

Public Document Pack



JOINT AUDIT AND STANDARDS COMMITTEE	
DATE:	MONDAY, 25 JULY 2022 10.30 AM
VENUE:	KING EDMUND CHAMBER, ENDEAVOUR HOUSE, 8 RUSSELL ROAD, IPSWICH

Members		
<u>Conservative</u> Sue Ayres James Caston Dave Muller (Co-Chair) Zachary Norman	<u>Independent</u> John Nunn <u>Liberal Democrat</u> Bryn Hurren (Co-Chair) Mike Norris	<u>Green Party</u> Austin Davies Rachel Eburne <u>Green and Labour Group</u> Alison Owen

A G E N D A

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.

2 DECLARATION OF INTERESTS

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

3 JAC/21/29 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 29TH NOVEMBER 2021 5 - 10

4 JAC/21/30 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 28 MARCH 2022 11 - 16

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

6 QUESTIONS BY THE PUBLIC

To consider questions from, and provide answers to, the public in relation to matters which are relevant to the business of the meeting and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.

7 QUESTIONS BY COUNCILLORS

To consider questions from, and provide answer to, Councillors on

any matter in relation to which the Committee has powers or duties and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.

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|----|---|-----------|
| 8 | JAC/21/31 ANNUAL INTERNAL AUDIT REPORT 2021/22 | 17 - 38 |
| | Report from Corporate Manager – Internal Audit | |
| 9 | JAC/21/32 JOINT ANNUAL GOVERNANCE STATEMENT 2021/22 | 39 - 88 |
| | Report from Corporate Manager – Internal Audit | |
| 10 | JAC/21/33 ANNUAL TREASURY MANAGEMENT REPORT - 2021/22 | 89 - 122 |
| | Report from Corporate Manager – Financial Services | |
| 11 | JAC/21/34 FORWARD PLAN | 123 - 124 |
| | Report by the Corporate Manager – Democratic Services attached. | |

Note: The date of the next meeting is 26 September 2022 commencing at 10.30am.

Introduction to Public Meetings

Babergh/Mid Suffolk District Councils are committed to Open Government. The proceedings of this meeting are open to the public, apart from any confidential or exempt items which may have to be considered in the absence of the press and public.

Protocol for Virtual Meetings

Live Streaming:

1. The meeting will be held on TEAMS and speakers will be able to join via invite only. Any person who wishes to speak at the meeting must contact Committee Services at: committees@baberghmidsuffolk.gov.uk at least 24 hours before the start of the meeting.
2. The meeting will be live streamed and will be available to view on the Council's YouTube page as detailed below:
https://www.youtube.com/channel/UCSWf_0D13zmegAf5Qv_aZSg

Recording of proceedings:

1. Proceedings will be conducted in video format.
2. A second Governance Officer will be present and will control the TEAMS call and

Livestreaming.

3. Members should display the Corporate Background whilst in attendance at formal meetings; the working together logo should be used for joint meetings.
4. If you are experiencing slow refresh rates and intermittent audio you should turn off incoming video to improve your connection to the meeting (If this also does not work please turn off your own camera).

Roll Call:

1. A roll call of all Members present will be taken during the Apologies for Absence/Substitution to confirm all Members are present at the meeting.

Disclosable Pecuniary Interests:

1. A Councillor declaring a disclosable pecuniary interest will not be permitted to participate further in the meeting or vote on the item. Where practicable the Councillor will leave the virtual meeting, including by moving to a 'lobby' space and be invited to re-join the meeting by the Committee Officer at the appropriate time. Where it is not practicable for the Councillor to leave the virtual meeting, the Governance Officer will ensure that the Councillor's microphone is muted for the duration of the item.

Questions and Debate:

1. Once an item has been introduced, the Chair will ask if there are any questions. Members of the Committee will be asked to use the "Hands Up" function within teams. The Chair will then ask Members to speak.
2. Any Councillors present who are not part of the Committee will then be invited to ask questions by using the "Hands up function" within teams. The Chair will then ask Members to speak.
3. At the end of the questions the Chair will ask Members whether they have any further questions before entering into debate.
4. In the instance where a Member of the Committee would like to formally make a proposal, they should raise their hand using the Hands Up function. At this point the Chair would go directly to them and take the proposal. Once the proposal has been made the Chair would immediately ask if there was a seconder to the Motion. If there is it would become the substantive Motion and the Chair would again continue down the list of Councillors until there is no further debate.
5. Upon completion of any debate the Chair will move to the vote.

Voting:

1. Once a substantive motion is put before the committee and there is no further debate then a vote will be taken.
2. Due to circumstances the current voting by a show of hands would be impractical - as such the Governance Officer will conduct the vote by roll call. The total votes for and against and abstentions will be recorded in the minutes not the individual votes of each Councillor. Except where a recorded vote is requested in accordance with the Rules of Procedure.

3. The Governance officer will then read out the result for the Chair to confirm.
4. A Councillor will not be prevented from voting on an item if they have been disconnected from the virtual meeting due to technical issues for part of the deliberation. If a connection to a Councillor is lost during a regulatory meeting, the Chair will stop the meeting to enable the connection to be restored. If the connection cannot be restored within a reasonable time, the meeting will proceed, but the Councillor who was disconnected will not be able to vote on the matter under discussion as they would not have heard all the facts.

Confidential items:

1. The Public and Press may be Excluded from the meeting by resolution in accordance with normal procedural rules. The Governance Officer will ensure that any members of the public and press are disconnected from the meeting.

Agenda Item 3

Minutes of the meeting of the **JOINT AUDIT AND STANDARDS COMMITTEE** held in the King Edmund Chamber, Endeavour House, 8 Russell Road, Ipswich on Monday, 29 November 2021

PRESENT:

Councillors:	James Caston	Bryn Hurren (Co-Chair)
	Mary McLaren	Dave Muller (Co-Chair)
	Mike Norris	John Nunn

In attendance:

Officers:	Rebecca Hewitt
	John Snell, Corporate Manager - Internal Audit, Risk and Data Protection (Deputy Monitoring Officer)

Apologies:

Councillor(s)	Melanie Barrett and Robert Lindsay
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55 DECLARATION OF INTERESTS

There were no interests declared by members.

56 JAC/21/9 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 27 SEPTEMBER 2021

It was RESOLVED:-

That the minutes of the meeting held on the 27 September 2021 be confirmed as a correct record.

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

None received.

58 QUESTIONS BY THE PUBLIC

None received.

59 QUESTIONS BY COUNCILLORS

None received.

60 JAC/21/10 HALF YEAR REPORT ON TREASURY MANAGEMENT 2021/22

60.1 The Acting Corporate Manager – Financial Operations introduced the report and highlighted key points in the report for members consideration.

- 60.2 Councillor McLaren referred to Babergh exceeding the daily banking limit and enquired why the Lloyds online banking not being available resulted in only Babergh exceeding banking limits.
- 60.3 The Acting Corporate Manager – Financial Operations replied that although both Council's use the same banking systems Babergh were affected due to investments that needed to be made while the online banking system was unavailable.
- 60.4 Councillor Caston asked if any charges were incurred or if there were any other implications due to Babergh exceeding the banking limit.
- 60.5 The Acting Corporate Manager – Financial Operations stated that no charges had been incurred and that the banking limit was a limit set by the Council's for their own purposes and the only implication would have been that a day's interest was lost which would have been in the region of £3.
- 60.6 Councillor McLaren stated that the Councils investments programme seem to be cautious and asked who made the decisions on which investments are made.
- 60.7 The Acting Corporate Manager – Financial Operations replied that Arling Close advised the Councils on which types of investments should be made and that limits are set for investments as part of the Treasury Management Strategies which would be taken to Cabinet and full Council to be agreed, the Section 151 Officer would then make day to day investment decisions in accordance with the Treasury Management Strategy.
- 60.8 Councillor Hurren asked if the HRA long term borrowing within the report was monies borrowed to purchase council houses not owned by the Council and why the figure had been static for a while and not decreasing.
- 60.9 The Acting Corporate Manager – Financial Operations confirmed that the HRA long term borrowing was a range of loans with different maturities that were taken to buy out of the subsidy system, some of which would start to be paid off in the next few years.
- 60.10 Councillor Muller enquired if the Funding Circle investment would stay at 1% or was the intention to not have any investments in the Funding Circle.
- 60.11 The Acting Corporate Manager – Financial Operations confirmed that the intention was to move away from the Funding Circle altogether.
- 60.12 Councillor Caston asked what products were being invested in with the Funding Circle.
- 60.13 The Acting Corporate Manager - Financial Operations stated that it was a fund of different loans.
- 60.14 Councillor Caston began the debate by saying he was glad that the issue of

exceeding the banking limit was not as serious as he had thought and that he was excited about the UK infrastructure bank and the possibilities it created.

60.15 The Chair explained that there were three recommendations in the report that would require a vote, the first recommendation was for the full committee to vote on, the second recommendation was for Babergh Councillors only and the third recommendation was for Mid Suffolk Councillors only.

60.16 Councillor Caston **PROPOSED** recommendation 3.1 which was **SECONDED** by Councillor McLaren.

It was RESOLVED:-

That the Treasury Management activity for the first six months of 2021/22 as set out in report JAC/21/10 and Appendices be noted.

60.17 Councillor McLaren **PROPOSED** recommendation 3.2 which was **SECONDED** by Councillor Hurren.

It was RESOLVED:-

That it be noted that Babergh District Council's Treasury Management activity for the first six months of 2021/22 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds by £136k, as mentioned in Appendix C, paragraph 5.4, the Council has complied with all the Treasury Management Indicators for this period.

60.18 Councillor Norris **PROPOSED** recommendation 3.3 which was **SECONDED** by Councillor Caston.

It was RESOLVED:-

That it be noted that Mid Suffolk District Council's Treasury Management activity for the first six months of 2021/22 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.

61 JAC/21/11 JOINT AUDIT PLAN 2020/21

61.1 Mark Hodgson from Ernst and Young External Auditors introduced the report. He explained that the report was the plan in order to gain sufficient audit assurance to sign the audit opinion in respect of the 2021 financial statements for both Councils and highlighted the key risks within the audit, materiality, responsibilities for value for money and audit fees.

61.2 Councillor Caston asked if the significant risks were reported back to this committee or somewhere else.

- 61.3 Mr Hodgson replied that they would be reported back to the Joint Audit and Standards Committee as an update to the Joint Audit Plan presented today.
- 61.4 Councillor Caston began the debate stating that he believed that the way that the new inherent risks were shown in the report was a much better way of looking at them as it helped to focus on the new issues.
- 61.5 Councillor McLaren commended the auditors on a succinct report which was easy to understand.
- 61.6 Councillor Muller also thanked the auditors for their report.
- 61.7 Councillor Norris **PROPOSED** recommendation 2.1 of the report which Councillor Nunn **SECONDED**.

It was RESOLVED:-

That the proposed provisional approach for the 2020/21 audit be agreed.

62 JAC/21/12 INTERIM INTERNAL AUDIT REPORT 2021/22

- 62.1 The Corporate Manager – Internal Audit introduced the report which informed members of the works undertaken within the internal audit service for the first 6 months of 2021/22.
- 62.2 He also highlighted that of the completed audits, one returned the opinion of limited assurance which was based at the end of the last financial year 2021 and in line with internal audit procedures this was followed up and improvements had been made in this area and the audit opinion had elevated to reasonable assurance.
- 62.3 Councillor Norris referred to the work in progress planning enforcement audit on page 107 of the report and asked for an indication of when these works would be completed.
- 62.4 The Corporate Manager – Internal Audit replied that a draft report was imminent, and a summary of the findings would be reported back in the Annual Internal Audit report 2022.
- 62.5 Councillor McLaren asked for the audit being undertaken on Ethics as detailed on page 100 of the report to be explained.
- 62.6 The Corporate Manager – Internal Audit stated that the audit would look at the behaviours of officers and how customers are dealt with in line with the Councils core values.
- 62.7 Councillor McLaren also asked if new members of staff were made aware of the values, to which the Corporate Manager – Internal Audit replied that the values were part of the induction undertaken by new staff.

- 62.8 Councillor Caston indicated that in the report it stated that the policies and procedures for Housing Health and Safety may have been to blame for the rating of limited assurance and ask for an update on the works being undertaken.
- 62.9 The Corporate Manager – Internal Audit gave an update as to why the rating of limited assurance had been given. He also gave a brief overview of works undertaken by the Housing team to rectify the issues and because of key controls being put in place they had not been given a risk rating of reasonable assurance.
- 62.10 Councillor Hurren enquired about the audit for Asset Management and asked if there had been a loss of control of what assets were owned by the Councils’.
- 62.11 The Corporate Manager – Internal Audit stated that an updated summary of findings would be included in the Annual Internal Risk Report 2022.
- 62.12 Councillor Norris asked if a time scale could be included for any work in progress audits in future reports. The Corporate Manager – Internal Audit agreed to the Councillors request.

It was RESOLVED:-

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

63 JAC/21/13 COMPLAINTS MONITORING REPORT

- 63.1 The Deputy Monitoring Officer – John Snell introduced the report which updated members on Code of Conduct Complaints received from July to November 2021.
- 63.2 Councillor McLaren asked for more information regarding Independent Persons.
- 63.3 The Deputy Monitoring Officer stated that 4 independent persons were employed and individuals were interviewed for their experience.
- 63.4 Councillor McLaren enquired if the post was remunerated, to which the Deputy Monitoring Officer replied that there were circumstances where it could be, but it usually is not.
- 63.5 Councillor Caston asked if Councillors are informed if a complaint has been received against them.
- 63.6 The Deputy Monitoring Officer replied that if a complaint is upheld then the Councillor would be informed.

63.7 Councillor McLaren asked if Ward Members were advised.

63.8 The Deputy Monitoring Officer replied that if it was determined to be a major issue then the Ward Member would be informed.

It was RESOLVED:-

That the Code of Conduct Complaints monitoring information contained in Paper JAC/21/13 be noted.

64 JAC/21/14 FORWARD PLAN

64.1 There were no comments or amendments to the Forward Plan.

The business of the meeting was concluded at 10.26 am.

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Chair

Agenda Item 4

BABERGH DISTRICT COUNCIL

Minutes of the meeting of the **JOINT AUDIT AND STANDARDS COMMITTEE** held in the Frink Room (Elisabeth) - Endeavour House on Monday, 28 March 2022

PRESENT:

Councillors:	Melanie Barrett	James Caston
	Rachel Eburne	Bryn Hurren (Co-Chair)
	Mary McLaren	Dave Muller (Co-Chair)
	Mike Norris	John Nunn

In attendance:

Officers:	Emily Yule – Monitoring Officer
	John Snell – Corporate Manager – Internal Audit and Risk

Apologies:

Councillor Austin Davies

65 DECLARATION OF INTERESTS

65.1 There were no declarations of interests by Councillors.

66 JAC/21/19 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 29TH NOVEMBER 2021

66.1 This item was deferred to the next meeting.

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

67.1 None received.

68 QUESTIONS BY THE PUBLIC

68.1 None received.

69 QUESTIONS BY COUNCILLORS

69.1 None received.

70 JAC/21/20 MANAGING THE RISK OF FRAUD AND CORRUPTION - ANNUAL REPORT

70.1 The Corporate Manager – Internal Audit and Risk Management introduced the report and made members of the committee aware of the key points within the report.

- 70.2 Councillor Norris enquired if the single resident discounts removed as detailed in paragraph 3.16 of the report were as a result of deliberate fraud or residents forgetting to inform changes of circumstance and how much had been recovered.
- 70.3 The Corporate Manager – Internal Audit and Risk replied that a mixture of deliberate and non-deliberate claimant error had resulted in the figures stated and amounts recovered would be reported back to committee when available.
- 70.4 Councillor Caston asked if more details could be given regarding the instance of administration error and what training the staff member responsible received.
- 70.5 The Corporate Manager – Internal Audit and Risk replied that more details on training received could be given outside of the meeting.
- 70.6 Councillor Caston enquired how the right to buy rejected due to funds not being able to be verified had been detected.
- 70.7 The Corporate Manager – Internal Audit and Risk Management replied that the applicant lived in the country however funds were being supplied from overseas where the regulations were not as stringent. This had been identified by a housing officer and challenged and the information supplied was not satisfactory so the right to buy application was stopped until more information had been received.
- 70.8 Councillor Caston asked if housing officers currently receive money laundering training. The Corporate Manager – Internal Audit and Risk Management confirmed that they did.
- 70.9 Councillor McLaren stated that on several occasions within the report it said that internal audit enables and empowers managers to identify fraud and asked how this could be demonstrated.
- 70.10 The Corporate Manager – Internal Audit and Risk replied that there were key controls to test robustness and there was also a fraud risk register which was helpful to internal audit and corporate managers to demonstrate controls.
- 70.11 Councillor McClaren also stated that in her experience it was not always a manager who picked up fraud and junior staff members should also be alert.
- 70.12 Councillor Eburne stated that the language within the report indicated that most instances were due to error or not understanding processes rather than deliberate fraud and asked for reassurance that training was given to officers to enable these to be identified during daily routines and could an indication be given of the workload taken to resolve the administration error that had occurred.

