taxes in response to climate change, impact on the natural environment or pollution and waste;
- − Social: business disruption and increased costs with regard to human capital/stakeholder opposition or product liability;
- − Governance: the risk of poor oversight/management and corruption.

The ESG risk factors affecting the credit, the potential credit impact and time sensitivity of the impact are discussed in a corporate debt roundtable comprised of the credit team where the credit is deemed investable or not.

If an ESG factor is financially material this is included in the outlook on the company's financial profile such as leverage/growth/margins, but cognisant that cyclicality can often mitigate or exacerbate such ESG drivers.

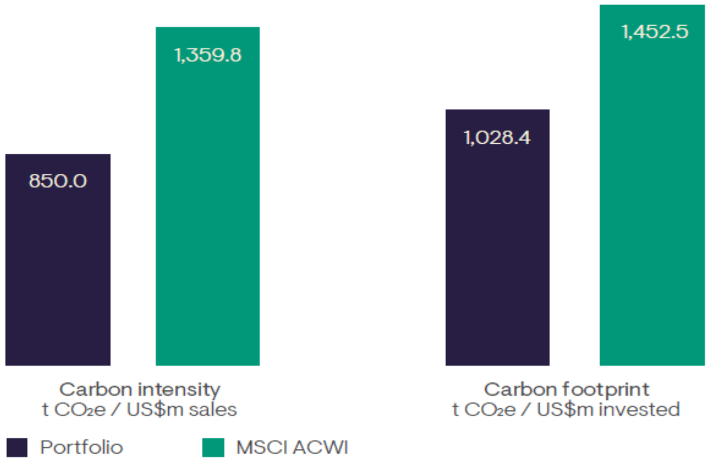
Ninety One Diversified Income Fund

Specifically, for the Ninety One Diversified Income Fund in which the Council is invested, the company has provided a Portfolio Carbon Profile Analysis:

Methodology: The analysis below is based on all assessable corporate securities (both equity and credit) held directly within the portfolio. This relates to c.64% of the portfolio as at 31 October 2020 but for the purposes of this analysis has been reweighted to 100%. The remaining 36% of the portfolio is invested in assets covering certain, predominantly sovereign, fixed income securities, cash and derivatives (including active currency positions and equity index hedging positions). The Morgan Stanley Capital International (MSCI) All Country (AC) World index has been used for comparison purposes only.

The estimated carbon footprint for the Income portfolio as at 31 October 2020 is 1,028 t CO_2e/US$m. This is c.70% of the estimated carbon footprint of the MSCI ACWI, which is 1,453 t CO_2e/US$m.

Figure 3: Scope 1, 2 and 3 carbon profile of Income portfolio and MSCI ACWI



Source: Ninety One Climate Risk Tool, as at 31 October 2020.

Source: Ninety One Diversified Income ESG Report, January 2021

Carbon intensity: measures carbon emissions of a given entity per US$ million of products or services sold (revenue). At the portfolio or index level the figures take the weighted average carbon intensity of each accessible security in the portfolio/index to determine an overall carbon intensity.

Carbon footprint: derived by taking the sum of the 'financed emissions' based on the percentage held of each assessable security's enterprise value. This is normalised by dividing by the total amount of dollars invested in the securities to give a comparable footprint.

The contributions of Scope 1, 2 and 3 emissions are 10%, 3% and 87% respectively.

- Scope 1 emissions are direct emissions from sources that are owned or controlled by the institution,
- Scope 2 emissions are indirect emissions generated in the production of electricity consumed by the institution and includes energy purchased from a utility provider.
- Scope 3 emissions are all the other indirect emissions that are "a consequence of the activities of the entity which occur from sources not owned or controlled by the institution, such as commuting; waste disposal, production, and transportation of purchased goods; outsourced activities; contractor-owned vehicles. It includes emissions from vendors and suppliers in the entity's supply chain.