- 70.13 The Corporate Manager – Internal Audit and Risk Management reassured Councillor Eburne that the workload to resolve all issues were proportionate.
- 70.14 Councillor Barrett stated that studies show that fraud at works typically begins with errors which are not detected which can then develop into fraud.
- 70.15 The Corporate Manager – Internal Audit and Risk Management stated that he was familiar with profiles and that errors should not just be dismissed.
- 70.16 Councillor Hurren asked if people with two houses both claiming single resident discount was illegal, the Corporate Manager Internal Audit and Risk Management stated he would investigate and report back outside meeting.
- 70.17 Councillor Hurren enquired if the Council had sufficient funds to handle a major cyber security event.
- 70.18 The Corporate Manager – Internal Audit and Risk Management stated that the audit for cyber security would be reported at year end with reasonable assurance given.
- 70.19 Councillor McClaren said that financial hardship would lend itself to potential fraud and enquired how integrated systems were.
- 70.20 The Corporate Manager – Internal Audit and Risk Management stated that a close relationship existed with Shared Revenue Partnership which was hosted by Ipswich Borough Council and that Corporate Managers needed to manage their systems and be vigilant.
- 70.21 Councillor Muller asked if it was known when the public email address for fraud reported would be implemented. The Corporate Manager – Internal Audit and Risk Management informed the committee that it was planned for the email address to be live later in the week.

It was RESOLVED :

That the contents of report JAC/21/20 detailing the progress made in ensuring there are effective arrangements in place across both Councils to minimise the risk of fraud and corruption be noted.

71 JAC/21/21 INTERNAL AUDIT PLAN 2022/23

- 71.1 The Corporate Manager – Internal Audit and Risk Management introduced report JAC/21/21
- 71.2 Councillor Eburne asked if paragraph 5.5 in the report included CIFCO and if issues with staff vacancies had impacted the audit work.
- 71.3 The Corporate Manager – Internal Audit and Risk Management replied that the works completed on the governance of CIFCO would be included in the year end report and that SLT were consulted regarding concerns including

staff vacancies, support and additional controls.

- 71.4 Councillor Caston enquired if sufficient provision and resource had been put in place for the change of section 151 officer.
- 71.5 The Corporate Manager – Internal Audit and Risk Management replied that he had been working closely with the section 151 officer and conversations had taken place regarding the transition.
- 71.6 Councillor Barrett asked if the contract with Id Verde had been audited, the Corporate Manager – Internal Audit and Risk Management replied that he was aware of issues and was part of a working group reviewing the contract.
- 71.7 Councillor McClaren enquired if any improvements had been made to commissioning and procurement controls.
- 71.8 The Corporate Manager – Internal Audit and Risk Management replied that days had been programmed in the audit plan for next year.

It was RESOLVED:

That the contents of the Internal Audit report, supported by Appendix A, be noted.

72 JAC/21/22 COMPLAINTS MONITORING REPORT

- 72.1 The Monitoring Officer introduced report JAC/21/22 and summarised the key points within the report.
- 72.2 Councillor Eburne asked where Parish Councils could get advice from and if the number of complaints and time spent dealing with complaints had increased.
- 72.3 The Monitoring Officer replied that queries outside of the Monitoring Office remit were directed to SALC, the Information Commission or sometime advice was given by the Monitoring Office. Time spend dealing with complaints could vary, an increase in complaints had been seen during the pandemic.
- 72.4 Councillor McClaren asked if a list of the Independent Persons was available in the public domain, the Monitoring Officer replied that the details were available on the Council's website.
- 72.5 Councillor McClaren voiced her concern that there may be a lack of knowledge or experience in some parish councils.
- 72.6 The Monitoring Officer stated that some parish councils were more self sufficient than others and this sometimes depended on the parish clerk, if a correlation between vacancies and complaints is identified then support would be offered and the Monitoring Office also worked closely with SALC.

72.7 Councillor Caston stated that it was really important to support the Parish Clerk

It was RESOLVED:

That the Code of Conduct Complaints monitoring information contained in report JAC/21/22 be noted.

73 JAC/21/23 FORWARD PLAN

73.1 Comments were made regarding the Significant Risk Register item in September and differing workloads for meetings.

73.2 Councillor Hurren made the committee aware of the Eastern Regions Chairs meeting which was next meeting in July and an update would be brought to following meeting.

The business of the meeting was concluded at 11.05 am.

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Chair

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Agenda Item 8

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: JOINT AUDIT AND STANDARDS COMMITTEE	REPORT NUMBER: JAC/21/31
FROM: CORPORATE MANAGER – INTERNAL AUDIT	DATE OF MEETING: 25th July 2022
OFFICER: CORPORATE MANAGER – INTERNAL AUDIT	

ANNUAL INTERNAL AUDIT REPORT 2021/22

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, 2021/22 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 2021/22.

4. KEY INFORMATION

- 4.1 Requirement of Internal Audit - Public Sector Internal Audit Standards (PSIAS)
- The PSIAS require the Corporate Manager – Internal Audit 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 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 monitored requests, with a risk-based approach, for the re-allocation of Internal Audit resources from the approved 2021/22 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 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 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 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;
- 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; and
- Looking at our Business Continuity arrangements and resilience generally.

Audit Opinion – the Corporate Manager – Internal Audit 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 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 2021/22 overall Internal Audit opinion on the Councils' control environment provided by the Corporate Manager – Internal Audit, 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 2021/22 Internal Audit Plan was approved by the Joint Audit and Standards Committee on 28th March 2021 (Paper JAC/20/14), 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.

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 2021/22 and Progress Report – Paper JAC/20/14.

Authorship:

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Corporate Manager – Internal Audit

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Appendix A

Overview of Internal Audit Activity, 12 Months to 31st March 2022

1. Introduction

- 1.1 The work completed by Internal Audit for the Financial Year 2021/22 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 Of the 15 completed audits only 1 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. This audit will be followed up in the first quarter of 2022/23 and will be reported back to this committee later in the year.
- 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 at the end of the financial year 2021/22 and is being presented to this committee today.

3.2 Statutory Officers Working Group

The Corporate Manager – Internal Audit 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 continues to undertake 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.
- 4.3 Moving forwards, the responsibility for Risk Management oversight will fall under the direction of the Interim Corporate Manager for Policy, Performance, Insight, Risk and Improvement. Full details of the Significant Risk Register and the work overseen by the Interim Corporate Manager will be 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 28th March 2022 (Paper JAC/21/20) entitled 'Managing the Risk of Fraud and Corruption'.

6 Audits conducted

- 6.1 In line with the 2021/22 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
Contract Management	<p>Oversight and management of contracts. The purpose of this review is to ensure:</p> <ul style="list-style-type: none"> Contracts have only been extended in accordance with the contract terms and conditions. The extension complies with the Contract Procedure Rules. Contract monitoring confirms that performance was adequate and contributed to the decision to extend the contract. Alternative contract options were considered. Value for money is being achieved. Have additional costs been incurred as a result of COVID-19 and were they justified? Review supply chains in light of COVID-19 impact. Consider social values. <p>The audit scope has been extended to include a review of contract spend.</p>	<p>A general lack of coordination and central responsibility for ensuring contract management is carried out.</p> <p>Failure to provide adequate training for those staff responsible for managing contracts.</p> <p>Failure to centrally house and control contract management information.</p> <p>To confirm that performance against contract is monitored and corrective action is taken where poor performance is identified.</p> <p>To ensure that the contract is managed in accordance with the Procurement Standing Orders (Contract Management).</p> <p>Expenditure incurred without agreed contract</p> <p>Costs incurred without clear business needs assessment of service requirement or optimum service delivery.</p> <p>Expenditure is incurred in excess of agreed contract levels</p> <p>Overruns compromise procurement policy and best practice model.</p> <p>Misreporting and execution in accounts</p> <p>Inappropriate allocation between capital and revenue with errors in depreciation and surplus / deficit reporting</p> <p>Excessive Expenditure by service remains unchecked</p> <p>Monitoring and challenge do not identify projection (extrapolation) of consumption and contravention of procurement framework.</p>	<p>Work in Progress – completion date end of July 2022.</p>	-
Corporate Procurement Cards	<p>To seek assurances on the internal controls being exercised over the purchase card process.</p>	<ul style="list-style-type: none"> Non-compliance with user guide. Cardholders may not be appropriately trained. Fraudulent spending patterns may go undetected. 	<ul style="list-style-type: none"> Testing identified a number of individual payments exceeding the policy spend limit without supporting evidence. Commissioning and Procurement has already addressed this by requesting that all expenditure exceeding the (new) limit of £300 should be pre-agreed with the authorising manager as a one-off necessary expenditure and evidence maintained. <p>Good practice identified:</p> <ul style="list-style-type: none"> The Councils' policy and procedures are regularly updated and reviewed. All card holders are requested to confirm they have seen and understood any updates. These confirmations are kept on file by Commissioning and Procurement. Payments are processed promptly and correctly. 	Reasonable Assurance
Budgetary Control	<p>This review was carried out in August to September 2021 as part of the Internal Audit plan and following a specific</p>	<ul style="list-style-type: none"> Inaccurate, incomplete and untimely financial information. 	<p>The review established:</p> <ul style="list-style-type: none"> The changes needed for the Chart of Accounts to 	Undertaken as 'Consultancy work' at the

	<p>request from the Assistant Director - Corporate Resources to review current processes within the finance department that operate to produce financial reports to the Councils' Cabinet meetings.</p> <p>The scope includes the following:</p> <ul style="list-style-type: none"> How the finance system can be used to eliminate the need for manipulation of data in spreadsheets (source of human error) and how the Chart of Accounts could be better utilised for this purpose staff. Recommendations for use of check controls before reports are published. The procedures and processes used to generate reports to identify where errors could occur. The role that the Finance Business Partners play to assess areas of weakness. <p>How the report production timetable and month / quarter end processes could be streamlined to ensure earlier report production and sufficient review time, including how monthly soft closes can be achieved to support this.</p>	<ul style="list-style-type: none"> Overuse of excel spreadsheets for financial reporting that can lead to human error. 	<p>ensure that it reflects reporting requirements, reduces the need for manipulation of ledger data, and provides more detailed information.</p> <ul style="list-style-type: none"> A lack of check controls throughout the process. A need to move towards monthly reporting and standardise processes across each of the Business Partners so that best practice is adopted. That budget meetings need to be more demonstrably focussed on key financial risks and actions to mitigate these. How the quarter end process can be streamlined through an automated process, benefiting from prior monthly checks and reporting, and through reviewing Business Partners' workloads to ensure tighter timetables can be met. 	<p>request of the Assistant Director – Corporate Resources.</p> <p>Further work planned during 2022/23.</p>
Risk Management	<p>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.</p>	<ul style="list-style-type: none"> Poor governance and "Tone of the organisation". Reckless risk-taking Inability to implement effective risk management processes. Non-existent, ineffective or inefficient risk assessments. Not integrating risk management with strategy setting and performance management. 	<ul style="list-style-type: none"> The assurance framework within which the Significant Risks Register operates can be improved to include assurances received on mitigating actions and linking risks to individual corporate objectives. Recommendations have been made to enhance the Risk Management Strategy when it is next reviewed. Given the wide remit of the Internal Audit and Risk Management Services team, and the current level of resource available, a recommendation has been also made to consider re-instating a dedicated risk management resource. <p>Good practice identified:</p> <ul style="list-style-type: none"> All Risks in the Significant Risk Register (SRR) had Risk Owners, Cabinet member leads, mitigation actions and all other areas of the SRR was completed. Risks included within the SRR includes the original, current and target risk scores. 	Reasonable Assurance
Payroll	<p>Identify and test the design and operating effectiveness of key controls in relation to the Councils' payroll processes (Inc. starters and leavers and changes to payroll standing data).</p>	<ul style="list-style-type: none"> Payment approval process is ineffective leading to delays of payments. Changes to payroll standing data may not be adequately controlled and processed promptly leading to 	<ul style="list-style-type: none"> All key controls around starters, leavers and variations to pay were in place and operating effectively. 	Substantial Assurance

		<ul style="list-style-type: none"> unauthorised access and fraudulent activity. Sensitive payroll data is not adequately protected leading to unauthorised access to payroll information and fraudulent activity. No recovery of employee debt leading to council loss of income. Starters and leavers may not be properly added or removed from the payroll system in a timely manner leading to dummy employees being registered on the payroll system and incorrect continuation of salary in the case of leavers. Weak Management Reporting leading to anomalies not being identified, corrected and reported upon as appropriate, nor would there be any Senior Management or Member oversight. 		
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6.1.2 Environment

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Climate Change	The purpose of the audit is to undertake a 'healthcheck' of the Carbon Reduction Management Plan and provide management with a position statement against the Plan.	<ul style="list-style-type: none"> Risks related to the transition to a lower-carbon economy - Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to the Councils. Policy and Legal Risks - Policy actions around climate change continue to evolve. Their objectives generally fall into two categories—policy actions that attempt to constrain actions that contribute to the adverse effects of climate change or policy actions that seek to promote adaptation to climate change. The risk associated with and financial impact of policy changes depend on the nature and timing of the policy change. Another important risk is litigation or legal risk. Recent years have seen an increase in climate related litigation claims being brought before the courts by property owners, and public interest organisations. Reasons for such litigation include the failure of organisations to mitigate impacts of climate change, failure to adapt to climate change, and the insufficiency of disclosure around material financial risks. As the value of loss and damage arising from climate change grows, litigation risk is also likely to increase. Technology Risk - Technological improvements or innovations that support the transition to a lower-carbon, energy efficient economic system could have a significant impact on the Councils. For example, the development and use of emerging technologies such as renewable energy, battery storage, 	<ul style="list-style-type: none"> Timescales has been incorporated within the Carbon Reduction Plan (CRP), however there is no evidence of milestones included for proposed actions within the CRP or in the Environmental Delivery Plan (EDP). Fields related to 'Funding', are generally not completed within the EDP spreadsheet which makes it unclear as to the financial status of each activity. Some monitoring documentation provided by project leads were not completed in full. <p>Good practice identified:</p> <ul style="list-style-type: none"> The Environmental Delivery Plan is regularly reviewed and monitored by the Service Improvement Advisor for Environment & Commercial Partnerships. Each individual proposal and activity have a designated Project Lead that manages each project. 	Reasonable Assurance

		<p>energy efficiency. New technology will replace old systems and may disrupt some parts of the Councils' business.</p> <ul style="list-style-type: none"> Market Risk - There may be shifts in supply and demand for certain services and products currently provided by the Councils. Reputation Risk - Climate change has been identified as a potential source of reputational risk tied to changing customer or community perceptions of an organisation's contribution to or detractor from the transition to a lower-carbon economy. 		
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6.1.3 Community

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Asset Community Value	To review the robustness of the process for nomination to ensure that the actual current (or recent past) use of ACVs must further the social wellbeing or social interests of the local community.	<ul style="list-style-type: none"> Policies and Procedures - Policies and procedures may be out of date, or legislation ambiguous. Roles and Responsibilities - Staff unclear of their role and purpose of bid. System Controls - Approval process is not robust. Monitoring and Reviewing - Non-compliance with policy, procedures and no monitoring outcomes or reporting. 	<ul style="list-style-type: none"> The Policy requires further clarity regarding the processes and areas of responsibility. The decision for approving or rejecting an application is not published online as required within the policy. <p>Good practice identified:</p> <ul style="list-style-type: none"> Application outcomes are reported monthly to the Portfolio Holders and Cabinet Members by the Corporate Manager, Communities. 	Reasonable Assurance
Planning Enforcement	To review the prioritisation of limited resources, ensuring the prompt completion of prioritised investigations and referrals, and that case sign-off's have been correctly exercised.	<ul style="list-style-type: none"> Policies and Procedures - Guide/flowchart is not adhered to Staff unclear of their responsibilities DMS/Uniform is not utilised to its full potential or purpose Performance (Monitoring and Reviewing) - Non-compliance with guide/flowchart, abnormal activity may go undetected and key targets missed 	<ul style="list-style-type: none"> The case allocation and logging process needs strengthening. It is not clear from testing whether allocated caseloads are balanced in terms of quantity and complexity. There was no strong correlation between missed case deadlines and officer professional grade. Guidance on the workflow for officers needs to be developed and the significance of key controls explained to officers in the team. <p>Good practice identified:</p> <ul style="list-style-type: none"> Although the introduction of the process flowchart requires further work the Planning Enforcement service area deserves credit for pursuing a transformational approach to embed more efficient and effective working processes. 	Limited Assurance – Follow Up audit planned for completion end of July 2022/23.

Community Grant Funding	To review the robustness of the process for ensuring the actual current (or recent past) Communities grant applications assist our communities to become more sustainable.	<ul style="list-style-type: none"> ○ Policies and Procedures - Policies and procedures may be out of date, or legislation ambiguous. ○ Roles and Responsibilities - Staff unclear of their role and purpose of bid. ○ System Controls - Approval process is not robust. ○ Monitoring and Reviewing - Non-compliance with policy, procedures and no monitoring outcomes or reporting. 	<ul style="list-style-type: none"> ○ The application sign-off process requires further strengthening. <p>Good practice identified:</p> <ul style="list-style-type: none"> ○ The Community Grant Guide is followed, is fit for purpose and up to date. ○ Extensive pre-application engagement is provided to the communities to ensure their application is eligible and has the best outcome for the community. ○ All authorised grants meet the criteria for sign off and payments post project completion. ○ Progress and outcomes are reported regularly to stakeholders 	Reasonable Assurance
National Test and Trace Government Funding	Purpose of the grant review is to ensure that expenditure is lawfully incurred or to be incurred in relation to the mitigation against and management of local outbreaks of COVID-19.	<ul style="list-style-type: none"> ○ Failure to comply with the prescribed conditions will result in either the grant being reduced, suspended or being withheld. ○ Any expenditure that fails to comply with the prescribed conditions shall immediately become repayable to the Minister of State. 	The conditions attached to the Test and Trace Grant Determination (2020/21) No 31/3337 have been complied with.	Prescribed declaration presented to the Ministry for Housing, Communities and Local Government via the administering authority, Suffolk County Council.