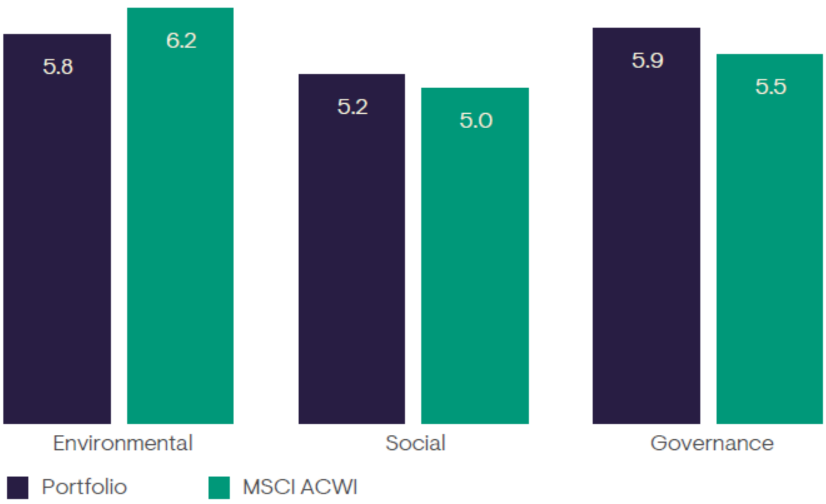
Much of the data for Scope 3 needs to be estimated. Over time, Ninety One expects disclosures to increase and are engaging with corporates to encourage them to do so. (*see glossary for definitions of Scope 1, 2 and 3 emissions*).

In this ESG report for the fund, Ninety One has also provided the following:

MSCI ESG rating

Source: Ninety One, MSCI as at 31 October 2020.

ESG Pillar Scores



Source: Ninety One, MSCI as at 31 October 2020.

Commenting on MSCI ESG ratings, Ninety One states: "*The MSCI ESG ratings are derived on a sector relative basis; they are intentionally designed to be relative to the standards and performance of a given company's industry peers. The sector relative nature of MSCI ratings means that, in isolation, the ratings have limitations for benchmark agnostic equity strategies such as the Income strategy's equity portfolio.*

In our view, ESG ratings should not be used to make investment decisions and instead, the underlying research should be used to inform and prioritise fundamental research. Scores and data are just the beginning, offering an efficient means by which we can identify potential issues and prioritise analyst time. The Multi-Asset equity analysts supplement their own research with the external assessment provided by MSCI, but with a deliberate focus on the underlying drivers of the score rather than the headline scores themselves.

For these reasons, we would not screen out stocks based on a low ESG score nor justify their inclusion based on a high score."

Schroders

General approach

Schroders has been incorporating ESG considerations into its equity fundamental research and stock selection process for more than 20 years with four principal dimensions (i) responsible ownership seeking to manage, protect and enhance the value of through active engagement and voting (ii) understanding companies' long term competitive strengths and the risks that they face (iii) identifying structural shifts that will drive growth in new markets, technologies and assets; and (iv) investment solutions aligned with clients' values and beliefs.

Analysing a company's exposure to, and management of, ESG factors, in addition to traditional financial analysis, is integral to understanding of a company's fair value and ability to deliver sustainable returns over the long-term. The integration approach spans ownership, engagement, voting and reporting.

Policy on controversial weapons: Schroders supports the international conventions on cluster munitions and anti-personnel mines and will not knowingly hold any security that derives revenue from or provides funding for cluster munitions or anti-personnel mines. Schroders will apply this policy to all Schroders funds that are directly managed.

Schroders' norms-based screening is guided by

− UN Global Compact Principles

− The UN Guiding Principles on Business and Human Rights

− International Labour Organization Conventions

− United Nations Convention Against Corruption

− OECD Guidelines for Multinational Enterprises

− US Global Sanctions List.

Encouraging TCFD disclosures

Schroders has publicly supported the TCFD recommendations. They have also signed up to a Global Investor Statement on Climate Change (post-Paris climate agreement) along with more than 600 global investors, committing to take a series of steps to contribute to a low carbon and climate resilient investments. One of these steps is to work with the companies in which they invest to ensure they are minimising and disclosing climate risks and opportunities. In their climate-related engagement, Schroders specifically asked companies to report in line with TCFD recommendations.

Active Ownership

Active ownership is not outsourced to service providers. Individual and collaborative engagements are undertaken to influence corporate practice (or identify the need to influence) on ESG issues, encourage improved/increased ESG disclosure and gain understanding of investee companies' ESG strategy and/or management.

Engagement activities are prioritised based on exposure to the individual companies, either by the total size of assets invested on behalf of clients or by the percentage of shares held and the materiality of the issue identified.

Equity, fixed income, ESG and data teams work together to identify areas that warrant discussion with companies. This may happen pre or post the decision to invest and will feed into the investment decision. Tracking its engagement activity, Schroders data shows that on average it takes two years to effect change and have historically had a high level of success; the company also reports publicly on its engagement activity.

Schroders has been voting on climate change resolutions since 2000 and have recorded engagements on the topic since 2002 and has joined investor initiative such as the Carbon Disclosure Project (CDP), a global disclosure project for environmental impacts, Carbon Action Initiative and Climate Action 100+ where they are a founding signatory.

- In their 'Aiming for A' investor coalition, Schroders has co-filed a climate change resolutions at Anglo American, Glencore and Exxon and has supported the climate change resolutions filed at Shell and Rio Tinto.
- In 2019, they had more than 230 climate change-related engagements with over 200 companies identified in their research as being materially exposed to climate risk. They were involved in collaborative engagements, such as the Climate Action 100+ initiative, and led the engagement with Chinese cement company, Conch.
- In 2020 engagement with energy companies on environmental issues included: Arch Coal, Alliance Resource, China Coal Energy, Coal India, Equinor, Gazprom, Geo Energy Resources, Lukoil PJSC, NexGen Energy, Petrofac, Rosneft, Schlumberger, Shanxi Luan Environmental Energy, Shanxi Xishan Coal and Electricity Power, Whitehaven Coal and Woodside Petroleum.
- In the resources sector, engagement in 2020 included: Anglo American, Anhui Conch Cement, Arcelor Mittal, BHP Billiton, DS Smith, Glencore (on social issues), Hindalco, India Cements, Jindal Steel and Power, Kumba Iron Ore, Norsk Hydro, Philips Lighting, Rio Tinto, Vale.

Please note the companies listed above are not an exhaustive list. For a full list see the Annual Sustainability Report.

Schroders also voted on 39 climate-related shareholder resolutions and co-filed one shareholder resolution at BP's AGM through Climate Action 100+. The resolution received overwhelming support from shareholders and BP.

Schroders have also exerted influence through voting in support of resolutions asking for greater transparency around companies' scenario planning. They typically support resolutions asking companies to disclose the impacts of a climate transition on their business and their planning for that transition (scenario analysis and transparency are key elements of the TCFD recommendations.)

UBS

General approach

UBS believes that Sustainable and Impact Investing ('SI') can protect and enhance the value of clients' investments by adding value to portfolios within the same risk /return profile. Sustainable investing is grounded in the broader use of material, ESG information in the investment analysis process and the belief that such information will lead to better informed investment decisions. By identifying long-term investment opportunities, anticipating and managing financially material risks, engaging with corporate management and creating products and services that take into account ESG factors, UBS believes companies will be more successful and investments will positively impact society and the environment.

Policy on controversial weapons: UBS has implemented a process to prevent investments in companies involved in the development, production or purchase of cluster munitions and antipersonnel mines also for its passively managed Swiss pooled fund range.

UBS' norms-based screening is guided by the UN Global Compact Principles

Encouraging TCFD disclosures

UBS has been actively engaging with approximately 50 companies in the oil and gas and utility sectors to encourage uptake of TCFD recommendations. UBS has aligned a number of these engagements with the Climate Action 100+ collaborative engagement and is (co-) leading several coalitions under this initiative.

Active Ownership

Active ownership is not outsourced to service providers.

UBS-AM has been actively engaging with 50 companies that pose great risks from a climate perspective. While UBS-AM has interests across a wide range of industries, they have identified the energy and utilities sectors as particularly exposed to the climate change transition.

To ensure a systematic approach to their engagement with companies, UBS developed a scorecard analysis based on the TCFD that reveals interesting insights on the current practice on climate change by the companies and the gaps UBS needs to address. They score companies on eight factors: responsiveness, governance, risk management, strategy, performance, targets, lobbying and disclosure.