6.1.4 Housing

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Housing – Health and Safety – Follow Up audit (previous audit opinion assessed as 'Limited Assurance')	The purpose of the review was to 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.	<ul style="list-style-type: none"> ○ 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. 	<ul style="list-style-type: none"> ○ Improvements have been made since the last audit of compliance with Health and Safety regulations for housing services, however some recommendations are still to be implemented although these are currently being worked on. ○ A full compliance dashboard is in the process of being introduced. It is currently being tested in order to resolve system issues. ○ Both the Electrical Safety and Lift Maintenance Policy have been drafted, but they have not yet been reviewed and agreed. ○ The Fire Risk Management Policy/Procedures dated August 2020 were approved by the Corporate H&S Board in September 2020. ○ Housing Management Team (HMT) have an overarching risk register, 	Reasonable Assurance

			which had been reviewed and highlighted risk owners and mitigating actions.	
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 administering authority, Suffolk County Council.

6.1.5 Customers and Wellbeing

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
<p>Shared Revenues Partnership (SRP) – Business Rates and Council Tax, 2020/21.</p> <p>Note: This work is undertaken by Ipswich Borough Council's Internal Audit Section as the Partnership's host authority.</p>	The objective of the audit was to evaluate the operation of controls and assess their effectiveness in mitigating risks to the business objective relating to Business Rates.	<ul style="list-style-type: none"> Incorrect multipliers used to calculate business rate billing and inadequate controls over the billing process resulting in under or overcharging rate payers may lead to reputational damage, non-compliance with legislation and financial loss. 	<ul style="list-style-type: none"> One low level corporate risk was identified involving the need for a secondary officer check of NNDR parameters with supporting evidence to avoid potential errors. <p>Effectively functioning controls include:</p> <ul style="list-style-type: none"> Rateable values on the Northgate system are reconciled on a regular basis to the figures received by the Valuation Office on a regular basis. This enables reliance on the accuracy of the rateable values recorded on the Northgate system. Exemptions, reliefs, and discounts applied to accounts are supported by evidence of eligibility. There is an effective process in place to ensure that only valid refunds are authorised in line with the scheme of delegations. There are controls in place to ensure that only accurate and authorised refunds are processed via the bacs system. NNDR records are reconciled to the general ledger and to the receipting system (for income) monthly. 	<p>Opinion for both Councils relating to Business Rates and Council have been assessed as Effective – Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met</p>
	The objective of the audit was to evaluate the operation of controls and assess their effectiveness in mitigating risks to the business objective relating to Council Tax	<ul style="list-style-type: none"> Failure to ensure that billing and collection arrangements are robust and adequately applied. 	<p>Effectively Functioning Controls include:</p> <ul style="list-style-type: none"> Precepts have been entered onto the Council Tax system accurately and were reviewed by a Senior Officer. Exemptions, reliefs, and discounts applied to accounts are supported by evidence of eligibility. 	

			<ul style="list-style-type: none"> ○ Council Tax records are reconciled to the general ledger and to the receipting system (for income) monthly. ○ The resolution of unidentified receipts in the suspense account was found to be effective and timely. 	
Cyber Security review	<p>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:</p> <p>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</p>	<ul style="list-style-type: none"> ○ 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. 	<ul style="list-style-type: none"> ○ The organisation has demonstrated that its infrastructure is sufficiently managed and secure to connect to the Public Service network. ○ The organisation has not assessed and registered risks specific to its IT and cyber security. ○ The organisation issues staff with removable media. However, the organisation does not maintain records of issued media, its approval and secure disposal. <p>Good practice identified:</p> <ul style="list-style-type: none"> ○ The organisation has established mandatory cyber security training, which is regularly delivered to its staff. ○ The organisation's infrastructure security is managed by Suffolk County Council and there is an agreement in place. 	Reasonable Assurance
Health and Safety	<p>Testing of a sample of contracts will be selected to ascertain:</p> <ul style="list-style-type: none"> ○ the specific Health & Safety requirements within the contract, ○ the monitoring processes operated to-date, ○ reporting and follow up of issues identified, ○ linkage with the Councils' overall contract performance monitoring process. 	<ul style="list-style-type: none"> ○ The safety, health, welfare and wellbeing of individuals may be compromised. 	<p>Blueflame Contract - Draft report issued – awaiting management response before final issue.</p> <p>Serco Contract – On request, Internal Audit provided the Corporate Manager responsible for H&S and the Corporate Manager responsible for Waste Services with H&S advice and a generic strategy to adapt and operate within.</p>	
Insurance	<p>The review considers the main risks in relation to insurance and to review the key systems and controls in place to address these.</p>	<p>Policies & Procedure</p> <ul style="list-style-type: none"> ○ Insurance Claims Policies and Procedures may not have been approved corporately leading to an impact on service delivery, reputational damage and potential financial loss. ○ Staff involved with processing and handling Insurance Claims may have insufficient knowledge to effectively manage any new insurance claims, which may lead to financial loss and reputational damage. <p>Prevention and Detection of Fraud</p> <ul style="list-style-type: none"> ○ Failure to acknowledge the risk of fraudulent Insurance Claims may result in the opportunity for fraud to remain undetected. ○ Measures to prevent and detect fraud may not currently be in place leading to potential fraudulent 	<ul style="list-style-type: none"> ○ There is currently no official training or refresher courses provided to staff involved with insurance claims. ○ Sample testing of insurance policies renewal found they were all up-to-date and current. <p>Good practice identified:</p> <ul style="list-style-type: none"> ○ Testing of insurance claims revealed that all were adequately managed and investigated before they were submitted to the insurance company. 	Reasonable Assurance

		<p>claims being paid out by the Councils resulting in financial loss and reputational damage.</p> <p>Management of Insurance Claims</p> <ul style="list-style-type: none"> Failure to effectively and efficiently manage and monitor insurance claims received by the council may lead to increased cost and reputational damage. 		
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6.1.6 Assets and Investments

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Gateway 14	<p>The audit reappraised the function of the structure; composition and operation of the organisation in line with its terms of reference; considered the oversight, reporting and escalation mechanisms and decision-making framework; assurance on the independence selection and appointment and awarding of contracts.</p> <p>The audit reappraised the function of the structure; composition and operation of the organisation in line with its terms of reference; considered the oversight, reporting and escalation mechanisms and decision-making framework; assurance on the independence selection and appointment and awarding of contracts.</p>	<ul style="list-style-type: none"> The actions of the Board, including the development of strategic objectives and legal frameworks, are taken without due consideration of the impact on the organisation. Non-executive directors of the Board are unable to give independent, robust challenge. The Board does not have sufficient, complete or timely information on which to base its decisions. Evidence of the decisions made by the Board, including the challenge process, is not retained and/or is not transparent in confirming the decision process. The companies set up by the Board may not fulfil their obligations. 	<ul style="list-style-type: none"> G14 Ltd.'s Articles of Association are in place and registered with Companies House. A declaration of interest register is maintained for G14 Ltd directors, which agrees to the active directors logged at Companies House. G14 management accounts are circulated to Board members for review in advance of the G14 Ltd Board meetings. Minor issues were found in respect to the risk register and responsibilities/ timelines for mitigating actions. <p>Good practice identified:</p> <ul style="list-style-type: none"> Gateway 14 Ltd Board reports on progress of the G14 project to MSDC (Suffolk Holdings) Ltd Board who in turn reports to the Mid Suffolk District Council. The 'Environmental Health Land and Contamination' and the 'Environmental Health Air Quality' consultations are available on the Council's website. 	Substantial Assurance
Babergh Holding and Mid Suffolk Holding Companies		<ul style="list-style-type: none"> Communications from the Board are not effective or timely meaning that the Council cannot place reliance on the workings of the Board. 	<ul style="list-style-type: none"> The Governance Strategy which supports the detail of the functioning of the Board requires review; matters reserved for shareholders is not documented. The minutes of Board meetings are not clear as to who is a director, a decision-maker, and who is in attendance with no voting rights. Regular updates from the Holding Companies' Boards to Council Cabinets are not provided by the Portfolio Holders. The Risk Registers contain an initial and a target risk score but do 	Reasonable Assurance

			<p>not include a current score; dates by which mitigating actions are due are required.</p> <p>Good practice identified:</p> <ul style="list-style-type: none"> ○ Full Council, February 2021, approved the Joint Capital and Joint Investment Strategies which gave detail of the ongoing investments in, and priorities of the Growth Companies. ○ The Annual Accounts have been filed with Companies House on a timely basis. Prior to approving the Annual Accounts Board training was provided by the Holding Companies' Auditors. 	
Babergh Growth and Mid Suffolk Growth Companies			<ul style="list-style-type: none"> ○ A review of the Board, the Chair and the members with regard to their effectiveness, performance, capability and suitability is yet to be carried out. ○ The Babergh and Mid Suffolk (BMS) Invest Complaints Management Strategy, Health and Safety Policy and Business Continuity Plan need updating. ○ BGL and MSGL have articles of association, which cover areas such as directors' powers and responsibilities. ○ A declaration of interest register was maintained for BGL and MSGL directors, which was cross referenced to the active directors logged at company house. <p>Good practice identified:</p> <ul style="list-style-type: none"> ○ The rights of the shareholders are clearly set out in the BGL and MSGL Shareholders' Agreements, both of which have been signed by the various parties. ○ The Trading Companies Structure shows BGL and MSGL report to BMS Council's Holding companies respectively, who in turn report to their local authorities. 	Reasonable Assurance
Asset Management	To provide assurance over the adequacy and effectiveness of current controls over Asset Management and provide guidance on how to improve the current controls going forward.	<ul style="list-style-type: none"> ○ 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 	<ul style="list-style-type: none"> ○ There is an approved Strategic Asset Management Plan (SAMP) in place which provides a framework for managing the Councils' portfolio going forward. 	Substantial Assurance

		<p>for fixed asset additions and disposals resulting in incorrect accounting treatment and incomplete asset registers.</p> <ul style="list-style-type: none"> ○ 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. 	<ul style="list-style-type: none"> ○ Two new policies were also approved as part of the SAMP approval process, ensuring that fundamental processes such as acquisitions, disposals, and transfers from the Council's to the community are included. ○ A walk through of the annual reconciliation process between the Fixed Asset Module and ledger confirmed this is a robust process. However, subsequent quarterly reconciliations have not been undertaken due to the long delay in the end of year audit. ○ There were no exceptions raised from sample testing for valuations, acquisitions, depreciation and disposals. <p>Good practice identified:</p> <ul style="list-style-type: none"> ○ The SAMP compares well with other local authority asset management strategies. 	
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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 2021/22 Audit Plan

The audit plan was approved by this committee on 29th March 2021 (Paper JAC/20/14) and initially Internal Audit work conducted is derived from this source. The Corporate Manager for Internal Audit 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.

Two audits, the General Ledger and Safeguarding review have been deferred until 2022/23 due to the request from management for continued input from the internal auditor to support the Business Cell responsible for the administration of issuing grants to support businesses. The role of the internal auditor is to provide a level of assurance that funds are only paid to eligible businesses and ensuring that appropriate action is taken to recover any funds that have been paid out fraudulently or in error. The auditor will still 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 by liaising and reporting to Department for Business, Energy & Industry

Strategy (BEIS). This assurance work will continue into 2022/23 following the recent Government announcement to issue energy rebate payments.

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.

	20/21	21/22
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%	75%
Will the audit enable you to improve your service	80%	75%
Overall, how would rate the audit?		
Excellent	80%	80%
Good	15%	20%
Satisfactory	5%	
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 management's request for internal audit's continual support to provide a level of assurance to the Business Cell responsible for the administration of business grants.

	Key Performance Indicator	Target	20/21	21/22
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	6	5
5	Average Number of days between the completion of audit fieldwork and issue of draft report.	10 working days	7	8
6	Average Number of days between the issue of the draft and final report.	15 working days	8	6
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 management's request for continual support within the Business Cell responsible for the administration of business grants)	90%	58%	79%

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 supported 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 was 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 supported the 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), the Midland Audit Group and Local Authority Chief Auditors Network (LACAN).

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.

During the year the Corporate Manager – Internal Audit relinquished responsibility for overseeing Risk Management and Information Governance/Data Protection arrangements across both Councils. These responsibilities now rest with the Corporate Manager Policy, Performance, Insight, Risk and Improvement and within the Shared Legal Services function respectively.

10 Audit opinion

- 10.1 The Corporate Manager – Internal Audit 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 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;
- 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.

Audit Opinion – The Corporate Manager – Internal Audit 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'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 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

Senior Leadership Team, which includes the Assistant Director, Corporate Resources (S151 Officer)

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Agenda Item 9

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: Joint Audit and Standards Committee	REPORT NUMBER: JAC/21/32
OFFICER: John Snell – Corporate Manager – Internal Audit	DATE OF MEETING: 16/05/2022

JOINT ANNUAL GOVERNANCE STATEMENT 2021/22

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 2021/22, 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) 2021/22 (Appendix A to this report) properly reflects the governance environment and any actions to improve it.
- 3.2 That subject to 3.1 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.
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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 2021/22 Statement of Accounts which will be approved by this committee later in 2022. 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.
- 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 2021/22 and it also identifies through the assurance statements from officers the issues and changes that have been implemented in response to the emergency. Although the Councils' arrangements are under pressure 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 2021/22	Attached

13. BACKGROUND DOCUMENTS

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

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Babergh & Mid Suffolk District Councils

Annual Governance Statement

2021 - 2022



Contents

Overview

Introduction	3
What is Corporate Governance?	3
The Councils' responsibility in relation to Corporate Governance	4
What is a Governance Assurance Framework?	5

Review of Effectiveness

Review of Effectiveness	6
Introduction from the Strategic Director	7
Opinion of the Assistant Director – Law & Governance and Monitoring Officer	7
Opinion of the Assistant Director – Corporate Resources (S151 Officer)	10
Opinion of the Corporate Manager – Internal Audit	14
Opinion of the Corporate Manager – Finance (Procurement)	20
Opinion of the Assistant Director – Assets and Investments	22
Opinion of the Head of Human Resources and Organisation Development	24
Opinion of the Corporate Manager – Policy, Performance, Insight, Risk and Improvement	27
Opinion of the Corporate Manager – Information and Computer Technology	33
Opinion of the Information Governance Officer	35
Opinion of the Assistant Communications Manager	38
Opinion of the Corporate Manager – Health and Safety, Emergency Planning and Business Continuity	40

Summary

Actions moving forward	41
Approval of the Annual Governance Statement	44



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.'

The Council's governance framework aims to ensure the organisation:

Operates in a lawful, open, inclusive, and honest manner

Meets the needs of both district communities

Has effective arrangements in place to manage risk

Spends public money wisely

Strives to continuously improve the way it operates

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;

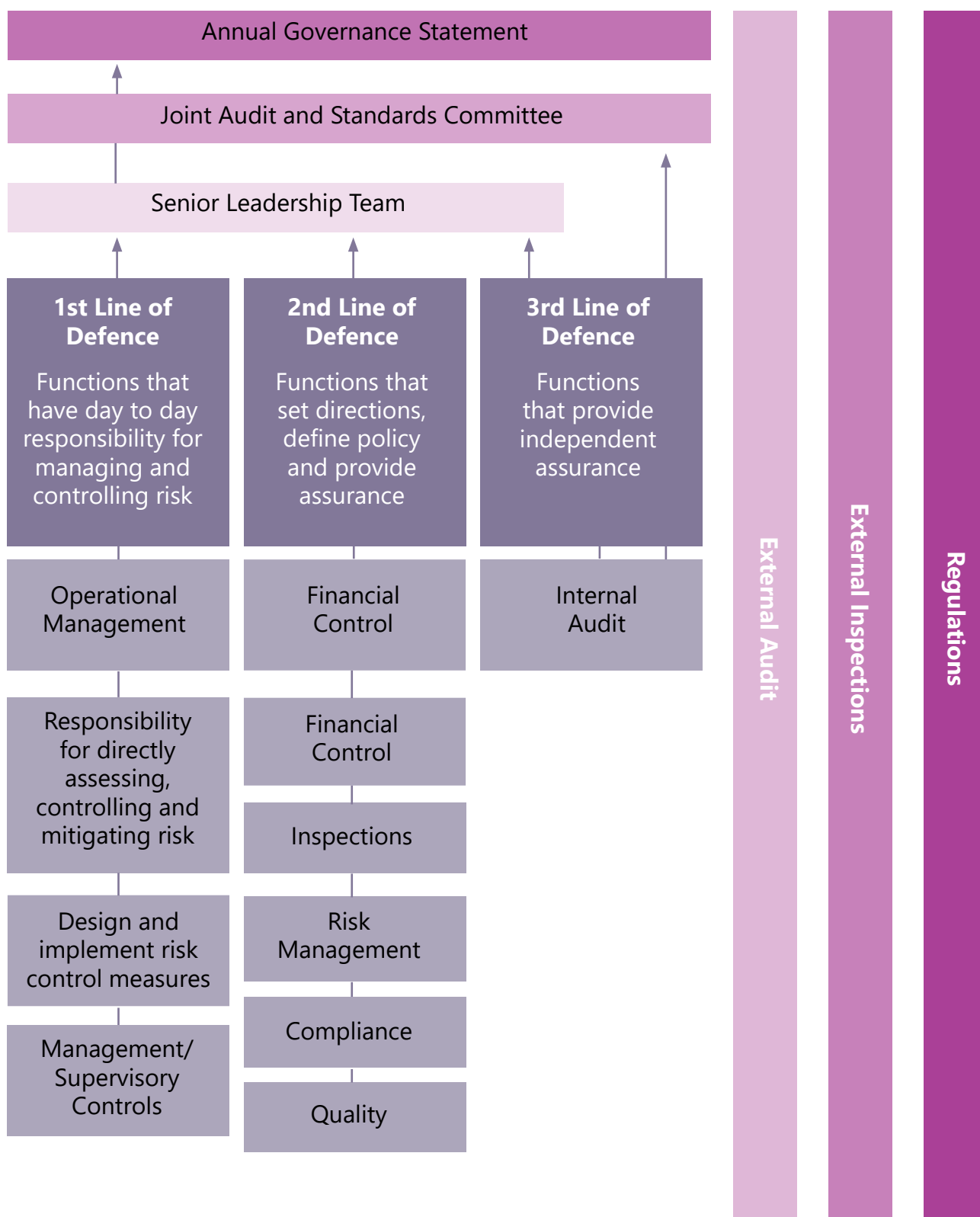
I, Having embedded arrangements for whistleblowing and for receiving and investigating complaints from the public, supporting the measurement of the quality of services for users; and

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. 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. BMSDC have effectively adopted a joint Constitution with a few minor variations between the Councils. The Constitutions provides 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 and published within 48 hours of the meeting.