Engagements with company management are undertaken, many engagements continue for several years as part of an on-going review process. A comprehensive database is maintained of meetings with companies, review progress over time and follow-up on issues identified.

UBS has aligned a number of these engagements with the Climate Action 100+ collaborative engagement and is currently directly involved in 29 coalitions of investors and lead seven of the company dialogues across regions.

In addition, UBS is also a supporter/signatory of:

- Institutional Investors Group on Climate Change (IIGCC)
- Transition Pathway Initiative (TPI)
- Taskforce on Climate Related Financial Disclosure (TCFD)
- Global ESG Benchmark for Real Assets (GRESB)

2020 engagements:

To create the most effective dialogue within their thematic engagement program on climate change, UBS has developed a climate materiality assessment framework to facilitate research and climate engagement dialogue across nine impacted sectors, including the two in focus, oil & gas and utilities. It focuses on:

- Governance of climate change
- Risk management
- Strategy and policy
- Metrics and performance
- Targets
- Lobbying activities
- Overall level of disclosure

The table below summarises UBS' measure of progress in the engagement focus list

Progress	Number of companies	Percentage
Excellent (76–100% of objectives met)	8	18
Good (51–75% of objectives met)	18	40
Partial (26–50% of objectives met)	16	35
Limited (0–25%of objectives met)	3	7
Total	**45**	**100**

UBS voted against the board chair or board director at four companies: Exxon Mobil Corporation, Marathon Oil Corporation, Korea Electric Power Corp and Power Asset Holdings Limited due to a lack of progress against the objectives for UBS' climate related engagement programme.

Some specific examples of engagement:

BP [on Capital management, environmental management and climate change, remuneration strategy and business model]

Summary of engagement: UBS-AM has been engaging with the company within Climate Action 100+ as a participating investor since 2018. Dialogue with management has taken place both at, board and sustainability department level with the involvement of their SI, fixed income and equity analysts. Dialogue has focused on the content of the shareholder resolution that UBS co-filed in 2019 requesting a decarbonisation strategy, GHG emissions reduction, capital allocation and remuneration in alignment with the goals of the Paris Agreement.

Outcomes and next steps: A newly appointed CEO and chair are both open to dialogue with shareholders. At the beginning of 2020, the company announced a net zero emissions target by 2050 including scope 1, 2 and 3 emissions and completed a global review of lobbying activities on climate change. In August 2020, the company furthered its climate response framework by adding five targets for 2030:

1. Reduction of Scope 1 and 2 carbon emissions by 30%–35% and Scope 3 emissions by 35%–40%
2. A 30% reduction in refinery throughput
3. 10x increase in low-carbon investments

4. Increase renewable generating capacity

5. Reduction in oil and gas production by 40% compared to 2019 levels

The company has also improved disclosure on the assessment of its capital expenditure against different low carbon scenarios. Future dialogue will focus on the application of the new capital expenditure framework to future projects, the coverage of the long-term carbon intensity ambition, engagement with customers, emissions linked to trading, and the Just Transition.

ConocoPhilips – [on environmental management and climate change]

Summary of engagement: ConocoPhillips is a corporate credit issuer included in UBS-AM's climate engagement programme. During 2020 UBS participated in a Climate Action 100+ coalition call with the company's sustainability and climate change specialists to provide feedback on a potential revision of its 5%–15% GHG Scope 1 and 2 emissions target in 2017–30 and the company's climate risk strategy.

Outcomes and next steps: The discussion was followed by the announcement of a revised ambition of 35%-45% reduction in Scope 1 and 2 carbon intensity in 2017-2030, and net zero by 2050. UBS also had a direct engagement with the company involving the credit analyst, where they discussed the company's strategy for meeting these targets, how a recently announced acquisition fits into its climate strategy, the credit implications for the company's exposure to land regulation, and its board governance.

Fortum (a Finnish company) – Utilities

Summary of engagement: UBS-AM has engaged with the company within Climate Action 100+ as a lead investor together with another investment manager since 2018. Dialogue with management has taken place both at CEO, CFO and chair level, both by the SI and fixed income analysts. The engagement objectives have focused on the company's climate change strategy. More specifically, UBS requested full alignment of the company's disclosure with the TCFD recommendations, more ambitious and long term greehouse gas emissions reduction targets, clear timelines for a coal phase out in Europe and Russia, the inclusion of climate metrics in executive compensation and a global analysis of both direct and indirect lobbying activities. In 2020, UBS submitted an AGM statement to reiterate expectations to management.