Action for 2022/23:

The Monitoring Officer is required to regularly review the Councils' constitutions and it is their intention to convene a Constitution Working Group during 2022/23 to review part 2 (Responsibility and Functions), part 3 (Rules of Procedure) and part 4 (Codes and Protocols) of the constitutions.

In March 2022, Babergh District Council considered whether to revert to Committee style of governance or to retain the Leader-Cabinet model. It was decided to retain the Leader and Cabinet model but to put in place a number of enhancements to improve the way that the Cabinet engages with the wider Council membership. The Monitoring Officer will be working with the Leader and Cabinet Members in 2022/23 to implement and evaluate these enhancements.

Statutory Officers

The Statutory Officers; Monitoring Officer, Head of Paid Service and S.151 Officer, and the Corporate Manager for Internal Audit 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.

Action for 2022/23:

Hybrid meeting technology is currently being trialled which will enable public speakers and other non-voting participants to join and contribute to meetings virtually.

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.

In March 2022, the Councils adopted the LGA's model code of conduct as their new Local Code of Conduct for Councillors. Training and support is currently being programmed for district and town and parish Councillors to ensure that the provisions of the new code are fully understood and to maximise compliance with the code.

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. All complaints are dealt with in accordance with the Councils' adopted code of conduct complaints procedure. We are currently reviewing the online complaints form to ensure that is accessible and easy to complete. The Councils have formally appointed a pool of Independent Persons who are consulted at various stages in the complaints process.

Covid-19

The Councils have continued to adapt and evolve in relation to the ongoing Covid-19 pandemic response. Decision making meetings have been enabled to continue in person by ensuring that appropriate covid-safe arrangements have been in place. We have utilised virtual meeting technologies for informal meetings and briefings which has not only helped prevent the transmission of the virus but also contributed towards our carbon reduction ambitions.

Pre-election Moratorium in 2023

As the Councils head towards all-out elections in May 2023 the Councils will be taking steps to observe the pre-election period of restricted publicity (or moratorium / purdah). This will officially start with the publication of the notice of election; however, advice and guidance will be made available to officers and Councillors from Autumn / Winter 2022.



Opinion of the Assistant Director – 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:

- the statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment;
- the balanced budget requirement of the Local Government Finance Act 1992 (Sections 32, 43 and 93); and
- 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 July 2021 gave the Councils an unqualified opinion on their 2019/20 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 2019/20 statement of accounts signed off by EY, but this resulted from the knock-on impact of the late 2018/19 audit and continuing resourcing issues within EY, as opposed to any governance issues within the councils.

The delay with the 2019/20 audit has also had a knock-on impact to the audit of the 2020/21 accounts. The audit commenced in February 2022, but due to the scheduling of audits for the NHS and the need for EY to prioritise that work, it is unlikely that the final report will be issued until July 2022. From the work undertaken to date, no major issues have been raised, so it is anticipated that an unqualified opinion on the accounts and value for money conclusion will again be the outcome.

Work has been undertaken on the areas for improvement that were identified as part of the audit of the 2019/20 accounts, but the outcome from this will not be known until the 2020/21 audit is complete.

Covid-19

The Covid-19 pandemic continued to have an impact on the Councils' financial position and governance arrangements in 2021/22, but not as significantly as the previous year. The Suffolk CFO network has continued to be used to share information and report the total impact across the Suffolk public sector to the Public Sector Leaders.

A Covid-19 reserve was established in 2020/21 for each Council and at the end of that financial year a balance was held that was brought forward to manage any adverse effect in 2021/22. In addition, when setting the budget for 2021/22, allowance was made for the anticipated continued impact of Covid-19 and a further allocation of funding was received from the Government for the first quarter of 2021/22.

The impact continues to be reported quarterly to Cabinet and it is expected that both Councils will still have some money in the Covid-19 reserve at the end of 2021/22 to further manage both the impact and recovery activity in 2022/23.

The Councils also continue to undertake a going concern assessment for the auditors, as part of the audit of the 2020/21 accounts, which demonstrate financial resilience during the pandemic.

During 2021/22, each Council continued to administer grants, which the Government made available to local businesses, in addition to self-isolation payments to individuals. This has been through a combination of payments following Government guidance or the development of discretionary policies. All discretionary policies have been approved in accordance with the Councils' Constitutions. On top of this, varying levels of business rates relief continued to be administered for the retail, hospitality and leisure sectors. During the latter part of 2021/22, the Councils began to respond to the Government's requests for reconciliation and post-payment assurance checks from the grant schemes that were closed. To date, these have not revealed any control weaknesses in the Councils' processes.

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 continued to include additional work undertaken as a result of the administration of the business grants, to minimise the risk of fraudulent claims being paid. Internal Audit undertook a budgetary control review in 2021/22 to provide management with insight as to how the processes could be improved. The audit focused on how the finance system could be used to drive reports, use of check totals, the processes and procedures to produce reports including the timetable and the role of the Finance Business Partners. A number of recommendations were made, and these are being implemented via the finance transformation plan.

The Councils take an annual approach to business planning, allowing a close link between business and financial planning. The Joint Medium Term Financial 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 2022/23 budgets without again having any significant impact on the level of services provided to the public and neither council had to impose the maximum increase in council tax. Following reflection of the annual underspends by each Council, the approach was changed for the 2022/23 budgets, with budget managers being asked to set more stretching yet realistic estimates. The outcome of this will be seen during 2022/23.

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 and Portfolio Holder's.

During the budget preparation work for 2022/23, 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. External finance training was also provided to the Cabinets and Overview & Scrutiny Committee members during the budget setting process, to outline and reinforce their respective roles.

During 2021/22, the management arrangements of the Finance Team were changed, to provide additional capacity to undertake developments across a range of measures, including the procurement of a new finance system for delivery in 2023. A transformation plan and resourcing have been agreed, with some actions delivered in 2021/22, but this work will continue throughout 2022/23.

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 was undertaken during 2021/22 and the actions required to ensure that all standards are being complied with were included within the finance transformation plan.

Towards the end of 2021/22, the Councils invited the Local Government Association to undertake a corporate peer challenge. Whilst the detailed report has yet to be published, the immediate feedback from the team at the end of the challenge was that both councils are financially stable, have a simple practical approach to cost sharing, CIFCO has delivered financial returns, there are some early successes from the Growth Companies, and we have adapted investment strategies in light of changes to the Prudential Code. Some areas for consideration were also identified and will be considered by the Councils in 2022/23, as part of the action plan in response to the challenge report.

The opinion of the Chief Finance Officer is that the Councils continue to operate robust internal controls and good public financial management. Action is taken to manage the financial pressures and develop strategies to meet any immediate and long-term financial challenges that the Councils face. 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.



Opinion of the Corporate Manager – 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. 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 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.

76% 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 2022/23. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit.

The Corporate Manager – Internal Audit 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 some 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 is satisfied that sufficient assurance work has been carried out to allow to form a reasonable conclusion.

The Corporate Manager for Internal 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 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.**

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.

Audit Opinion – the Corporate Manager – Internal Audit 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'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 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 pro-active 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 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 on fraud matters where there are grounds to suggest that fraud or corruption have occurred.

The Corporate Manager – Internal Audit 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 regularly 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 completed in December 2020, as part of the 2020/21 exercise. The Election and Single Discount Council tax data annual upload was completed in December 2021.

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.

Business grants data has again been added to this year's upload to NFI to assist in the detection of fraudulent applications. In order to support the detection of fraud even further, NFI has introduced additional powers in terms of obtaining and analysing data within the private and public sector for all business grants, including Covid Business Support grants. The fees are envisaged by NFI not to cause a barrier to local authorities. This is now 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 administering 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 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 2022/23 follows:

- Continue ongoing NFI exercise;
- Ongoing COVID-19/Omicron support work around business grants;
- Supporting the Business Cell by providing a level of assurance over the administration of energy rebate payments recently announced by Government;
- Supporting both Councils to improve levels of awareness of fraud risks amongst staff;
- Continue collaborating with neighbouring councils to share knowledge and expertise on anti-fraud and corruption measures through the Suffolk Fraud Group; and
- Currently the general public can report fraud through a dedicated email and phone number via Suffolk County Council. These are then passed to Babergh and Mid Suffolk District Councils where relevant.

In order to increase the speed of this service, a dedicated phone number and email for Babergh and Mid Suffolk District Council only will be available shortly to the general public to report allegations of fraud directly. The general public can either phone us and report a fraud through Customer Services or log it online, on our website. The report will be added to a secure platform, accessed by Internal Audit who will coordinate and manage the subject matter internally. When the form has completed all testing successfully, it will be promoted as appropriate as a live service.



Opinion of the Corporate Manager – Finance (Procurement)

Both Councils total annual supplier spend is approximately £46m, of this 48.7% is with 10 suppliers and there are 66 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 2021/22 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. 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 team has set up over 500 new suppliers during 2021/22 after completing the necessary due diligence checks.

Following on from the East of England Local Government Associations review of the Councils commissioning and procurement function, an action plan has been developed and will continue to be implemented during 2022/23. This includes a training programme and guidance for managers on effective procurement and contract management, embedding social value and climate change when commissioning, and exploring shared contract collaboration arrangements.

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.

Significant work has been undertaken to create an effective pipeline spend document with a view to publishing this on the Councils intranet during 2022/23.

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 quarterly 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.**

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 21/22 the Councils' internal audit team instructed TIAA to undertake assurance reviews of the Holding Companies, Gateway 14 and both Growth Companies.

TIAA concluded that they had reasonable or substantial assurance with regard to the governance and operation of the companies. It is proposed that further audits will be undertaken in respect of the trading companies over the next 2 years. The next area of focus will be the performance of the Growth Companies against their business plan objectives and partnership working.

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 code has been updated this year to include the Nolan principles of public life.

The trading companies report quarterly to the Holding Companies with updates and present updated business plans for approval by the holding companies annually. In turn the AD for Assets & Investments reports quarterly to Joint Cabinet Briefings on behalf of the Holding Companies.

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 the on-going COVID 19 pandemic where meetings have been held virtually and decisions can be made in writing. We have held our first hybrid meetings this year but expect the companies will continue with a blend of virtual, hybrid and face to face meetings as appropriate in the future. 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 on-going importance as we face the consequences of COVID 19, the cost of living crisis, high inflation and the impacts of war in the Ukraine. The Companies also help to deliver a number of the Councils' key priorities such as to increase housing delivery, improve the availability of business premises within the districts delivering more job and skills opportunities and delivering developments in a sustainable way. Governance and assurance arrangements continue to be transparent and robust.



Opinion of the Head of Human Resources and Organisation Development

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 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. As we move out of Covid restrictions, we will be reporting on a weekly basis. 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 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.

We are also developing our internal Equality, Diversity, and Inclusion strategy. In Mid-2021 we commissioned an Equality, Diversity, and Inclusion (EDI) specialist to facilitate focus groups with our people to understand how culture is experienced by all our employees, how inclusive the councils are and the impact this has on diversity, and what influences career progression in our councils. Learning from those workshops will be shared and we have also committed to EDI awareness and engagement sessions for leaders and staff. We already have EDI training in place for all employees.

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 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.

We have traditionally carried out Staff Surveys on a bi-annual basis, the last one of this format having taken place at the end of 2019/20, prior to the pandemic. We recognised that the analysis of these surveys, due to the size, took a long time and therefore are now carrying out much smaller pulse surveys three times per year so that we can respond to feedback in a much more dynamic way. Our most recent pulse 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 HR and OD Partners and Advisors and our HR Support Team for recruitment and transactional services.

All our people have access to coaching and mentoring through the Suffolk Coaching and Mentoring partnership. The Leadership Development Programme commenced in mid-2020 for Cabinet, Senior Leaders and Corporate Managers and is still underway. As part of the performance process, we also 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. Over the coming 12 months, we will also be implementing a new HR Information system which will also have a learning and development management system as part of it and this will allow the recording of all learning and development to ensure compliancy and identify potential skills gaps.

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 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.

This programme of virtual support will continue in 2022 and 2023. We have also made available virtual learning programme for our line managers and our employees aimed at supporting wellbeing across the organisation. A Wellbeing Hub has been developed, available on our intranet system, Connect, that provides a plethora of support and signposts to relevant external agencies.

We have also developed an employee Wellbeing strategy. 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 because of COVID, policies, processes, and support, some of which have already been put in place as referenced in the statement, will require continual review.

The current recruitment market provides challenges for all, and we are currently re-designing our recruitment process to allow time to search rather than waiting for people to apply.

Our new HR Information system, due to go live in October, will facilitate the application process for candidates which we hope will increase applications for available positions. As we move out of Covid, we are also looking to develop different ways of attracting early talent and will work through this process as part of our workforce plan.

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 Corporate Manager Policy, Performance, Insight, Risk and Improvement

During 2021/22 the Councils have continued to report performance against the six strategic priorities to SLT and Cabinet on a quarterly basis. Our Councils are highly ambitious and want to see significant improvement for the wellbeing of our residents and communities.

We have evolved our existing performance approach by developing a new Outcomes Framework which provides the golden thread between our strategy and business planning arrangements.

It links the Corporate Plan, the six strategic priorities, the service plans and personal plans, as well as ensuring the Corporate Delivery Plan is delivering the right activities to achieve our outcomes. It drives the new performance management approach for our Councils and the direction of travel for embedding a more comprehensive culture of performance challenge and improvement aligned with finance and risk reporting.

The Framework was developed using evidence in 16 of our plans and strategies and the priorities of a mid-point review of the Corporate Plan in May 2021 that SLT, both Cabinets, and all Members fed into.

The Framework approach was endorsed by the Senior Leadership Team ('SLT') in September 2021, and the outcomes discussed at a joint SLT/Cabinets away day in November 2021 and all members were briefed.

The Outcomes Framework was finalised and agreed by both Cabinets in January 2022. The approach to the Outcomes Framework is underpinned by our agreed values and behaviours. This work was originally to commence in early 2020 but was delayed due to COVID priorities.

To build great communities with bright and healthy futures that everyone is proud to call home.

All our customers are able to access high quality services and support	Families lead active, healthy, safe and independent lives; with children having the best start in life and adults managing their own health & wellbeing	We enjoy, value, enhance & protect our environment	Our places are known for strong growth in innovation and creativity; for being highly connected and sustainable with the best skilled workforce in the East	All our communities are attractive, successful and connected places for people to live and work	All our residents live in affordable and high-quality homes that enable them to build settled, safe and healthy lives
Every customer is able to access high quality services and support	Inequalities are reduced for all groups	Biodiversity is enhanced and protected	Babergh and Mid Suffolk's places and economy are supported to be innovative, green and resilient	Communities have the capacity and are supported and empowered - with the infrastructure to maximise opportunities and thrive	Residents are settled, safe and healthy in affordable and high-quality homes that meet their needs
Residents have a voice - enabled to democratically engage and empowered to do so	Residents have the best opportunities to improve their physical and mental health and well-being	Babergh and Mid Suffolk have a low carbon footprint	Our businesses and places benefit from stronger connectivity and opportunities to be environmentally sustainable	Our places, and their communities, are well connected and valued by residents and visitors	Residents have a say in the future of housing
Residents are satisfied with Council services	Families lead active, healthy, safe and independent lives and manage their own health and wellbeing	Babergh and Mid Suffolk are healthier, safer and sustainable places	Our communities are supported to be the best skilled workforce across the East with high levels of aspiration	Our communities are high quality, safe, healthy and attractive	Homes are sustainable, with reducing carbon emissions, that are future proofed to meet resident needs

The outcomes above are those we expect to achieve for our residents and communities by 2027. We took a theory of change approach to the Framework meaning these long-term outcomes are underpinned by up to twelve 1-2 year outcomes for each of the six priorities and each of these have actions and measures.

These will be reported to SLT and Cabinets on an exemption basis starting in early Summer 2022 and aligned to revised service planning arrangements. These outcomes provide an opportunity to develop better partner working on a shared outcomes basis that includes even more opportunities for co-commissioning including shared services/joint posts across the system.

The approach ensures a join-up between performance, risk and finance and will be underpinned by our shared values and behaviours. It will also drive the new performance management approach and the direction of travel for embedding a culture of performance challenge and improvement.

Our new approach to performance management:

- enables Babergh and Mid Suffolk to translate the Corporate Plan into outcomes that are easily communicated and shared across the Councils, with our partners and with our residents.
- encourages joint working, breaking down silos by working together to achieve shared outcomes.
- aligns performance, risk, and financial management around the delivery of outcomes.
- enables outcome informed decisions around financial investment and commissioning.
- provides the potential to pool resources with partners where outcomes can be discussed and shared.
- delivers better value for money and improved performance.
- ensures the six strategic plans all align to the 2019/27 Corporate Plan.
- develops a balanced scorecard approach enabling SLT to performance manage the outcomes alongside risk, finance, and organisational health. This approach will also be used for Cabinet. This is developing and will be ready in Summer 2022.
- aligns risk to the outcomes and KPIs and builds them into the corporate and service risk registers and provides support to ensure that risk is actively managed.
- improves service planning for 2022/23 to ensure we can identify a Golden Thread from the Corporate Plan through the six strategic priorities and into services and their teams.

Our new approach to service planning for 2022/23 reflects the adoption of the Outcomes Framework and to achieve a golden thread to through our strategic

landscape. We introduced a standard template for service planning to enable shared ownership, consistency and to enable us to plan and support services more effectively.

Service plans are written by Corporate Managers with their teams and are agreed by Assistant Directors and Portfolio Members prior to peer challenge. Final sign-off on service plans is by SLT.

As part of Service Planning in 2022/23, Accountable Officers for Tier 3 outcomes had these embedded into their service plan template. The CMs with shared accountabilities for each Tier 3 outcome were asked to work together to discuss actions and measures to join-up across the organisation.

Service plans are a vital link between our joint Corporate Plan and Outcomes Framework and our Personal Development Scheme (PDS).

For 2022/23 performance reporting we are including:

- 1/4ly reports to SLT, Portfolio Leaders and Cabinet on Tiers 1, 2 and 3 of the Outcomes Framework and on the Corporate Delivery Plan performance.
- Monthly performance reports to SLT on Tier 3 by exception (ongoing).
- Monthly reports to SLT on Tier 4 by exception (in year 1).
- 1/4ly Chief Executive challenge sessions for SLT leads on each of the six priorities for Tier 2 and 3 by exception plus the Corporate Delivery Plan.
- 1/4ly Portfolio Leaders challenge session for each of the six priorities for Tier 3 and Tier 4 by exception plus the Delivery Plan.
- Annual performance reporting to Council.

- Annual resident State of the Districts report – modelled on the Thriving Places approach with infographics and narrative including case studies – you said, we did. This report will also be shared with members.
- End of term State of the Districts report – look back over the last four years.
- embed sources of assurance in the Significant Risk Register and reflect in the Risk Management Strategy. This improvement area was addressed by the Senior Leadership Team in 2021/22 and we are confident that the SRR does not include assurances. We have also embedded assurances into the expectation for

Risk Management

Risk management provides early warning on key / emerging matters to enable transparent, timely decision-making and intervention at appropriate levels, it improves decision-making allowing intelligent 'informed' risk-taking, helps to prioritise, protect assets, people and the Council's reputation, supports consistent good governance and internal control and allows better informed financial decision-making leading to greater financial and budget control.

In 2020/21, TIAA, the Councils' external internal audit provider was asked to review the Councils' risk management arrangements. In April 2021, the audit found good practice in our approach. All Risks in the SRR all had Risk Owners, Cabinet member leads, mitigation actions and all other areas of the SRR was completed.

They also found that risks included within the Significant Risk Register include the original, current and target risk scores. And said that the Significant Risk Register is structured so that risks are articulated in terms of cause, risk and consequence. Mitigations are included along with further actions necessary to reduce the risk. However, the audit also found a number of improvements:

- review risk management strategy to include how the Significant Risk Register links to the Council's Corporate Objectives. A new risk management strategy is planned for Q2 of 2022/23 co-created with both Cabinets and shared with JAC in July 2022.
- review significant risks where they have met their 'Target Risk', to decide if they can be de-escalated or closed. This improvement area was addressed by the Senior Leadership Team in 2021/22.
- be specific with planned completion dates to make it easier for SLT and Members to monitor and understand any gaps between the current and target scores. This improvement area was addressed by the Senior Leadership Team in 2021/22.
- review and update the Risk Management Strategy to include the review, moderation and approval process for new risks for both the Significant Risk Register and the Departmental Risk Registers. A new risk management strategy is planned for Q2 of 2022/23 co-created with both Cabinets and shared with JAC in July 2022.

Risk is a key strategic issue that needs to be more embedded across the organisation and joined-up with performance and finance. Services are responsible for their own risk registers but there needs to be greater join-up between strategic and service risk and clear escalation principles in place.

A recent external review of risk management has identified strengths and weaknesses of our approach and we are currently developing proposals to improve our risk management practice including revising our strategy, our risk framework, and our strategic risk register.

A SLT strategic risk workshop in January 2022 started the improvement needed in this area including the need to have a holistic approach to risk aligned to the Orange Book – Management of Risk – Principles and Concepts. In February 2022 SLT reviewed the strategic risk register and in March 2022 SLT developed detailed risk tolerances for each of the 12 types of risk identified by the Orange Book.

As part of the new approach to service planning that was launched with the Extended Leadership Team in February 2022, we revised the operational risk register to ensure it reflected the improved strategic risk register including the need to capture assurances and include end dates. We intend to bring an organisational risk update to the SLT meeting in May 2022 to agree and follow-up with any improvements required as embed risk across the two councils.

In early 2022/23 we plan to hold a joint SLT / Cabinet's workshop on strategic risk management, to discuss the new risk management approach, ensure the risk tolerances work for Cabinet members in each council and co-design the revised risk management strategy.

We also plan in 2022/23 to hold a workshop with the Extended Leadership Team to explore how the corporately agreed risk tolerances embed in the organisational risk registers and to discuss and agree the risk escalation process which was recommendation in the LGA Corporate Peer Challenge held in March 2022.

We recognise the need to embed risk into our organisational culture to protect and enhance the health of the organisation and to help our staff and members recognise the relationship between the health of the organisation and the communities we serve.

The new Outcomes Framework will also address the join-up between risk, performance and finance and moving risk management to the new central policy, performance, risk, and insight team will support the development a better shared understanding of effective performance and risk management and effective challenge.

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.

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 Councils are committed to equality monitoring to improve our services and ensure all our residents can access and use them. We undertake equality impact assessments for service changes and for staff restructures and use data to inform targeted service delivery: for example, in Housing where we developed services for complex housing needs customers and in Communities where we used data to target domestic abuse services and to focus school holiday support. We also consider equality and diversity in strategy development: for example, most recently in our Wellbeing Strategy.

Another example of application is the Hackney Carriage and Private Hire Vehicle Licensing Policy. The Licensing Team needed to ensure sufficient provision of wheelchair accessible vehicles in the districts. The team approached Suffolk Disability Forum who surveyed disabled passengers and these results fed into the revised policy agreed in October 2021.

We recognise the shift in the equality, diversity and inclusion (EDI) agenda to include intersectionality. An example of that is the work we are leading on digital access and digital skills for those residents who are at risk of digital exclusion.

However, we need consistency in how we apply EDI considerations in our decision-making which we intend to address in 2022/23 as part of the Corporate Improvement Programme.

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.

In Mid-2021 we commissioned an Equality, Diversity, and Inclusion (EDI) specialist to facilitate focus groups with our people to understand how culture is experienced by all our employees, how inclusive the councils are and the impact this has on diversity, and what influences career progression in our councils. The Specialist ran three focus groups and seven 1-1 interviews. Feedback was presented to SLT in September.

We are now sharing the research with Members, leaders and staff and defining a 'living and breathing' EDI vision by engaging with a diverse range of colleagues. We have also committed to EDI awareness and engagement sessions for leaders and staff and EDI skills training for HR and line managers (including unconscious bias) to equip them to engage with their teams confidently and inclusively.





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, specifically focussing on key customer outcomes and the ongoing resilience of the two councils.

The strategy, being aligned with that of our key provider, Suffolk County Council, enables us to ensure key relationships with partners and our opportunity to effectively collaborate in key areas of ICT continues.

As the pandemic continued during 21/22, the global increase in cyber-attacks also continued. Working with partners we focussed on our Cyber security efforts and gained our latest Public Services Network Accreditation (PSN) in December 2021. As a direct response to the wider cyber security concerns across the public sector we undertook two additional Cyber Security Audits in 21/22. These provided assurance that our technology processes and our policy controls adequately protect the organisations and more importantly, customers can trust us to interact securely with them as wellbeing safe custodians of their data.

A continued focus on financial rigour and strategic alignment of delivery within ICT has enabled further efficiencies to be made in 2021/22, whilst also improving the resilience and effectiveness of the organisation.

We successfully implemented a new online payments system, providing greater financial value by reducing associated revenue spend and improving the support we can offer customers.

We also replaced our on-premises CadCorp product with a Software-as-a-Service provision, aligning provision with our strategic direction of cloud first provision. This implementation increased organisational resilience by allowing staff to access mapping from anywhere on any browser-based device and enabled the ICT team to focus on more value-add mapping and data tasks by reducing the system maintenance overhead.

This ongoing focus on improving digital access has been supported by the provision of additional training to staff through our ByteSize programme. These sessions have not only focussed on technical elements of how to use toolsets but have also looked to help staff how to collaborate better in a digital world and utilise the wellbeing tools also provided to do this in a way that sustains their work life balance.

As Hybrid Working becomes the norm, and as customer continue to expect to be able to interact with us at any time and from anywhere, we will continue to focus on improving digital access during 22/23. We aim to introduce a new Digital Platform, replacing our outmoded and outdated public facing websites with more modern and efficient sites and improving our capabilities to support the end-to-end digitisation of processes.

We will also refresh our core devices ensuring that the resilience of our device estate is improved, in turn ensuring the ongoing effectiveness of staff and their ability to support our customers and residents.

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). In August of 2021, the role of IGO was moved into the Shared Legal Service and a new IGO (employed by West Suffolk Council) now provides information, advice, guidance and support to Babergh and Mid Suffolk District Councils and West Suffolk Council as part of the wider Shared Legal Service.

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 Information Governance, Data Protection issues, Data Management, Freedom of Information and Environmental Information Regulations**

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.

Information, advice, guidance and support 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.

An example of this is the collaborative work carried out to support the response to Covid and the more recent Refugee Support.

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;

- **Service support in the drafting of new processes, for example:**
- **Careeriosity**
- **Digital Champions**
- **ICOPE**
- **FOI/EIR procedure reviews in response to customer complaints**
- **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 and projects. Issues and key improvement aims for 2022/23.**

Since the change of IGO in August 2021 and the move into the Shared Legal Services, there have been some problems with accessibility to key systems within the Councils, but these have now been addressed.

Four key aims for 2022/23 are:

- Now accessibility to systems has been addressed, a review and refresh (where appropriate) of the key documents published behind the Data Protection page on Connect
- The IGO to meet with all Corporate Managers to carry out a 'Health Check' of their areas regarding Information Governance and Data Protection, the results of which will be used to populate a;
- Draft Information Governance Framework to manage the work needed to ensure the following areas are covered:
 - Information Governance Management
 - Data Quality
 - Information Compliance
 - Information Security
 - Information Sharing
 - Records Management
- Review the information held under the Control of Patient Information (COPI) Regulations and its destruction once these regulations come to an end (currently forecast to be 30 June 2022)

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

During 2021/22 the Communications team continued to work with partners as part of a multi-agency response to the Covid pandemic, delivering consistent and cohesive communications and campaigning activities at local level.

This included contributing to integrated business to business and business to consumer campaigns to support public health messaging and using all available communications channels to ensure our communities were aware of important developments and available support.

Despite the ongoing demands of Covid, all the councils' priorities were supported during 2021/22 – explaining initiatives to aid residents' wellbeing; battle climate change through carbon reduction measures and biodiversity; investment in social housing; customer improvements through use of digital technology; and our districts' economic recovery, for example through progression of town visions.

We also continued to promote ongoing local democracy and governance, explaining 2022/23 budget setting as well as meeting the day-to-day comms requirements of our teams across the councils.

Priorities for coming year / areas for improvement

Our communications priorities will be 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 and the current 'cost of living' crisis 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 targeting a range of audiences.

The development of our Communications Strategy, delayed due to the impact of the pandemic, 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 lead. This will also ensure we can incorporate recommendations from our recent LGA Corporate Peer Challenge.

Babergh and Mid Suffolk District Councils ensures its audiences are aware of council services and developments, through a wide range of communication channels.

Our audiences include residents, community groups, customers, businesses, tenants, partners, councillors and employees, with channels for communication including website, media releases, social media, e-newsletters, face-to-face engagement, meetings, printed materials and letters, emails, film and/or community events and exhibitions.

We craft our messages and select the most effective channels depending on our target audience, but at all times we focus on the principles of open, honest, and timely communication, using clear, concise language, and increasing levels of visual content in line with our audiences' changing preferences to receiving information.

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 understand how they can have their say, as part of a fully transparent democratic process.





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.

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 health and safety representatives. The H&S Workgroup are consulted on 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 three RIDDORS submitted by the Councils to the HSE. One relating to carpal tunnel symptoms which can be associated with hand arm vibration (HAVs). Two relating to fractures associated with a slip or fall.

The Corporate Manager for Health & Safety is satisfied that governance arrangement for H&S are suitable and sufficient. The H&S service plan highlights the specific aspects which require on-going improvement.

This statement focuses on 2021/22 which has been significantly impacted by the councils' response to the COVID-19 pandemic. As a consequence of this the normal quarterly governance meeting pattern was disrupted as was much of the planned work programme being superseded by Covid 19 risk assessments and associated safe working practices.

One specific consequence of the restrictions and the repositioning of resources has been the continued reduction in reassurance activity – in particular the site visits and short notice inspections. This has been addressed in the 2022/23 Service Plan.

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.**



Peer Review Challenge

The Councils invited the Local Government Association to carry out a Corporate Peer Challenge between 14 - 16 March 2022. This sector-led review was an opportunity to validate our direction of travel and approach; and to test and challenge our thinking for the future.

As required, the Councils provided the review team our self-assessment, which set out our honest reflection of where we think we are, both our strengths and our areas for development. This document was designed to provide background information and set the context for the review team's visit.

The 3-day review involved a series of 1 to 1 interviews, focus groups and site visits to Stowmarket and Sudbury. It included discussions with:

- the Leader of each Council
- the Chief Executive
- SLT and ELT officers
- both Cabinets
- the Chairmen of the Overview & Scrutiny Committees
- Councillors from each political group
- a cross section of officers from across our services
- our unions
- our external auditors, and
- a selection of our key partners across wellbeing, communities, economy & housing

Everyone involved were asked to provide their considered, honest and constructive feedback - highlighting where we have good practice but also the areas where we need to improve.

The review team have provided a summary of their findings, and their more detailed report will follow later. That report will be shared with all officers and councillors and published on our website. We anticipate that this will be in May 2022.

The Councils will produce an action plan in response to the review team's recommendations and the review team will return in approximately six months to check on our progress and offer any support.

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.



Cllr John Ward
Leader of Babergh
District Council



Cllr Suzie Morley
Leader of Mid Suffolk
District Council



Arthur Charvonia
Chief Executive of Babergh
and Mid Suffolk
District Councils

Agenda Item 10

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: Joint Audit & Standards Committee		REPORT NUMBER: JAC/21/33
FROM:	Melissa Evans, Director, Corporate Resources	DATE OF MEETING: 25 July 2022
OFFICER:	Rebecca Hewitt, Corporate Manager – Finance Operations	

ANNUAL TREASURY MANAGEMENT REPORT – 2021/22

1. PURPOSE OF REPORT

- 1.1 The report is part of the Councils management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management (“the Code”). It provides Members with a comprehensive assessment of activities for the financial year 2021/22.
- 1.2 The report specifically sets out the performance of the treasury management function, the effects of the decisions taken, the transactions executed in the past year and any circumstances of non-compliance with the Councils treasury management policy statement and treasury management practices.
- 1.3 The report also includes performance on Prudential Indicators which were set in the 2021/22 Treasury Management Strategy (shown in Appendix E).
- 1.4 The figures contained in this report are subject to the external auditor’s review.

2. OPTIONS CONSIDERED

- 2.1 This report fulfils the Councils legal obligations to have regard to the Code and there are no options to consider.

3. RECOMMENDATION TO BOTH COUNCILS

- 3.1 That the treasury management activity for the year 2021/22 as set out in this report and appendices be noted.
- 3.2 That it be noted that both Councils activity was in accordance with the approved Prudential Indicators for 2021/22.

RECOMMENDATION TO BABERGH COUNCIL

- 3.3 That it be noted that Babergh District Council’s treasury management activity for 2021/22 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds, as mentioned in Appendix C, paragraph 4.1, the Council has complied with all the Treasury Management Indicators for this period.

RECOMMENDATION TO MID SUFFOLK COUNCIL

- 3.4 That it be noted that, except for one occasion when the Council exceeded its investment limits in two of its Money Market Funds by £500k, as mentioned in Appendix C, paragraph 4.1, Mid Suffolk District Council's treasury management activity for 2021/22 was in accordance with the approved Treasury Management Strategy and Treasury Management Indicators for this period.

REASON FOR DECISION

It is a requirement of the Code of Practice on Treasury Management that full Council notes the position for the financial year 2021/22.