Outcomes and next steps: The company announced an overall net zero emissions target by 2050 for global operations and by 2035 for the European assets. The company has set more goals in terms of capital allocation to renewables and increased capacity of clean energy. In addition, the most recent sustainability disclosure has been more aligned with TCFD recommendations and Uniper (a company owned by Fortnum) has committed to follow suit in 2021.

Future dialogue will focus on setting a short- and mid-term roadmap to achieve long-term ambitions, and better clarifying the company's decarbonization strategy in Eastern Europe and Russia to investors. Coal phase out in Germany will also remain a priority.

Vale (Brazil) – [on environmental management and climate change]

Summary of engagement: Engagement with Vale has been necessary as a consequence of the catastrophic Brumadinho tailings dam failure in January 2019, which followed the earlier failure in 2015 of a tailings dam at Samarco, where Vale is a joint venture partner. Alongside the scale of social and environmental impacts arising from these events, the combination of both incidents suggested systemic failings within Vale in its management of tailings risks. In the aftermath of Brumadinho, UBS-AM engaged directly with the company and joined a collaborative engagement coordinated by the Principles for Responsible Investment (PRI).

Outcomes and next steps: The engagement objectives have been to see Vale put a robust remediation plan in place that includes the consultation of all affected stakeholders, changes to procedures to prevent occurrence at its other sites, and better disclosure and life-cycle management of the company’s tailings storage facilities. A number of these changes have taken place and the focus is now on the effective implementation of these measures. The PRI coordinated engagement closed in November 2020 and UBS will continue to engage directly with the company going forward.

CHUBU (Italian ulility)- [on environmental management and climate change, strategy and business model, capital management, transparency and disclosure]

Summary of engagement: The company has been selected for engagement based on UBS’ proprietary methodology which measures how companies are transitioning to a low-carbon economy within a below 2°C scenario. UBS’ dialogue with management started in 2019 and focused on conducting a scenario analysis, reviewing GHG emissions targets, increasing exposure to renewables, linking executive pay to climate metrics and aligning disclosure with the TCFD recommendations. (UBS’ dialogue has been with the head of the corporate management division and it has taken place in Japanese through simultaneous translation)

Outcomes and next steps: The company decided to split the business in Transmission and Distribution, Sales and Power Generation (through the 50% joint venture (Jera) with Japanese KEPCO which acquired all Chubu's thermal generation). It has taken previous feedback into consideration and started disclosing according to the TCFD framework. It now conducts scenario analysis linked to a 2°C scenario. Jera has also committed to an additional 5GW of renewables by 2025, higher carbon intensity reductions than the industry average in the country, and net zero emissions by 2050. Going forward, UBS is looking for new commitments on renewables and a more ambitious coal phase-out plan, currently only focusing on low efficiency plants (3.3% of total). Additionally, the company is still in the process of defining new 2030 climate reduction targets.

A bank (name not disclosed) [on environmental management and climate change, strategy and business model]

Summary of engagement: The company has been under intense pressure from NGOs and shareholders to phase out the provision of financial services to the energy sector. This ultimately led to a shareholder resolution at the 2020 AGM. UBS engaged with management and the board on their climate strategy and decided to support the management resolution which commits the bank to becoming net zero by 2050. While the bank has admittedly lagged behind in implementing an action plan owing to other priorities, namely conduct and culture, which have formed part of UBS’ engagement programme in the past, UBS believes they will be in a position to become a market leader on climate finance. UBS encouraged management to stay on track regarding the communication of its intermediary targets and methodology to avoid being subject to further action at the 2021 AGM.

Outcomes and next steps: The bank met their commitment to communicate its net zero plans to the market and UBS engaged with management to further understand the strategy, governance and methodology. They also communicated intermediate reduction targets in energy and utilities by 2025.

UBS will seek to engage regularly to monitor progress, particularly on how changes in strategy lead to changes in its relationships with clients and new product development.