4. KEY INFORMATION

- 4.1 The 2021/22 Treasury Management Strategy for both Councils was approved in February 2021.
- 4.2 The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the financial year.
- 4.3 The Half Year Report on Treasury Management 2021/22 was presented to Members at the Joint Audit and Standards Committee on 29 November 2021.
- 4.4 The Treasury Management Indicators aim to ensure that the capital investments of local authorities are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice.
- 4.5 Appendix D shows the position on key Treasury Management Indicators for 2021/22.
- 4.6 Key points relating to activity for the year are set out below:
- Major issues over the period were the economic recovery from the coronavirus pandemic, the war in Ukraine, higher inflation and higher interest rates.
 - CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially it was being driven by energy price effects and inflation in the retail and hospitality sectors. However, the surges in wholesale gas and electricity prices led to CPI for February 2022 as 6.2% year on year, up from 5.5% in the previous month.
 - Bank Rate was 0.10% at the beginning of the reporting period and whilst the economy gathered momentum as the pandemic restrictions were eased, market expectations were that the Bank of England would delay rate rises until 2022. However, rising inflation changed that. The Bank increased its rate from 0.10% to 0.25% in December, to 0.50% in February and 0.75% in March.

- The Government's furlough scheme had insulated the labour market from the worst effects of the pandemic. Having peaked at 5.2% in December 2020, unemployment continued to fall and the labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%.
- Investment of surplus funds - As market conditions, credit ratings and Bank ring fencing have changed during the year, institutions that the Councils invest with, and the period of the investments have been reviewed.
- Credit risk scores were within the benchmark A- credit ratings.
- Babergh's short-term debt reduced by £6m and long-term debt reduced by £0.7m. Mid Suffolk's short-term debt reduced by £13.5m, offset by an increase in medium/long-term borrowing of £6.3m to take advantage of lower short-term rates. Global rising costs, strong demand, supply shortages and transport problems have caused delays to the Council's capital programme and therefore less borrowing was required.
- Both Councils continued to hold additional cash from government grants received relating to Covid-19. This has increased treasury investment activity during the year.

4.7 Specific highlights relating to 2021/22 activity are provided below:

Area/Activity	Babergh	Mid Suffolk	Comments
Long Term Borrowing – average interest rate	3.20%	2.73%	All at fixed rates
Credit Risk Scores during the year (value weighted average)	4.80 – 5.38	4.38 – 5.12	Both within the score for the approved A- credit rating for investment counterparties
Compliance with Prudential Indicators	✓	✓	See Appendix E

4.8 Appendix A sets out the issues that are impacting on current and future treasury management activity.

5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Councils have the resources available underpins the ability to achieve the priorities set out in the Joint Corporate Plan.

6. FINANCIAL IMPLICATIONS

6.1 As detailed in the report and appendices.

7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

7.2 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

- 7.3 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities are required to “have regard” to “such guidance as the Secretary of State may issue”.

8. RISK MANAGEMENT

- 8.1 This report is most closely linked to the Councils’ Significant Risk Register, Risk no. 13. “We may be unable to respond in a timely and effective way to financial demands”.

- 8.2 Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the Councils lose the investments this will impact on their ability to deliver services.	Highly Unlikely (1)	Bad (3)	Strict lending criteria for high credit rated institutions.
If the Councils achieve a poorer return on investments than planned, there will be fewer resources available to deliver services.	Probable (3)	Noticeable (2)	Focus is on security and liquidity, and careful cash flow management in accordance with the TM Strategy is undertaken throughout the year.
If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities.	Unlikely (2)	Noticeable (2)	As above.

9. CONSULTATIONS

- 9.1 Regular meetings have taken place with the Councils Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

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 will need to be reviewed as part of the work of the Climate Change Task Group and have regard to the Councils ambition to be carbon neutral by 2030.
- 11.2 Both Councils have joined Arlingclose’s ESG and Responsible Investment Service. This will provide advice for ESG integration in the Councils’ investment portfolios.
- 11.3 Following a report (Report JAC/20/21) on 17 May 2021 it was resolved by this Committee to recommend that the Cabinet pushes its fund managers to filter investments in respect of the ESG considerations, looking for positive contributions

to tackling our carbon reduction priorities and that the Cabinet considers withdrawing funds from investors who do not adequately address these concerns.

- 11.4 The Joint Audit and Standards Committee recognised that any decision to withdraw funds should be balanced against financial prudence.

12. APPENDICES

Title	Location
(a) Background, Economy and Outlook	Appendix A
(b) Borrowing Strategy	Appendix B
(c) Investment activity	Appendix C
(d) Treasury Management Indicators	Appendix D
(e) Prudential Indicators	Appendix E
(f) Glossary of Terms	Appendix F

13. BACKGROUND DOCUMENTS

- 13.1 CIPFA's Code of Practice on Treasury Management ("the Code").
- 13.2 Joint Capital, Investment and Treasury Management Strategies 2021/22 (Paper JAC/20/10)
- 13.3 Half Year Report on Treasury Management 2021/22 (Paper JAC/21/10)
- 13.4 Environmental Social and Governance (ESG) Considerations for the Councils Joint Treasury Management Strategy (Paper JAC/20/21 and Minute no.37).

Background, Economy and Outlook**1. Introduction**

- 1.1. In February 2012 the Councils adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the "CIPFA Code") which requires the Councils to approve treasury management half year and annual reports.
- 1.2. The Joint Treasury Management Strategy for 2021/22 was approved at both full Councils in February 2021. Both Councils have borrowed and invested substantial sums of money, and both are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Councils Treasury Management Strategy.
- 1.3. Treasury risk management at the Councils is conducted within the framework of the CIPFA Code which requires the Councils to approve a treasury management strategy before the start of each financial year and, as a minimum, a half year and annual treasury outturn report. This report fulfils the Councils legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.4. The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Councils Joint Capital Strategy, for the financial year 2021/22, complying with CIPFA's Code requirement, was approved by both full Councils in February 2021.

2. External Context**2.1. Economic background:**

- 2.2. The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.
- 2.3. Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.
- 2.4. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations.

- 2.5. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% year on year from 4.4%.
- 2.6. The Government's furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.
- 2.7. With the fading of lockdown – and, briefly, the 'pingdemic' restraints (the large-scale notification of members of the public by a contact-tracing app) – activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.
- 2.8. Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England increased it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.
- 2.9. In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.
- 2.10. GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% year-on-year in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

2.11. The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated its plan to reduce its asset purchase programme which could start by May 2022.

2.12. Financial Markets:

2.13. The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

2.14. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

2.15. The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

2.16. The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

2.17. Credit background:

2.18. In the first half of 2021/22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Councils counterparty list to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

2.19. Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

2.20. The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

- 2.21. Having completed its full review of its credit advice on unsecured deposits, in September, Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Councils counterparty list recommended by Arlingclose remains under constant review.

3. Local Context

- 3.1. On 31 March 2022, Babergh had a net borrowing requirement of £98m and Mid Suffolk had £116m arising from revenue and capital income and expenditure activities. This is a decrease of £18m for Babergh and £12m for Mid Suffolk from the 31 March 2021 position.
- 3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in Table 1 as follows.

3.3. **Table 1: Borrowing Summary**

Babergh	31.03.21 Actual £m	2021/22 Movement £m	31.03.22 Actual £m
General Fund CFR	70.904	0.660	71.563
HRA CFR	89.306	(0.150)	89.156
Total CFR	160.209	0.510	160.719
Borrowing CFR			
Less: Usable reserves	(43.820)	(3.418)	(47.238)
Add / (Less): Working Capital	(0.104)	(15.214)	(15.318)
Net Borrowing Requirement	116.285	(18.123)	98.162

Mid Suffolk	31.03.21 Actual £m	2021/22 Movement £m	31.03.22 Actual £m
General Fund CFR	95.260	6.447	101.707
HRA CFR	88.509	6.761	95.271
Total CFR	183.769	13.209	196.978
Borrowing CFR			
Less: Usable reserves	(54.492)	(8.942)	(63.434)
Add / (Less): Working Capital	(1.526)	(16.142)	(17.668)
Net Borrowing Requirement	127.751	(11.875)	115.876

- 3.4. Both Councils net borrowing requirement has reduced due to a small rise in the CFR as capital expenditure was higher than the financing applied, including minimum revenue provision. Working capital and usable reserves increased due to the timing of receipts and payments, reflected in decreased short term debtors, and increased short term creditors.

3.5. The lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. Both Councils pursued their strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

3.6. Table 2: Treasury Management Summary

3.7. The actual treasury management activity and position on 31 March 2022 and the year-on-year change is shown in Table 2 that follows.

Babergh	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Long-term borrowing	95.089	(0.693)	94.396	3.20%
Short-term borrowing	32.000	(6.000)	26.000	0.18%
Total borrowing	127.089	(6.693)	120.396	
Long-term investments	11.166	(0.031)	11.135	4.14%
Cash and Cash equivalents	1.840	(0.126)	1.714	0.01%
Total investments	13.006	(0.157)	12.849	
Net Borrowing	114.083	(6.536)	107.547	

Mid Suffolk	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Long-term borrowing	98.572	6.263	104.835	2.73%
Short-term borrowing	44.000	(13.500)	30.500	0.20%
Total borrowing	142.572	(7.237)	135.335	
Long-term investments	11.162	(0.031)	11.131	4.09%
Cash and Cash equivalents	3.518	(1.701)	1.817	0.01%
Total investments	14.680	(1.732)	12.948	
Net Borrowing	127.892	(5.505)	122.387	

- 3.8. The figures in Table 2 are from the balance sheet in the statement of accounts, adjusted to exclude operational cash, accrued interest and other accounting adjustments.
- 3.9. Babergh and Mid Suffolk have both reduced short-term borrowing to finance capital expenditure during the year due to the increase in reserves and working capital held as shown in paragraph 3.3. There have also been delays in fulfilling the capital programme due to rising global costs and strong demand exacerbated by supply shortages and transport dislocations.
- 3.10. Cash and cash equivalents include funds held in current bank accounts for day-to-day cashflow purposes and short-term deposits. In addition, Babergh held £8m and Mid Suffolk held £6m in money market funds.

1. Borrowing Strategy during the year

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

- 1.1. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 1.2. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20 December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.
- 1.3. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. Both Councils will adopt the revised reporting requirements from 2023/24.
- 1.4. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decisions that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.
- 1.5. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.
- 1.6. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.
- 1.7. The Councils are not planning to borrow to invest primarily for commercial return and so are unaffected by the changes to the Prudential Code. The Councils capital programme has been reviewed considering these changes to the CIPFA Prudential Code and PWLB lending arrangements to ensure that borrowing to invest after 2020/21 primarily for commercial return will no longer be undertaken (for example in CIFCO Ltd).

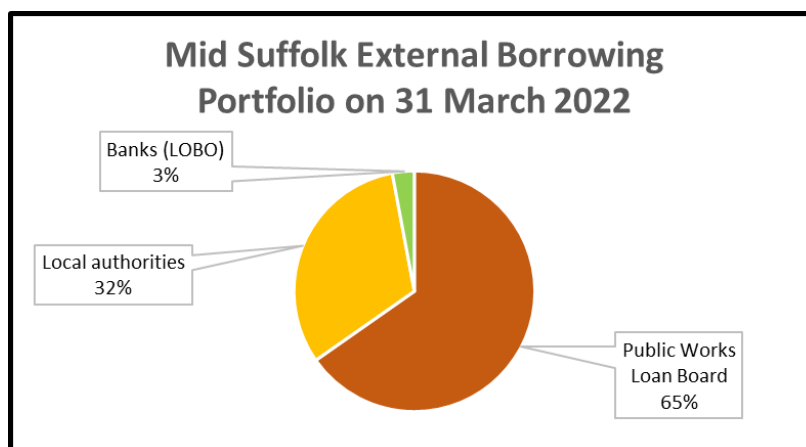
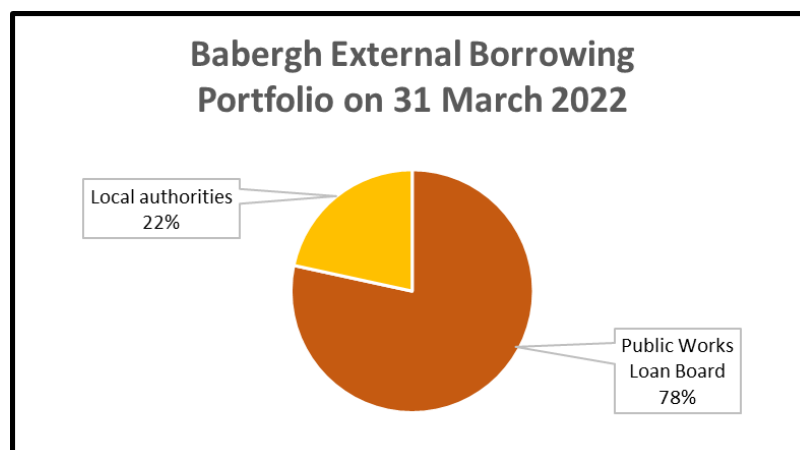
1.8. Babergh and Mid Suffolk both hold £49.8m each in commercial investments for CIFCO Ltd that were purchased prior to the change in the CIPFA Prudential Code.

1.9. **Table 3: Borrowing Position**

Babergh	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Public Works Loan Board	95.089	(0.693)	94.396	3.20%
Local authorities (short-term)	32.000	(6.000)	26.000	0.18%
Total borrowing	127.089	(6.693)	120.396	

Mid Suffolk	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Public Works Loan Board	89.572	(1.237)	88.335	3.29%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (medium / long-term)	5.000	7.500	12.500	0.67%
Local authorities (short-term)	44.000	(13.500)	30.500	0.20%
Total borrowing	142.572	(7.237)	135.335	

1.10. **Table 3 - Charts: Borrowing Position**



Appendix B cont'd

- 1.11. The Councils objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with a secondary objective of having flexibility to renegotiate loans should the Councils long-term plans change.
- 1.12. With short-term interest rates remaining much lower than long-term rates, the Councils considered it more cost effective in the near term to use short-term loans instead.
- 1.13. The extended impact of Covid-19 on the economy caused delays in the Councils capital expenditure plans which has resulted in a temporary lower funding requirement.
- 1.14. The Treasury Management Strategy shows that both Councils have increasing CFRs and estimated net borrowing requirements. The Councils borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.
- 1.15. Babergh did not take out any new medium or long-term borrowing in the period. Mid Suffolk took out £7.5m of medium-term loans from other local authorities to benefit from good rates on local authority borrowing for a longer period and reduce refinancing risk.
- 1.16. PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e., the PWLB borrowing rate. The Councils will evaluate and pursue these lower cost solutions and opportunities with their treasury advisor, Arlingclose.
- 1.17. LOBO loans: Mid Suffolk continues to hold £4m of LOBO loans (Lender's Option Borrower's Option) where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The banks did not exercise their option during 2021/22.

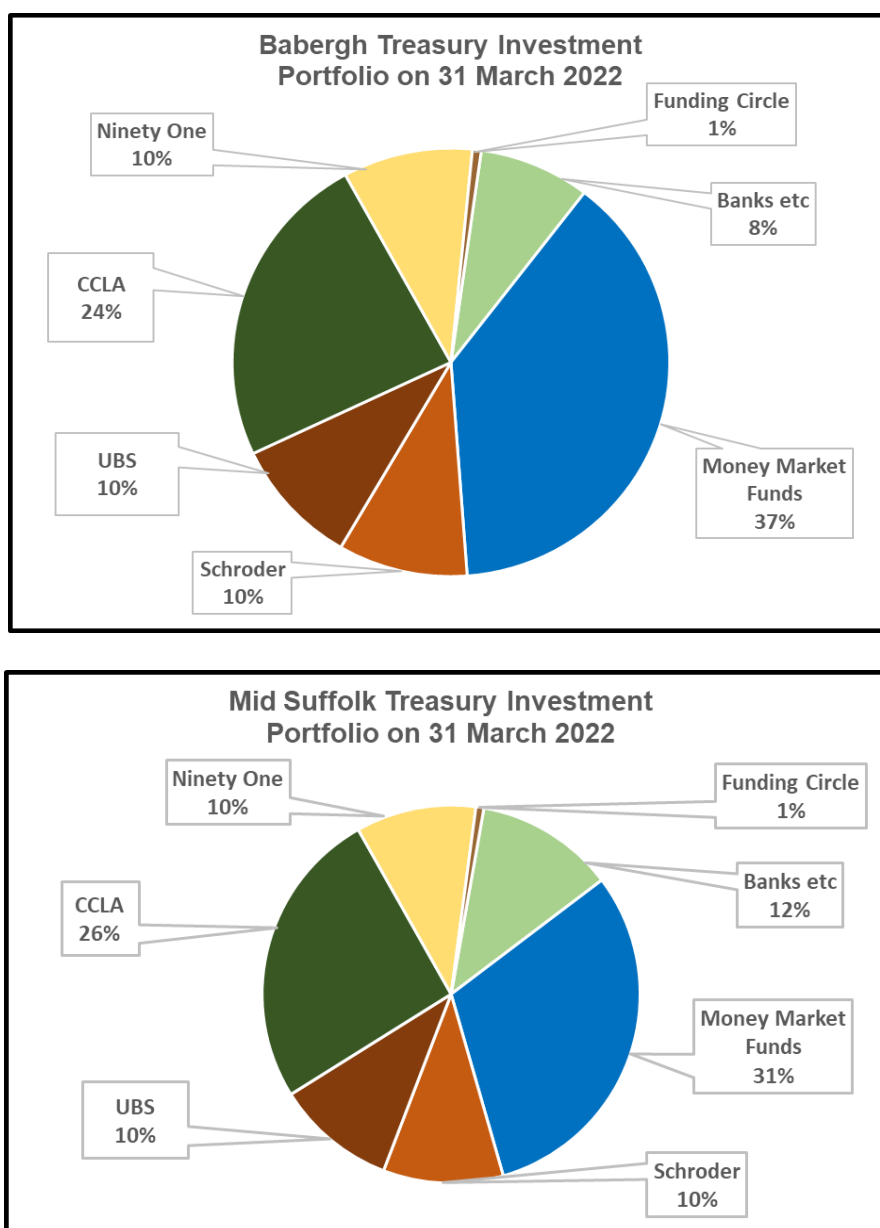
1. Treasury Investment Activity

- 1.1. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 1.2. During the year both Councils received further central government funding to cover the costs of Covid-19 and to support small and medium sized businesses during the coronavirus pandemic through grant schemes. The Councils also received money from Government on 30 March 2022 for the Council Tax Energy Rebate, which was to be paid to residents during 2022/23. Babergh received £5.0m and Mid Suffolk £5.4m. These funds were temporarily invested in short-dated, liquid instruments such as Money Market Funds.
- 1.3. Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves. During 2021/22, Babergh's investment balance ranged between £12.3m and £33.4m. Mid Suffolk's investment balance ranged between £12.4m and £26.9m. These movements are due to timing differences between income and expenditure.
- 1.4. The year-end investment position and the year-on-year changes are shown in Table 4 that follows. Both Councils withdrew more of their investments in Funding Circle.
- 1.5. **Table 4: Treasury Investment Position**

Babergh	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Banks & building societies (unsecured)	1.840	(0.126)	1.714	0.00%
Money Market Funds	0.000	8.000	8.000	0.01%
Schroder	2.000	0.000	2.000	5.49%
UBS	2.000	0.000	2.000	4.15%
CCLA	5.000	0.000	5.000	3.64%
Ninety One	2.000	0.000	2.000	3.57%
Funding Circle	0.166	(0.031)	0.135	3.86%
Total investments	13.006	7.843	20.849	

Mid Suffolk	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Banks & building societies (unsecured)	2.018	0.299	2.317	0.00%
Money Market Funds	1.500	4.500	6.000	0.01%
Schroder	2.000	0.000	2.000	5.49%
UBS	2.000	0.000	2.000	4.14%
CCLA	5.000	0.000	5.000	3.58%
Ninety One	2.000	0.000	2.000	3.57%
Funding Circle	0.162	(0.031)	0.131	3.69%
Total investments	14.680	4.768	19.448	

1.6. Table 4 - Charts: Investment Position on 31 March 2022.



- 1.7. Both the CIPFA Code and government guidance requires Councils to invest their funds prudently, and to have regard to the security and liquidity of their treasury investments before seeking the optimum rate of return, or yield. The Councils objectives when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 1.8. Ultra-low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March. On 31 March, the 1-day return on the MMFs ranged between 0.46% - 0.50% p.a. for Babergh and 0.48% - 0.54% for Mid Suffolk

- 1.9. Similarly, deposit rates with the government's Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1% but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity. The average return in the year on the Councils DMADF deposits was 0.01% for Babergh and 0.07% for Mid Suffolk. The Councils invest in the money market funds (MMFs) as a priority and then DMADF only when MMFs are fully invested. The majority of investments were made in the early part of the year, when interest rates were lower.
- 1.10. Babergh and Mid Suffolk have both followed the treasury management strategy to move investments into long term strategic pooled funds. Given the increasing risk and falling returns from short-term unsecured bank investments, the Councils diversified into more higher yielding asset classes; pooled property, multi asset and equity funds. As a result, investment risk was diversified.
- 1.11. Neither Council made further investments in these pooled funds during the year but continued reducing their investments in Funding Circle.
- 1.12. The average rate of return for these is significantly higher than the comparable average returns of Arlingclose's other clients, as shown in Table 5. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking for the year end in Table 5 that follows.
- 1.13. **Table 5: Investment Benchmarking - Treasury investments managed in-house.**

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
On 31.03.2021	5.38	A+	93%	4.22%
On 31.03.2022	5.04	A+	99%	2.44%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
On 31.03.2021	5.01	A+	99%	3.75%
On 31.03.2022	4.38	AA-	80%	2.57%

Arlingclose Benchmarks for 31.03.2022	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
Similar Local authorities	4.36	AA-	61%	1.18%
All Local authorities	4.39	AA-	60%	0.97%

- 1.14. Bail-in involves the shareholders and creditors of a failing financial institution meeting the costs, instead of the government. As Babergh and Mid Suffolk have relatively small investment portfolios their bail-in exposure is proportionately higher than the local authorities in Arlingclose's benchmarking group. Babergh and Mid Suffolk have chosen to adopt a strategy of generating higher returns by investing funds available in banks and strategic pooled funds.

- 1.15. Babergh has £11.14m of externally managed pooled equity, property and multi assets funds which generated an average total income return, since the date of the initial investments, of £2.9m (average rate of return for the year 4.14%) which is used to support the Councils service provision.
- 1.16. Mid Suffolk has £11.13m of externally managed pooled equity, property and multi assets funds which generated an average total income return, since the date of the initial investments, of £2.8m (average rate of return for the year 4.09%) which is used to support the Councils service provision.
- 1.17. In the nine months to December, improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of both Council's property, equity and multi-asset income funds in their portfolios. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January- March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.
- 1.18. In light of Russia's invasion, Arlingclose contacted the fund managers of our MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.
- 1.19. These funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Councils investment objectives are regularly reviewed. In light of their performance and the Councils latest cash flow forecasts, investment in these funds has been maintained, except for Funding Circle which is being reduced over the period of the repayment of the remaining loans.
- 1.20. 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. The Ministry of Housing, Communities and Local Government (MHCLG) granted a statutory override until 2022/23 so these changes will have no impact on the "bottom line" until 2023/24.
- 1.21. It is intended to set aside any increases in valuation to a reserve to mitigate future potential losses. These pooled funds are long term investments, and the Councils would not sell the units whilst their value was less than the original investment.

2 Non-Treasury Holdings and Other Investment Activity

- 2.1 The definition of investments in CIPFA's revised 2021 Treasury Management Code now covers all the financial assets of the Councils as well as other non-financial assets which the Councils hold primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).
- 2.2 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 2.3 **Investment Property**
- 2.4 During 2016/17 Babergh purchased Borehamgate Shopping Centre in Sudbury for £3.6m. This has been classified as an investment property and on 31 March 2022 it was assessed at fair value of £2.7m. Net Income, after the deduction of direct costs, was £158k in 2021/22 (£127k in 2020/21). Income from rentals increased slightly as use began to pick up after the pandemic. The asset is being actively managed by the Council to secure new tenants in the short term and working towards longer term investment plans for that area.
- 2.5 **Trading Companies**
- 2.6 On 31 March 2022 Babergh held £3.9m of equity in BDC (Suffolk Holdings) Ltd and Mid Suffolk held £3.9m of equity in MSDC (Suffolk Holdings) Ltd. Both Councils own 100% shares in each holding company.
- 2.7 Babergh and Mid Suffolk's respective 50% share of the profit made by CIFCO Ltd in 2021/22 was £3.2m (2020/21 was £2.4m loss) and is reflected in the increased value of each of the Council's equity holding in the company. This includes changes in portfolio valuation following the annual year-end revaluation reflecting an increase in the portfolio value of 12%.
- 2.8 The total equity investment by both Councils to full investment (£99.3m) totalled £9.9m (10%). Equity value will fluctuate each year to reflect any fluctuations in market value.
- 2.9 On 31 March 2022 Babergh and Mid Suffolk each have £44.7m of loans in CIFCO Ltd, a subsidiary of BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd. These loans have generated £5.9m (gross) of investment income for each Council since the start of trading. The net position for 2021/22, including additional interest receivable from overdraft facilities given by the Councils and after borrowing costs, is shown later in Table 7.
- 2.10 Mid Suffolk also held £23.8m of loans in another subsidiary of MSDC (Suffolk Holdings) Ltd, Gateway 14 Ltd, which has generated £3.6m (gross) of accrued investment income since the initial loans were advanced by the Council in August 2018.

- 2.11 The loss incurred by Gateway 14 Ltd was £174k resulting in a reduction in the Council's overall equity holding from £1,151k to £978k. This company is still developing land and building projects for which it was created and has yet to generate income.

Table 6: Trading Companies – Loan activities

Babergh	Trading Companies - Loans				
	31.3.20	2020/21	31.3.21	2021/22	31.3.22
	Balance	Movement	Balance	Movement	Balance
	£m	£m	£m	£m	£m
CIFCO Ltd					
Interest Receivable	(2.110)	(1.551)	(3.661)	(2.209)	(5.870)
Interest Payable	0.445	0.276	0.721	0.249	0.970
Cumulative Net Interest received from date of investments	(1.665)	(1.275)	(2.940)	(1.960)	(4.900)

Mid Suffolk	Trading Companies - Loans				
	31.3.20	2020/21	31.3.21	2021/22	31.3.22
	Balance	Movement	Balance	Movement	Balance
	£m	£m	£m	£m	£m
Interest Receivable					
CIFCO Ltd	(2.110)	(1.551)	(3.661)	(2.209)	(5.870)
Gateway 14 Ltd	(1.383)	(1.043)	(2.426)	(1.216)	(3.642)
Total Interest Receivable	(3.493)	(2.594)	(6.087)	(3.425)	(9.512)
Interest Payable					
CIFCO Ltd	0.787	0.532	1.319	0.481	1.800
Gateway 14 Ltd	0.360	0.180	0.540	0.080	0.620
Total Interest Payable	1.147	0.712	1.859	0.561	2.420
Net Interest					
CIFCO Ltd	(1.323)	(1.019)	(2.342)	(1.728)	(4.070)
Gateway 14 Ltd	(1.023)	(0.863)	(1.886)	(1.136)	(3.022)
Cumulative Net Interest received from date of investments	(2.346)	(1.882)	(4.228)	(2.864)	(7.092)

3 Treasury Performance

3.1 The Councils measure the financial performance of treasury management activities in terms of their impact on the General Fund and Housing Revenue Account revenue budgets as shown in Table 7 that follows.

3.2 Table 7 Treasury Activity - Performance

Babergh	2021/22 Budget £m	2021/22 Actual £m	Variance Adverse/ (Favourable) £m
Interest Receivable			
General Fund	(0.554)	(0.450)	0.104
Housing Revenue Account	(0.010)	(0.003)	0.007
CIFCO Ltd	(2.180)	(2.209)	(0.029)
Total Interest Receivable	(2.744)	(2.662)	0.082
Interest Payable			
General Fund	0.000	(0.000)	(0.000)
Housing Revenue Account	3.161	2.797	(0.364)
CIFCO Ltd	0.380	0.249	(0.131)
Total Interest Payable	3.541	3.045	(0.496)
Net Interest			
General Fund	(0.554)	(0.450)	0.104
Housing Revenue Account	3.151	2.793	(0.358)
CIFCO Ltd	(1.800)	(1.960)	(0.161)
Total Net Interest	0.797	0.383	(0.414)

Mid Suffolk	2021/22 Budget £m	2021/22 Actual £m	Variance Adverse/ (Favourable) £m
Interest Receivable			
General Fund	(0.540)	(0.448)	0.092
Housing Revenue Account	(0.009)	(0.001)	0.008
CIFCO Ltd	(2.180)	(2.209)	(0.029)
Gateway 14 Ltd	(1.631)	(1.216)	0.415
Total Interest Receivable	(4.360)	(3.874)	0.486
Interest Payable			
General Fund	0.097	0.021	(0.076)
Housing Revenue Account	2.968	2.643	(0.325)
CIFCO Ltd	0.565	0.481	(0.084)
Gateway 14 Ltd	0.175	0.080	(0.095)
Total Interest Payable	3.805	3.225	(0.580)
Net Interest			
General Fund	(0.443)	(0.428)	0.015
Housing Revenue Account	2.959	2.642	(0.317)
CIFCO Ltd	(1.615)	(1.728)	(0.113)
Gateway 14 Ltd	(1.456)	(1.135)	0.320
Total Net Interest	(0.555)	(0.649)	(0.094)

- 3.3 The interest receivable for Babergh and Mid Suffolk were both less than budgeted by £82k and £486k respectively. This is mainly due to the low interest rates during the year. The investment programme in CIFCO Ltd was accelerated and fully invested at the end of 2020/21.
- 3.4 The total interest payable for the year was under budget by £496k for Babergh and £580k for Mid Suffolk. All Babergh's short term borrowing was attributable to CIFCO Ltd.
- 3.5 **Long term investment returns**
- 3.6 Babergh and Mid Suffolk have both invested in long term pooled funds. Tables 8.1 to 8.5 that follow show details of how these investments have performed during 2020/21 and 2021/22.
- 3.7 Both Councils invested £5m each into the CCLA Local Authority Property Fund. Babergh purchased 1.657m units on 31 August 2015 and Mid Suffolk 1.632m units on 29 October 2015. The valuations are based on the number of units owned.

3.8 **Table 8.1 CCLA Performance**

CCLA	Babergh				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.825	(0.034)	4.791	0.841	5.631
Cumulative Net Interest received from date of initial investment	1.016	0.213	1.230	0.182	1.412
Annual Performance					
Net Interest received in year	0.217		0.213		0.182
Average Rate of Return for year	4.35%		4.26%		3.64%

CCLA	Mid Suffolk				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.750	(0.034)	4.717	0.828	5.544
Cumulative Net Interest received from date of initial investment	0.958	0.210	1.167	0.179	1.347
Annual Performance					
Net Interest received in year	0.215		0.210		0.179
Average Rate of Return for year	4.30%		4.20%		3.58%

3.9 Babergh and Mid Suffolk both invested into the Schroder Income maximiser fund on 10 February 2017.

3.10 **Table 8.2 Schroder Performance**

Schroder Maximiser Fund	Babergh				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.253	0.288	1.540	0.167	1.707
Cumulative Net Interest received from date of initial investment	0.460	0.095	0.555	0.110	0.665
Annual Performance					
Net Interest received in year	0.143		0.095		0.110
Average Rate of Return for year	7.16%		4.76%		5.49%

Schroder Maximiser Fund	Mid Suffolk				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.253	0.288	1.540	0.167	1.707
Cumulative Net Interest received from date of initial investment	0.460	0.095	0.555	0.110	0.665
Annual Performance					
Net Interest received in year	0.143		0.095		0.110
Average Rate of Return for year	7.16%		4.76%		5.49%

3.11 Babergh invested in the UBS Multi Asset income fund on 26 November 2015, whilst Mid Suffolk invested in the fund on 28 March 2017.

3.12 **Table 8.3 UBS Performance**

UBS	Babergh				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.657	0.174	1.831	(0.094)	1.736
Cumulative Net Interest received from date of initial investment	0.363	0.090	0.452	0.083	0.535
Annual Performance					
Net Interest received in year	0.089		0.090		0.083
Average Rate of Return for year	4.43%		4.48%		4.15%

UBS	Mid Suffolk				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.654	0.174	1.828	(0.094)	1.733
Cumulative Net Interest received from date of initial investment	0.266	0.090	0.356	0.083	0.439
Annual Performance					
Net Interest received in year	0.088		0.090		0.083
Average Rate of Return for year	4.42%		4.48%		4.14%

3.13 Both Councils invested in Funding Circle on 1 November 2015 and has varied the amounts invested since, gradually reducing the amount as loans have been paid off.

3.14 **Table 8.4 Funding Circle Performance**

Funding Circle	Babergh				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested - National	0.214	(0.048)	0.166	(0.031)	0.135
Amount Invested - Local	0.000	0.000	0.000	0.000	0.000
Total Amount Invested	0.214	(0.048)	0.166	(0.031)	0.135
Bad debts to date	(0.052)	0.005	(0.046)	0.003	(0.044)
Accrued Interest	0.012	(0.007)	0.005	(0.004)	0.002
Valuation	0.174	(0.050)	0.125	(0.032)	0.093
Income received	0.113	0.006	0.119	0.001	0.120
Servicing costs	(0.013)	(0.001)	(0.014)	(0.000)	(0.014)
Cumulative Net Interest received from date of initial investment	0.099	0.005	0.105	0.001	0.106
Annual Performance					
Net Interest received in year	0.012		0.005		0.005
Average Rate of Return for year	4.83%		3.14%		3.86%

Funding Circle	Mid Suffolk				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested - National	0.215	(0.053)	0.162	(0.031)	0.131
Amount Invested - Local	0.000	0.000	0.000	0.000	0.000
Total Amount Invested	0.215	(0.053)	0.162	(0.031)	0.131
Bad debts to date	(0.055)	0.004	(0.050)	0.004	(0.047)
Accrued Interest	0.011	(0.006)	0.005	(0.003)	0.001
Valuation	0.172	(0.055)	0.117	(0.031)	0.086
Income received	0.115	0.006	0.120	0.001	0.121
Servicing costs	(0.013)	(0.001)	(0.014)	(0.000)	(0.014)
Cumulative Net Interest received from date of initial investment	0.101	0.005	0.106	0.000	0.107
Annual Performance					
Net Interest received in year	0.011		0.005		0.005
Average Rate of Return for year	4.85%		2.98%		3.69%

3.15 Both Councils invested in the Ninety-One Diversified Income I Fund (formerly Investec) on 24 May 2019. This fund aims to provide monthly income with the opportunity for long-term capital growth, investing in equities, fixed income investments (e.g., corporate or government bonds) as well as cash and money market funds.