Integrating ESG into fixed income for all fixed income assets

Implementation of ESG integration across the UBS fixed income platform is grounded on the collaboration between credit analysts and the Sustainable and Impact Investing team. UBS has established protocols which guide how it addresses issuers covered, how to make use of external ESG ratings information, and how to address gaps in coverage. Credit analysts are responsible for the ESG analysis of issuers within their coverage, supported by UBS AM's sustainability investment research team. Questions about the materiality of an issue are addressed, the quality of an issuer's management of its risks, and how to balance different levels of materiality or the timing of how ESG issues are expected to develop.

Credit analyst recommendations are centrally stored and shared with portfolio managers globally, and analyst credit recommendations are discussed in regularly scheduled credit committee meetings, in which individual cases are discussed in a centralised manner with portfolio managers globally. ESG recommendations are included as part of the credit analysts' credit research and are also subject to the considerations of and discussions with Sustainable and Impact Investing team representatives. By providing integrated recommendations that consider ESG risks and opportunities, UBS avoids portfolio managers being forced to choose between the sustainability and the financial attractiveness of companies when making their stock selections, given that ESG considerations are taken into account in the research recommendations.

Applying ESG in fixed income is relatively new compared to the ESG approaches which have been developing in equities for some time. Some of the challenges that arise are: greater variability in the type of issuer; ESG data availability and quality (corporate data is incomplete especially in emerging markets and high yield, sovereign ESG rating schemes tend toward high coverage but with tenuous connection to credit issues); the nature of fixed income instruments (different role of fixed income instruments in capital structures; issues of duration and maturity of fixed income instruments, bondholders rights compared to shareholders rights).

Agenda Item 10

BABERGH AND MID SUFFOLK DISTRICT COUNCILS

TO: Joint Audit and Standards Committee	**REPORT NUMBER:** **JAC/20/22**
FROM: Corporate Manager – Governance and Civic	**DATE OF MEETING:** 17 May 2021

JOINT AUDIT AND STANDARDS COMMITTEE FORWARD PLAN

Date of Committee – 26 July 2021

Topic	Purpose	Lead Officer
Joint Audit Plan 2020/21	To note	Ernst and Young
Annual Audit Letter 2019/20	To note	Ernst and Young
Treasury Management Report Outturn Report 2020/21	To note and make Recommendations to both full Councils	Corporate Manager – Financial Services, Commissioning and Procurement
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 27 September 2021

Topic	Purpose	Lead Officer
Significant Risk Register Report and Risk Management Activity	To note	Corporate Manager – Internal Audit
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 29 November 2021

Topic	Purpose	Lead Officer
Statement of Accounts and Auditors Report 2020/21	To approve the final audited Statements of Accounts and the joint external auditor's report for 2020/21	Corporate Manager – Financial Services, Commissioning and Procurement
Half Year Report on Treasury Management 2021/22	To note and make Recommendations to both full Councils	Corporate Manager – Financial Services, Commissioning and Procurement
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 31 January 2022

Topic	Purpose	Lead Officer
Joint Capital, Investment and Treasury Management Strategies 2022/23	To note and make Recommendations to both full Councils	Corporate Manager – Financial Services, Commissioning and Procurement
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 28 March 2022

Topic	Purpose	Lead Officer
Managing the Risk of Fraud and Corruption - Annual Report	For comment and agreement	Corporate Manager – Internal Audit
Internal Audit Plan 2022/23	For comment and agreement	Corporate Manager – Internal Audit
Annual Audit Letter 2020/21	To note	Ernst and Young
Joint Audit Plan 2021/22	To note	Ernst and Young
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 16 May 2022

Topic	Purpose	Lead Officer
Certification of Claims and Returns Annual Report 2020/21	To note	Ernst and Young
External Audit Interim Update Report 2020/21	To note	Ernst and Young
Annual Internal Audit Report 2021/22	For comment and agreement	Corporate Manager – Internal Audit
Joint Annual Governance Statement 2021/22	For comment and agreement	Corporate Manager – Internal Audit
ESG Investment Report	For comment	Corporate Manager – Financial Services, Commissioning and Procurement
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer

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