3.16 **Table 8.5 Ninety-One Series i Performance**

Ninety One Series i Diversified Income Fund	Babergh				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.815	0.180	1.995	(0.097)	1.898
Cumulative Net Interest received from date of initial investment	0.075	0.074	0.149	0.071	0.221
Annual Performance					
Net Interest received in year	0.075		0.074		0.071
Average Rate of Return for year	3.74%		3.72%		3.57%

Ninety One Series i Diversified Income Fund	Mid Suffolk				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.815	0.180	1.995	(0.097)	1.898
Cumulative Net Interest received from date of initial investment	0.075	0.074	0.149	0.071	0.221
Annual Performance					
Net Interest received in year	0.075		0.074		0.071
Average Rate of Return for year	3.74%		3.72%		3.57%

4. **Compliance Report**

4.1. It should be noted that both Council's treasury management activity for 2021/22 was in accordance with the approved Treasury Management Strategy, and that both Councils have complied with all the Treasury Management Indicators for this period, except on:

- 9 June 2021, Babergh's bank account balance went above the limit by £136k due to Lloyds bank online banking system being unavailable for the day and no balances could be invested.
- 10 March 2022, two of Mid Suffolk's money market funds (Federated and Blackrock) were each overinvested by £500k. The procedures in place at the time did not identify this but have since been reviewed and updated to ensure this does not occur again.

4.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 9 as follows.

4.3. **Table 9: Debt Limits**

Total Borrowing	2021/22 Maximum £m	31.03.22 Actual £m	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied
Babergh	129.089	120.396	163.000	178.000	✓
Mid Suffolk	142.572	135.335	195.000	210.000	✓

- 4.4. Since the operational boundary is a management tool for in-year monitoring, it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

4.5. **Table 10: Investment Limits**

Compliance with specific investment limits is demonstrated in Table 10 as follows and non-compliance has been explained in 4.1 above.

Babergh	2021/22 Maximum £m	31.03.22 Actual £m	2021/22 Limit £m	Complied
Any single organisation, except the UK Central Government	2.136	1.714	2.000	X
Any group of organisations under the same ownership	0.000	0.000	1.000	✓
Any group of pooled funds under the same management	5.000	5.000	5.000	✓
Negotiable instruments held in a broker's nominee account	0.000	0.000	10.000	✓
Foreign countries	0.000	0.000	2.000	✓
Registered Providers	0.000	0.000	5.000	✓
Unsecured investments with Building Societies	0.000	0.000	2.000	✓
Loans to unrated corporates	0.166	0.135	1.000	✓
Any single Money Market Fund	2.000	2.000	2.000	✓
Mid Suffolk	2021/22 Maximum £m	31.03.22 Actual £m	2021/22 Limit £m	Complied
Any single organisation, except the UK Central Government	1.944	1.817	2.000	✓
Any group of organisations under the same ownership	0.000	0.000	1.000	✓
Any group of pooled funds under the same management	5.000	5.000	5.000	✓
Negotiable instruments held in a broker's nominee account	0.000	0.000	10.000	✓
Foreign countries	0.000	0.000	2.000	✓
Registered Providers	0.000	0.000	5.000	✓
Unsecured investments with Building Societies	0.000	0.000	2.000	✓
Loans to unrated corporates	0.162	0.131	1.000	✓
Any single Money Market Fund	2.500	2.000	2.000	X

1. Treasury Management Indicators

- 1.1. The Councils measure and manage their exposure to treasury management risks using the following indicators:
- 1.2. **Security:** Babergh and Mid Suffolk have adopted a voluntary measure of their exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolios. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. These are shown in Table 11 that follows.

1.3. Table 11: Credit Scores

Credit Scores	31.3.22 Actual	2021/22 Target	Complied
Babergh Portfolio average Credit Score	5.04	7.00	✓
Mid Suffolk Portfolio average Credit Score	4.38	7.00	✓

- 1.4. **Interest Rate Exposures:** This indicator is set to control the Councils exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates are shown in Table 12 that follows.

1.5. Table 12: Interest rate exposure

Interest rate risk indicator	31.3.22 Actual	2021/22 Limit	Complied
Babergh upper impact on Revenue of a 1% increase in rates	0.067	0.111	✓
Mid Suffolk upper impact on Revenue of a 1% increase in rates	0.124	0.210	✓

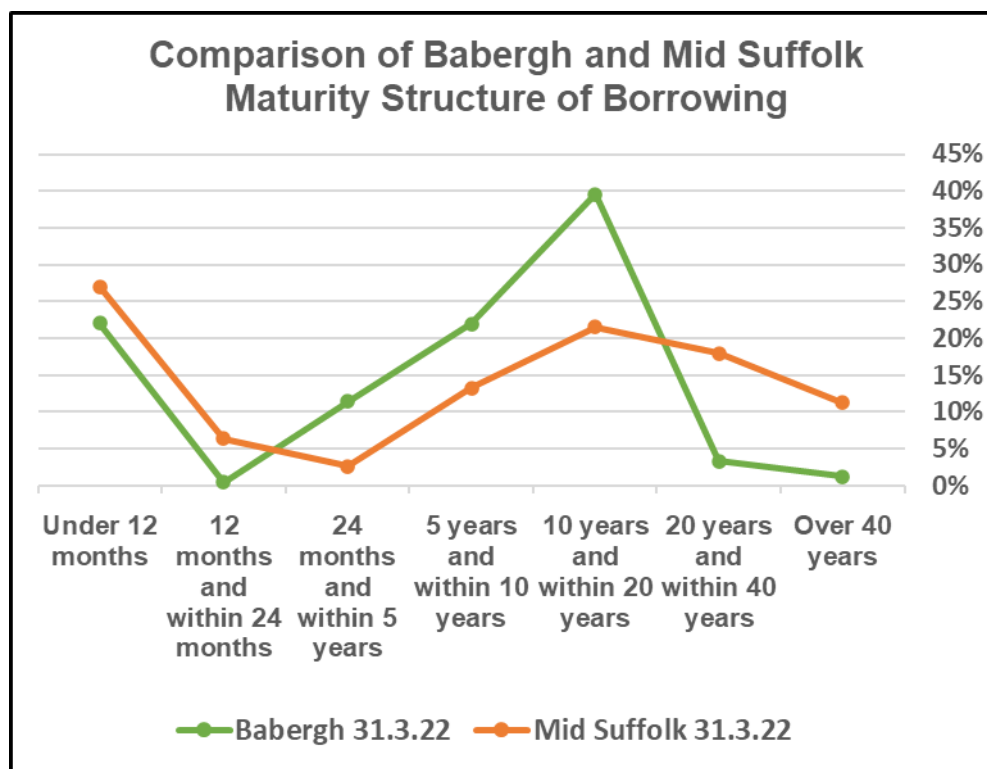
- 1.6. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.
- 1.7. **Maturity Structure of Borrowing:** This indicator is set to control the Councils exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are shown in Table 13 as follows.

1.8. Table 13: Maturity Structures

Age Profile of Maturity	Babergh 31.3.22 Actual	Mid Suffolk 31.3.22 Actual	Lower Limit	Upper Limit	Complied
Under 12 months	22.05%	27.05%	0%	50%	✓
12 months and within 24 months	0.47%	6.37%	0%	50%	✓
24 months and within 5 years	11.42%	2.59%	0%	50%	✓
5 years and within 10 years	21.98%	13.25%	0%	100%	✓
10 years and within 20 years	39.55%	21.54%	0%	100%	✓
20 years and within 40 years	3.33%	17.96%	0%	100%	✓
Over 40 years	1.19%	11.23%	0%	100%	✓

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

1.10. Table 13 Chart: Maturity Structures



1.11. **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Councils exposure to the risk of incurring losses by seeking early repayment of investments. The limits on the long-term principal sum invested to final maturities beyond the period end are shown in Table 14 that follows.

1.12. Table 14: Principal Sums

Babergh	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£2m	£2m	£2m
Complied	✓	✓	✓

Mid Suffolk	2019/20	2022/23	2023/24
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£2m	£2m	£2m
Complied	✓	✓	✓

1.13. Whilst the investments that have been made in UBS, Schroder, Ninety-One (formerly Investec) and Funding Circle are intended to benefit from longer term higher returns, they can be redeemed on a short-term basis. CCLA requires 90 days' notice.

1. Prudential Indicators

1.1. Introduction

1.2. The Local Government Act 2003 requires the Councils to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that Councils have fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1.3. This report compares the approved indicators with the outturn position for 2021/22. Actual figures have been taken from, or prepared on a basis consistent with, the Councils draft Statements of Accounts for 2021/22.

1.4. Capital Expenditure

1.5. The Councils capital expenditure and financing for 2021/22 compared to budget is summarised in Table 15 that follows.

1.6. Table 15: Capital Expenditure and Financing

Babergh District Council			
Capital Expenditure and Financing	2021/22 Budget including c/fwds £m	2021/22 Actual £m	Variance Adverse / (Favourable) £m
General Fund	20.792	4.632	(16.160)
HRA	27.505	16.798	(10.707)
Total Expenditure	48.297	21.430	(26.867)
Capital Receipts	4.880	3.535	(1.345)
Grants and Contributions	2.340	2.531	0.191
Revenue Contributions	3.030	2.586	(0.444)
Revenue Reserves	10.440	6.086	(4.354)
Major Repairs Reserve	4.280	4.595	0.315
Borrowing	23.327	2.098	(21.229)
Total Financing	48.297	21.430	(26.867)

1.7.

Mid Suffolk District Council			
Capital Expenditure and Financing	2021/22 Budget including c/fwds £m	2021/22 Actual £m	Variance Adverse / (Favourable) £m
General Fund	30.028	13.592	(16.436)
HRA	39.959	13.923	(26.036)
Total Expenditure	69.987	27.515	(42.472)
Capital Receipts	6.100	2.722	(3.378)
Grants and Contributions	2.570	2.186	(0.384)
Revenue Contributions	1.510	1.021	(0.489)
Revenue Reserves	9.240	3.375	(5.865)
Major Repairs Reserve	3.910	3.468	(0.442)
Borrowing	46.657	14.742	(31.915)
Total Financing	69.987	27.515	(42.472)

2. Prudential Indicator Compliance

2.1. Capital Financing Requirement

2.2. The Capital Financing Requirement (CFR) measures the Councils underlying need to borrow for capital purposes.

2.3. Table 16: Capital Financing Requirement

Babergh District Council			
Capital Financing Requirement	31.03.22 Budget £m	31.03.22 Actual £m	Variance Adverse / (Favourable) £m
General Fund	84.287	71.563	(12.724)
HRA	90.525	89.156	(1.369)
Total CFR	174.813	160.719	(14.093)

Mid Suffolk District Council			
Capital Financing Requirement	31.03.22 Budget £m	31.03.22 Actual £m	Variance Adverse / (Favourable) £m
General Fund	110.156	101.707	(8.449)
HRA	109.595	95.271	(14.324)
Total CFR	219.752	196.978	(22.774)

- 2.4. The CFR increased during the year by £0.51m for Babergh and by £13.2m for Mid Suffolk as capital expenditure financed by debt outweighed resources put aside for debt repayment. These figures are shown in Appendix A Table 1.

3. Actual Debt

- 3.1. The Councils actual debt on 31 March 2022 was as follows:

3.2. Table 17: Total Debt

Total Debt	31.03.22 Budget £m	31.03.22 Actual £m	Variance (Adverse) / Favourable £m
Babergh District Council	(138.730)	(120.396)	18.334
Mid Suffolk District Council	(184.970)	(135.335)	49.635

4. Gross Debt and the Capital Financing Requirement

- 4.1. In order to ensure that over the medium-term debt will only be used for a capital purpose, the Councils should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.
- 4.2. The total debt remained below the CFR during the forecast period, which shows compliance with the indicator.
- 4.3. Table 18: Debt and Capital Financing Requirement

Babergh District Council		
Debt and CFR	31.03.22 Actual £m	31.03.22 Estimate £m
Capital financing requirement	160.719	174.813
Total Debt	(120.396)	(138.729)
Headroom	40.323	36.084
Mid Suffolk District Council		
Debt and CFR	31.03.22 Actual £m	31.03.22 Estimate £m
Capital financing requirement	196.978	219.752
Total Debt	(135.335)	(184.970)
Headroom	61.643	34.782

5. Operational Boundary for External Debt

- 5.1. The operational boundary is based on the Councils estimate of the most likely (i.e., prudent but not worst case) scenario for external debt. It links directly to the Councils estimates of capital expenditure, the capital financing requirement, and cash flow requirements, and is a key management tool for in-year monitoring.

5.2. **Table 19: Operational Boundary and Total Debt**

Operational Boundary and Total Debt	31.03.22 Limit £m	31.03.22 Actual Debt £m	Complied
Babergh District Council	(163.000)	(120.396)	✓
Mid Suffolk District Council	(195.000)	(135.335)	✓

6. **Authorised Limit for External Debt**

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

6.2. **Table 20: Authorised Limit and Total Debt**

Authorised Limit and Total Debt	31.03.22 Limit £m	31.03.22 Actual Debt £m	Complied
Babergh District Council	(178.000)	(120.396)	✓
Mid Suffolk District Council	(210.000)	(135.335)	✓

7. **Ratio of Financing Costs to Net Revenue Stream**

- 7.1. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income (shown as a percentage).

7.2. **Table 21: Ratio of Financing Costs to Net Revenue Stream**

Babergh District Council			
Ratio of Financing Costs to Net Revenue Stream	31.03.22 Budget %	31.03.22 Actual %	Variance Adverse / (Favourable) %
General Fund	(3.55)	(5.02)	(1.47)
HRA	19.38	17.01	(2.37)
Mid Suffolk District Council			
Ratio of Financing Costs to Net Revenue Stream	31.03.22 Budget %	31.03.22 Actual %	Variance Adverse / (Favourable) %
General Fund	(6.29)	(7.85)	(1.55)
HRA	20.10	18.02	(2.09)

8. Adoption of the CIPFA Treasury Management Code

- 8.1. Both Councils adopted the Chartered Institute of Public Finance and Accountancy's "Treasury Management in the Public Services: Code of Practice 2011 Edition" in February 2012.

9. HRA Limit on Indebtedness

- 9.1. The limit imposed on the Council's HRA borrowing by the Ministry for Housing, Communities and Local Government (MHCLG) has been removed.

Glossary of Terms

BPS	Base Points. A unit of percentage measure equal to 0.01%. Basis points are commonly used when discussing changes to interest rates, equity indices, and fixed-income securities.
CDS	Credit Default Swap. In effect, insurance against non-payment. Through a CDS, the buyer can mitigate the risk of their investment by shifting all or a portion of that risk onto an insurance company or other CDS seller in exchange for a periodic fee. In this way, the buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the debt security.
CFR	Capital Financing Requirement. The underlying need to borrow to finance capital expenditure.
CIPFA	The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services.
CPI	Consumer Price Index. This measures changes in the price level of consumer goods and services purchased by households.
CCLA	Churches, Charities and Local Authority Property Fund
DMADF	Debt Management Account Deposit Facility.
Funding Circle	Accounts set up to lend money to local and national businesses at competitive rates
GDP	Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time.
HRA	Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
LIBID	London Interbank Bid Rate. The interest rate at which banks bid to take short-term deposits from other banks in the London interbank market.
LOBO	Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan.
MHCLG	Ministry of Housing, Communities and Local Government. This is a ministerial department.
MPC	Monetary Policy Committee. A committee of the Bank of England which decides the Bank of England's Base Rate and other aspects of the Government's Monetary Policy.
MRP	Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing
Ninety-One	Ninety-One (formerly Investec) Diversified Income Fund (UK) – a pooled fund.
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
Schroder	Schroder Income Maximiser Fund
SONIA	Sterling Overnight Index Average. Replacing LIBOR (the London Interbank interest rate) as the Bank of England's preferred short term interest rate benchmark for the UK.
UBS	UBS Multi Asset Income Fund (UK) – a pooled fund.

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Agenda Item 11

BABERGH AND MID SUFFOLK DISTRICT COUNCILS

TO: Joint Audit and Standards Committee	REPORT NUMBER: JAC/21/34
FROM: Corporate Manager – Democratic Services	DATE OF MEETING: 25 th July 2022

JOINT AUDIT AND STANDARDS COMMITTEE FORWARD PLAN

Date of Committee – 25 July 2022

Topic	Purpose	Lead Officer
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
Annual Treasury Management Report – 2021/22	To note and make Recommendations to both full Councils	Corporate Manager – Financial Services

Date of Committee – 26 September 2022

Topic	Purpose	Lead Officer
Significant Risk Register Report and Risk Management Activity	To note	Corporate Manager – Internal Audit
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
Risk Management Report	For comment and agreement	Dr Jane Kennedy
Annual Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 28 November 2022

Topic	Purpose	Lead Officer
Half Year Report on Treasury Management 2022/23	To note and make Recommendations to both full Councils	Corporate Manager – Financial Services
Internal Audit Half Yearly Report 2022/23	To note	Ernst and Young
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 30 January 2023

Topic	Purpose	Lead Officer
Joint Capital, Investment and Treasury Management Strategies 2023/24	To note and make Recommendations to both full Councils	Corporate Manager – Financial Services
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 27 March 2023

Topic	Purpose	Lead Officer
Managing the Risk of Fraud and Corruption - Annual Report	For comment and agreement	Corporate Manager – Internal Audit
Internal Audit Plan 2023/24	For comment and agreement	Corporate Manager – Internal Audit
Complaints Monitoring report	To note	Monitoring Officer